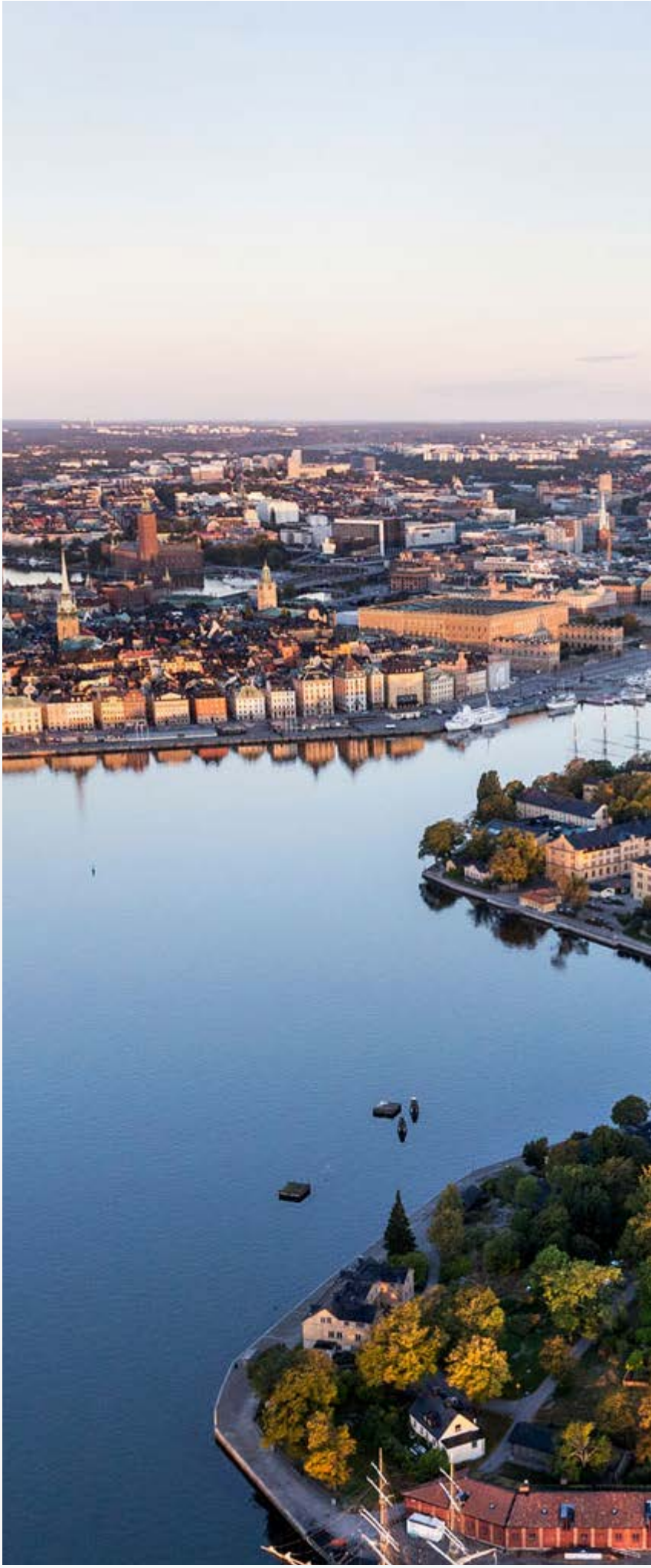
GEELY

GEELY SWEDEN HOLDINGS AB

ANNUAL REPORT 2019

GEELY



Contents

This is Geely Sweden Holdings

Geely Sweden Holdings AB is a holding company that owns shares in a group of Scandinavian companies within the automotive, real estate and banking sectors. We are owned by Zhejiang Geely Holding, a privately owned industrial group of companies headquartered in Hangzhou, China. Zhejiang Geely Holding was founded in 1986 by the current Chairman of the Board Li Shufu, who developed the Group into one of the ten largest in the world in the automotive sector. Brands included in the portfolio are Volvo Cars, Geely Auto, Lotus, Proton, Lynk & Co, Polestar and others. In addition to the automotive industry, Zhejiang Geely Holding has interests in areas such as academia and research, the clothing industry, financial services and property development.

Geely Sweden Holdings will continue to develop the business with long-term perspectives.

2019 in brief

In 2019 Geely Sweden Holdings was restructured from what was primarily a company that owned Volvo Car Group in Sweden into a holding company that gathered all of Zhejiang Geely Holding's investments in Scandinavia. In connection with this process a Chief Executive Officer and new board were appointed.

Revenue

MSEK 274,149

Operating income

MSEK 13,371

- The companies in Geely Sweden Holdings' developed very well in 2019 and it was a strong year for AB Volvo and Volvo Cars.
- Saxo Bank made acquisitions and started joint ventures with the parent company in China.
- Geely's construction of a large new campus in Lindholmen, Gothenburg, continued according to plan. In January 2020 Geely Sweden Holdings also moved into offices now completed in the first building.

CEO's statement

It is a great pleasure for me to now write the first summary as CEO of Geely Sweden Holdings AB. Since I took up this post in August 2019 we have worked to build an effective structure and organization.

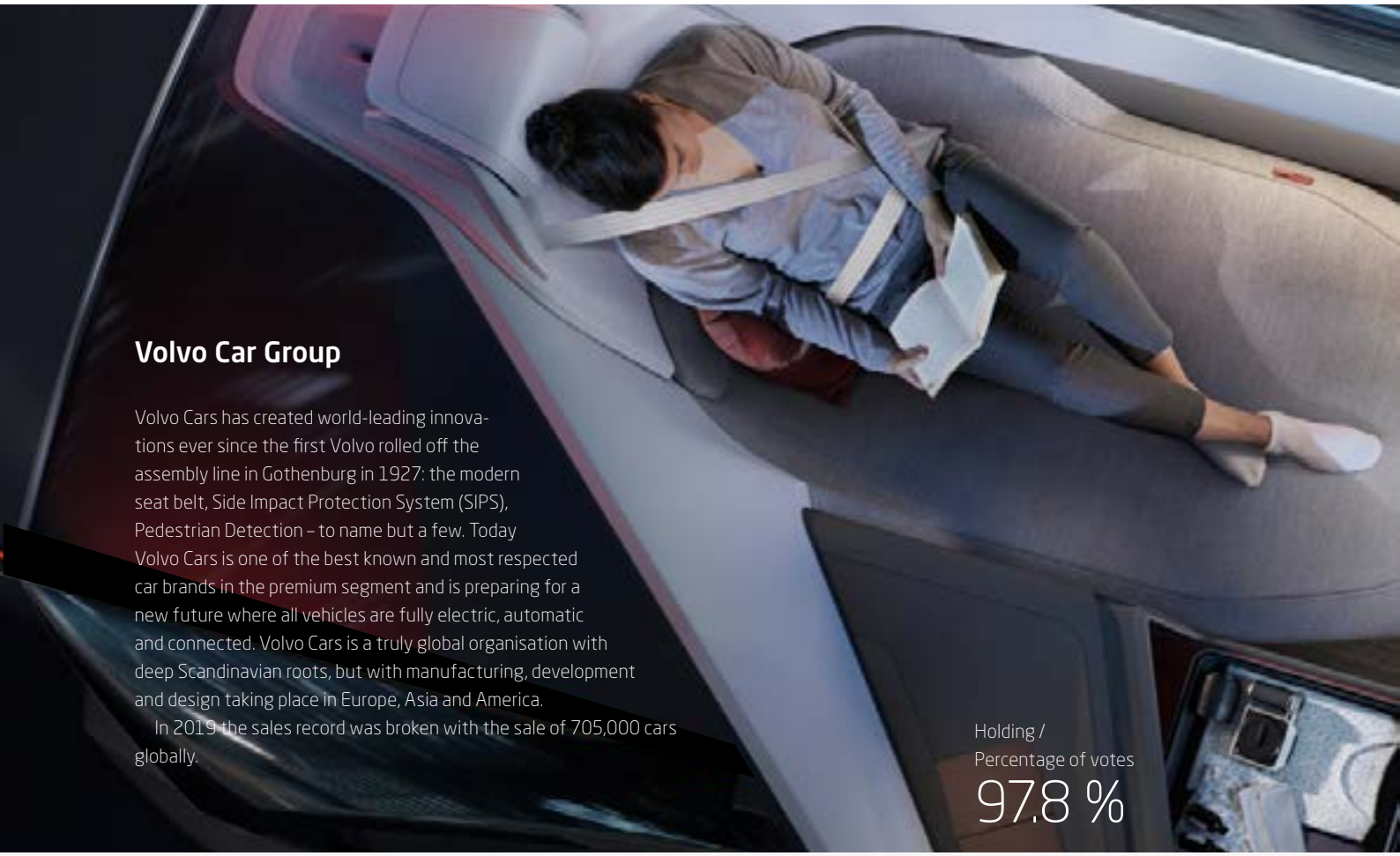
We have begun work to review the Group's structure and build up the necessary functions and management structure. We have also defined the objectives and focus of the Company going forward.

We are working on building relationships with investors, banks and stakeholders in order to secure access to capital. Our work includes a continual dialogue with our companies. In Nordic countries our companies have seen very strong growth and we expect this to continue.

It would be remiss of me to summarise 2019 without mentioning the very abrupt slowdown of the global economy at the beginning of 2020 due to the spread of the coronavirus. It is difficult to grasp the extent of pandemic's consequences now affecting us. However, thanks to the Company's financial strength and diversified operations, I am convinced that we will get through this crisis in a positive way.

Hans Oscarsson
Chief Executive Officer
Geely Sweden Holdings AB

Holdings



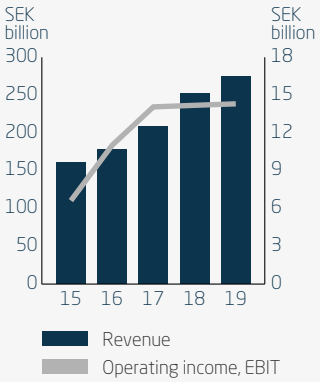
Volvo Car Group

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

In 2019 the sales record was broken with the sale of 705,000 cars globally.

Holding /
Percentage of votes
97.8 %

Revenue and earnings



Key ratios, MSEK	2019	2018	2017[1]	2016[1]	2015[1]
Revenue	274,117	252,653	208,646	178,586	160,515
Operating income, EBIT	14,303	14,185	14,061	11,014	6,620
Net income	9,603	9,781	10,225	7,460	4,476
Equity ratio %	26.3	29.0	28.7	26.8	26.2
Operating and investing cash flow	11,573	4,705	–3,800	6,515	7,234

1) In 2018 there was a change related to sale of certain cars accounted for as operating leasing. The comparative periods 2017, 2016 and 2015 have been changed accordingly, reducing revenue and cost of sales with an amount of MSEK 2,266 for 2017, (2016: MSEK 2,316) (2015: MSEK 1,999). The change had no effect on gross income.

Volvo Group

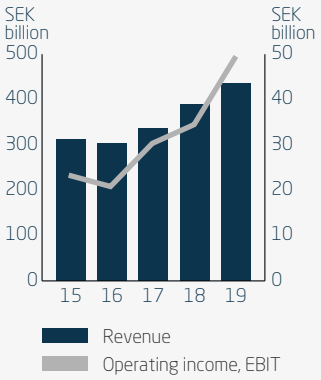
The Volvo Group is one of the world's leading manufacturers of trucks, buses, road machinery and engines for marine and industrial applications. Volvo Group also provides complete service solutions and financial services. Volvo Group, with its head office in Gothenburg, employs around 100,000 people, has production plants in 18 countries and sales in more than 190 markets. Volvo Group's revenue in 2019 was around SEK 432 billion and its shares are listed on Nasdaq Stockholm.

Geely Sweden Holdings has held 8.2 per cent of AB Volvo's share capital since 2018 and sees the holding as a strategic investment in one of the world's leading companies in its sector.

Holding
8.2 %

Percentage of votes
15.7 %

Revenue and earnings



Key ratios, MSEK	2019	2018	2017	2016	2015
Revenue	431,980	390,834	334,748	301,914	312,515
Operating income, EBIT	49,531	34,478	30,327	20,826	23,318
Net income	36,495	25,363	21,283	13,223	15,099
Equity ratio %	27.0	26.5	26.4	24.5	22.9
Operating and investing cash flow (billion)	24.9	17.4	28.5	10.4	14.5

Saxo Bank

Saxo is a leader in fintech solutions and a global facilitator for products and services for the capital markets. Saxo enables private clients to trade in more than 35,000 financial instruments from a single account. Saxo Open Banking offers institutional clients such as banks and fintech companies brokerage and trading technology solutions. Saxo was founded in 1992 and operated from the start based on open banking with a focus on helping clients and partners in win-win partnerships and product innovations.

Since the launch of its first online trading platform in 1998, Saxo has been working on giving everyone the ability to navigate their financial future through open access to trading and investment. In 2019 Saxo acquired Netherlands company Binck. The acquisition will provide synergies and a larger platform for expansion.

Saxo Bank's client assets today exceed DKK 375 billion and the group employs more than 2,100 people in financial centres around the globe, including London, Singapore, Amsterdam, Shanghai, Hong Kong, Paris, Zurich, Dubai and Tokyo. Saxo Bank's head office is located in Copenhagen, Denmark.

Holding /
Percentage of votes
48 %

Key ratios, MDKK	2019	2018	2017	2016	2015
Operating income, EBIT	2,611	2,786	3,027	2,930	2,127
Profit before tax	109	1,029	554	418	–778
Net income	40	963	401	302	–645
Equity ratio %	9.5	16.1	11.6	9.7	11.8
Operating and investing cash flow	23,941	–2,086	–990	3,620	–391

Geely Innovation Centre

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

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

Holding / Percentage of votes

100 %

Geely Group Motorsport

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

GGM handles strategic coordination of contracts with World Touring Car Cup, PR and product development. The WTCR model of Lynk & Co 03 has already had great success after just one year participating in championships.

Holding / Percentage of votes

100 %

Board of Directors

BOARD OF DIRECTORS GEELY SWEDEN HOLDINGS AB

Li Shufu

Chairman
Since: 2010
Born: 1963
Education: MSc in Mechanical Engineering, BSc in Management Engineering
Other assignments:
Founder and Chairman of the Board Zhejiang Geely Holding Group; Member of the Board other entities within the Zhejiang Geely Holding Group; Chairman, Volvo Cars AB (publ.).
Previous positions:
Founder Geely Holding Group

Li Donghui

Member of the Board
Since: 2012
Born: 1970
Education: MBA, MSc in Mechanical Engineering
Other assignments:
Chairman of the Board Lotus Advance Technologies Sdn. Bhd., Group Lotus Plc., Saxo Bank; Vice Chairman of the Board Geely Automobile Holdings Ltd.; Member of the Board Zhejiang Geely Holding Group Co. Ltd.; Member of the Board, Volvo Cars AB (publ.).
Previous positions:
Member of the Board Proton Holdings Berhad; Executive Vice President and CFO Geely Holding Group; Director certain subsidiaries 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 Cummins; CFO and other senior positions BMW Brilliance Automotive; Senior positions ASIMCO Braking System, Danfoss Tianji

Lone Fønss Schrøder

Member of the Board
Since: 2019
Born: 1960
Education: MSc in Law, MSc in Economics
Other assignments:
CEO Concordium AG; Chairman of the Board Cashworks AG; Vice Chairman of the Board and Chairman of the Audit Committee Akastor ASA; Member of the Board and Chairman of the Audit Committee Kværner ASA; Member of the Board and Audit Committee INGKA Holding BV; Member of the Board and Sustainability Committee CSL Group Inc.; Member of the Board, Vice Chairman and Chairman of the Audit Committee, Volvo Cars AB (publ.).
Previous positions:
Chairman of the Board Nustay A/S; Several senior management positions A.P. Möller-Maersk A/S; President and CEO Wallenius Lines, Concordium; Positions at Aker ASA, Handelsbanken, Saxo Bank, Cash Works

Hans Oscarsson

Member of the Board and CEO
Since: 2019
Born: 1965
Education: MSc in Business Administration
Other assignments: –
Previous positions:
Board member Volvo Car AB (publ), Polestar Holding, Mobility, Zenuity and Floby. CFO and SVP Finance, Volvo Car AB (publ); leading positions within finance at Volvo Car AB (publ).

Management Report

The Group

The Group Geely Sweden Holdings AB is a holding company. The Group has investments in the industrial automotive industry (mainly Volvo Cars), separate real estate operations and individual holdings in AB Volvo and Saxo Bank. The Group also has other operations in the form of a wholly owned motorsport company and five structured entities whose purpose is to finance the Group's operations.

Registered in Gothenburg, Geely Sweden Holdings AB is a fully owned subsidiary of Shanghai Geely Zhaoyuan International Investment Co., Ltd., registered in Shanghai, China, which in turn is majority owned by Zhejiang Geely Holding Group Co., Ltd., registered in Hangzhou, China.

Industrial operation

Revenue from Volvo Car Group 2019 amounted to SEK 274 (253) billion, an increase of 8.5 per cent. 2019 was the sixth consecutive year of record sales with a total sales volume of over 700,000 cars. The bestselling model in 2019 was the XC60.

Electrified cars will play a more prominent role in the business of Volvo Car Group in the future. The Group aims for at least 50 per cent of total sales to be in electrified cars by 2025. As part of this strategy, 45,933 plug-in hybrid cars were sold in 2019. The sales volume for electrified cars will account for 20 per cent of total sales as early as in 2020.

Real estate

"Uni3 by Geely" is the name of the 105,000 square meter campus Geely is building in Lindholmen, Gothenburg. Construction on the campus began in 2018 and the first of five buildings was officially opened in January 2020 with some 1,000 Geely Group employees moving in. The remaining buildings will be completed in 2021 and 2022. When the second building is opened in late 2021 external tenants will move in and it will also house a visitor and exhibition centre for use by external guests. A Lynk & Co office and showroom as well as a design centre will form the other automotive portion of the campus. The last building will be an externally operated four-star hotel open to the public. The campus is Geely's commitment to a long-term future in Sweden and is intended to be "Geely's second home" as well as a way to co-locate the existing Geely companies in Gothenburg. The investment budget for the campus is SEK 3 billion and it will provide workspace for some 3,500 people.

Individual holdings

Saxo Bank

In September 2018, Geely Sweden Holdings AB acquired 52 per cent of the shares in Saxo Bank A/S, through the Danish subsidiary Geely Financial Denmark A/S. In December 2018 an agreement was signed with Geely Group Ltd. whereby 5 per cent of the shares in Geely Financials Denmark A/S were sold. In connection with this, an additional agreement was signed giving Geely Group Ltd the option to acquire another 46 per cent of the shares in Geely Financials Denmark A/S. As of April 2020 Geely Group Ltd had exercised its option increasing its ownership to 51 per cent of Geely Financials Denmark A/S. The transaction will be finalised after it has been approved by the authorities.

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

Following the transactions described above and based on all relevant information, it was concluded that the Geely Financials Denmark A/S group, which includes Saxo Bank, should not be consolidated as of the date of the transaction in September 2018. The consolidation option may be used at the shareholder's discretion. Based on the divestment, the option agreement, and other contractual conditions, the Group deems that there is no controlling interest. Consequently, the transaction has been accounted for as a joint venture using the equity method from September 2018 to December 2019.

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.

Geely Sweden Holdings Group

Key ratios, MSEK	**Full year 2019**	Full year 2018	Full year 2017[1)]	Full year 2016[1)]	Full year 2015[1)]
Revenue	274,149	252,653	208,646	178,586	160,515
Operating income, EBIT	13,371	14,679	14,058	11,014	6,620
Net Income	9,244	10,731	10,252	7,460	4,476
EBITDA	28,919	27,892	26,159	21,541	16,019
Operating and investing cash flow	9,615	–34,276	–3,803	6,515	7,234
EBIT margin, %	4.9	5.8	6.7	6.2	4.1
EBITDA margin, %	10.5	11.0	12.5	12.1	10.0
Equity ratio, %	21.8	21.4	29.3	26.8	26.2
Net cash	–12,665	–18,608	14,052	18,873	7,721

1) In 2018 there was a change related to certain car sales being recognised as operating leases. The comparative periods 2017, 2016 and 2015 have been changed accordingly, reducing revenue and cost of sales in an amount of MSEK 2,266 for 2017, (2016: MSEK 2,316) (2015: MSEK 1,999). The change had no effect on gross income.

The AB Volvo Group

2019 was a strong year for AB Volvo Group. Revenue increased by 11 per cent to SEK 432 (391) billion and the operating profit increased to almost SEK 50 (34) billion.

In recent years the Volvo Group has undergone a substantial restructuring process in order to lower structural costs and increase efficiency. The Group is at this time focusing on increasing organic growth and profitability through continuous improvement and innovation.

Since the initial focus on commercial vehicles almost twenty years ago, Volvo Group has grown into the second largest manufacturer of trucks and is also one of the largest manufacturers of construction equipment, buses, large diesel engines and engines for marine and industrial applications. Demand remained strong in 2019 in many markets with a slight decline in the second half year. Geely Sweden Holdings Group received a dividend from AB Volvo in 2019 of MSEK 1,672.

According to IFRS, shareholdings in AB Volvo are to be measured at fair value through other comprehensive income and the accumulated effect is recognised in equity. The fair value change 2019 amounted to MSEK –6,942.

Net income and financial position

Income before tax for the Group amounted to MSEK 12,668 (13 868). Net income amounted to MSEK 9,244 (10,731). Cash and cash equivalents for the Group amounted to MSEK 57,351 (41,053). Interest bearing liabilities not including provisions for employee benefits amounted to MSEK 6,149 (-). The net borrowings amounted to MSEK 73,470 (61,168). Equity share of total assets amounted to 22 (21) per cent.

Investments

During the period the Group made investments in intangible assets amounting to MSEK 9,176 (7 283) and investments in property, plant and equipment amounting to MSEK 12,464 (13,744). MSEK 7,207 (8,066) is investments in machinery and equipment and MSEK 3,669 (4,781) is construction in progress MSEK 1,011 (813).

Financing

In 2019 the subsidiary Geely Sweden Financials Holding (publ.) issued a zero-interest rate exchangeable bond of MEUR 400 with a contract period ending in 2024. The bond includes embedded derivatives that has been separated from the host contract as the cash flow from the derivatives are not related to the cash flow from the host contract (the bond). The value of these embedded derivatives is closely related to the value of the shares in Geely Sweden Holding's shareholding in AB Volvo. The fair value of these derivatives is closely monitored as changes could to affect future payments made by Geely Sweden Holdings to the investors.

Geely Sweden Financials AB has taken out a new loan amounting to MEUR 1,400. The loan is split into two tranches, MEUR 1,000 maturing in June 2022 and MEUR 400 maturing in June 2024.

In 2019 Volvo Cars AB issued a MSEK 2,000 bond that will mature February 2023 and a MEUR 600 bond that will mature in April 2024, listed on the Luxembourg Stock Exchange. The proceeds will be used for general corporate purposes that might include repayment of long term debt.

SEK 5 billion of existing preference shares refinanced

The Group issued convertible preference shares for a value of SEK 5 billion to a group of Swedish institutional investors comprising the Swedish pension fund AMF and the Swedish insurance and pension savings group Folksam. As these are respectively one of Sweden's largest pension funds and the leading insurance and pension savings group, the Group consider their investments to represent a significant, continued endorsement of the Company. In conjunction with this transaction the preference shares previously issued to the same investors were redeemed. The preference shares may be repurchased or converted into common shares in Volvo Car AB under certain circumstances.

Employees

In 2019 the number of white collar employees was reduced following cost efficiency activities announced earlier this year. During the same period, higher production volumes led to an increase in blue collar employees, mainly in China, Belgium and the US. In total, the Group had an average 41,529 (41,424)[1)] full-time employees. The Group also has an average of 4,448 (4,453) consultants. Information on salaries and other remuneration is presented in Note 8, Employees and remuneration.

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 2019 Li Shufu was elected Chairman of the Board.

The Board annually adopts 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/her duties and reporting obligations to the Board. The Board has held one (1) meeting so far during the period in addition to the statutory meeting.

At this meeting the Company's auditor participated and presented a report on the observations made during the audit. 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.

Through the agency of the Chairman, the Board has evaluated its work and all members have submitted their comments.

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 so that their effect on the Company's operations can be mitigated.

The most relevant risks and uncertainties are presented below:

IT security
Breaches of IT security could severely interrupt business operations, impacting both the Company and its customers, and cause the loss of intangibles assets (IP) and other information.

Data protection
Geely Sweden Holdings operates numerous entities on a global scale. The regulatory environment with regards to data security is becoming increasingly complex. The EU General Data Protection Regulation (GDPR) is only one law among others that exist and is a topic of debate in different countries.

Digitalisation
Our new business models and long-term strategies increasingly include a digitalisation agenda. IT breaches and interruptions effect our ability to communicate with our current and potential customers, and to deliver services to them. With respect to cloud services this is a critical factor and could possibly cause problems in car deliveries.

Electrification
It is difficult to predict when we will see a broad increase in demand for electrified vehicles from consumers.

Electrified vehicles will play a more important role in the operations of Volvo Cars. The goal is for 50 per cent of all cars sold in 2025 to be electrified, although this will depend on the changes in demand patterns. It is difficult to change or influence customer demand and political ambitions with respect to electrification. In order to promote the sale of electrified cars, there must be competitive options for customers to recharge their vehicles. Volvo Cars must beat the competition by offering well-developed infrastructure and financially attractive solutions to its customers who choose electrified cars. If this is achieved, the consequences will be immediate on the sale of electrified cars. The market for recharging stations is still very immature and varies from region to region. The differences are most evident within the EU.

Laws and regulations
New and amended regulations and government decisions will have an impact on business. We are expected an increase in regulations in the automotive market in the future, especially those relating to the environment.

Financial risks
A description of financial instruments and management of financial risk is presented in Note 20.

Parent company
Income before tax for the parent company amounted to MSEK 1,413 (68). The equity ratio amounted to 83 (91) per cent.

Events after the balance sheet date
Combining strengths to lead the automotive industry transformation. In February 2020 it was announced that Volvo Car AB and Geely Automobile Holdings Limited are considering combining their businesses to create a strong global group, which would accelerate financial and technological synergies between the two companies. This would be a combination of two strong companies. The combined operation would have the scale, knowledge and resources to be a leader in the ongoing transformation of the automotive industry. The distinct identity of each of the brands, Volvo Cars, Geely, Lynk & Co and Polestar, would be preserved.

A combined company would have access to the global capital market through Hong Kong and the intention would be a subsequent listing in Stockholm as well.

Volvo Cars and Geely have formed a joint working group to prepare a proposal to present to their respective boards. Leading this effort is Håkan Samuelsson, CEO of Volvo Cars.

Coronavirus
At the date of signature, the covid-19 situation is developing and spreading globally. Geely Sweden Holdings is taking actions as instructed by the relevant authorities, as well as other actions necessary to mitigate the effects on its business. Since the end of January 2020, we have seen effects on the Group globally.

On March 11, 2020, WHO characterised the covid-19 virus as a pandemic. The event is considered to be a non-adjusting event as it did not exist at the balance sheet date on December 31, 2019.

It has become clear that the covid-19 virus will have a significant but not easily quantifiable impact on our societies and businesses. The corona pandemic is now severely affecting Geely Sweden Holdings companies in many ways, including a weakening market and production disruption as well as concerns for its employees.

The Group's primary focus is on the health and safety of all employees and actions are made with a focus on adherence to the relevant authorities' demands.

We anticipate the negative effects on Geely Sweden Holdings will continue or worsen as the situation evolves.

Uncertainty around the continued development of the covid-19 spread, actions imposed and taken in different jurisdictions and weakening market in general, make it difficult to quantify the financial impact at this stage.

Geely Sweden Holdings will continuously monitor the situation, work with different scenarios and will initiate actions depending on the development.

Saxo Bank
In April 2020, Geely Group Ltd exercised its option to acquire an additional 46 per cent in Geely Financials Denmark A/S and, upon completion of the transaction after approval by the Authority, will own 51 per cent of Geely Financial's Denmark A/S.

Changes in staffing

On April 29th Volvo Cars gave notice for a reduction of 1,300 white-collar positions in its Swedish operations, plus a continued review and reduction of consultancy contracts concerning around 300 consultants.

Environment

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 Report prepared by Volvo Cars Group in line with international reporting guidelines set out in the Global Reporting Initiative (GRI). All businesses have permits to regulate the environmental impact of their operations. Continuous reporting on this impact is undertaken according to guidelines and requirements issued by local and national environmental authorities.

Share premium reserve	SEK	6,509,200,000
Other contributed capital	SEK	3,693,131,899
Retained earnings carried forward	SEK	12,858,538,053
Net income for the year	SEK	1,414,057,389
At the disposal of the AGM	**SEK**	**24,474,927,341**

The Board proposes the following allocation of funds:

Carried forward	SEK	24,474,927,341
Total	**SEK**	**24,474,927,341**

Future prospects

No forecast will be published.

Contents Financial Report

Consolidated Income Statements

MSEK	Note	2019	2018
Revenue	2	274,149	252,653
Cost of sales[1)]	3	–222,052	–203,322
Gross income		**52,097**	**49,331**
Research and development expenses[1)]	3, 15	–11,446	–10,903
Selling expenses	3	–17,315	–17,371
Administrative expenses	3	–9,542	–8,032
Other operating income	6	3,880	3,388
Other operating expenses	6	–3,252	–2,324
Share of income in joint ventures and associates	13	–1,051	590
Operating income	4, 5, 7, 8, 9, 10	**13,371**	**14,679**
Financial income	11	2,261	1,121
Financial expenses	12	–2,964	–1,932
Income before tax		**12,668**	**13,868**
Income tax	14	–3,424	–3,137
Net income		**9,244**	**10,731**
Net income attributable to			
Owners of the parent company		6,757	7,790
Non-controlling interests		2,487	2,941
		9,244	**10,731**

1) Reclassification of research and development expenses to Cost of sales amounted to MSEK 1,195 in full year 2018.

INCOME AND RESULT

The Group's revenue increased by 8.5 per cent to MSEK 274,149 (252,653), from growth in all regions and significantly increased volumes in markets such as China, US, Germany, UK and Belgium. Wholesales increased by 7.1 per cent to 703,534 (656,688) units, mainly driven by the XC40. The positive sales development and the increased demand for the XC model range, however continuously effected by price pressure in certain markets, was reflected in volume, sales mix and pricing, which contributed to revenue with MSEK 10,670. Sold licences decreased by MSEK 894, while other revenue, such as rentals, used car sales as well as parts and accessories, increased by MSEK 3,155. The exchange rate effect in revenue amounted to MSEK 8,533.

Gross income increased to MSEK 52,097 (49,331), resulting in a gross margin of 19.0 (19.5) per cent. Operational efficiencies, such as material cost improvements, freight and labour and overhead efficiencies, have had a positive effect on cost of sales. The increase in cost of sales was mainly related to a higher production volume and increasing demand for the XC model range, and a negative foreign exchange rate impact in cost of sales of MSEK –8,164. The net effect of foreign exchange rate in gross income was positive and amounted to MSEK 369 and the decreased gross income effect from licence sales amounted to MSEK 894. Consequently, the main reason for the decrease in gross margin was the continuous price competition in certain markets and lower licence sales.

Research and development expenses increased to MSEK –11,446 (–10,903). The increase was driven by continuous investments in electrification, connectivity and new car models. For details regarding research and development expenses, see table below.

Selling and administrative expenses increased to MSEK –26,857 (–25,403). The increase was mainly driven by administrative expenses of MSEK –9,542 (–8,032) related to personnel costs as well as increased expenses for digitalisation. Selling expenses were in line with 2018 and amounted to MSEK –17,315 (–17,371).

Other operating income and expense, net, amounted to MSEK 628 (1,064). The decrease was mainly related to costs for early phase-out of certain components, partly offset by foreign exchange rate effects on operating assets and liabilities of MSEK 537 (62).

Operating income (EBIT) decreased slightly compared to last year to MSEK 13,371 (14,679). The EBIT margin decreased to 4,9 (5.8) per cent. While the EBIT in the prior year was positively affected by a higher level of received government grants and licences, the result during this year was a result of strong growth in volume, and a more favourable market and model mix, as well as operational efficiencies. Since the announcement in April 2019, to implement cost efficiency measurements, the number of consultants and full-time employees has been reduced by around 900. The full financial impact is expected to come in 2020 as, on average, the number of full-time employees in 2019 was at the same level as in 2018. The net effect of foreign exchange rate in EBIT was MSEK –125.

Net financial items amounted to MSEK –703 (–811).

The effective tax rate increased to 27.0 (22.6) per cent mainly due to allocation of taxable profits between different jurisdictions and adjustments related to prior years.

Net income amounted to MSEK 9,244 (10,731). Net income in relation to revenue was 3.4 (4.2) per cent.

Research and development spending, MSEK	2019	2018
Research and development spending	–14,662	–12,816
Capitalised development costs	8,088	6,476
Amortisation and depreciation of Research and development	–4,872	–4,563
Research and development expenses	**-11,446**	**-10,903**

Consolidated Comprehensive Income

MSEK	Note	2019	2018
Net income		9,244	10,731
Other comprehensive income			
Items that will not be reclassified subsequently to income statement:			
Change in fair value of other long-term securities holdings	20	6,942	–12,012
Remeasurements of provisions for post-employment benefits		–3,780	–1,925
Tax on items that will not be reclassified to income statement		792	404
Items that may be reclassified subsequently to income statement:			
Translation difference on foreign operations		982	805
Translation difference of hedge instruments of net investments in foreign operations		–139	–16
Change in fair value of cash flow hedge related to currency and commodity price risks		–4,220	–3,236
Currency and commodity risk hedge contracts recycled to income statement		1,003	–603
Tax on items that may be reclassified to income statement		691	815
Other comprehensive income, net of income tax		**2,271**	**–15,768**
Total comprehensive income		**11,515**	**–5,037**
Total comprehensive income attributable to			
Owners of the parent company		8,801	–8,097
Non-controlling interests		2,714	3,060
		11,515	**–5,037**

NET FINANCIAL POSITION AND LIQUIDITY

Cash flow from operating and investing activities amounted to MSEK 9,615 (–34,276). Cash flow from operating activities amounted to MSEK 29,453 (26,520). The change is due to the positive operating income of MSEK 13,371 (14,679), adjusted for depreciation and amortisation of MSEK 15,548 (13,213) together with tax paid of MSEK –4,094 (–4,132), and a positive working capital development of MSEK 7,686 (4,151).

The positive development in working capital was mainly due to growing sales volumes and increased sales of cars held under repurchase agreements, as well as increased sales generated obligations. These were the main contributors to the positive cash flow from contract liabilities to customers of MSEK 6,503 (6,093) and other working capital assets and liabilities of MSEK 274 (553). Change in accounts payable resulted in a positive effect of MSEK 2,019 (4,452) mainly due to increased production. The positive effects were partly offset by a negative cash flow from inventories of MSEK –3,066 (–3,706) driven by growing sales volumes and increased sales of cars held under repurchase agreements.

Cash flow from investing activities amounted to MSEK –19,838 (–60,796). Investments in tangible assets amounted to MSEK –12,464 (–13,744) and are mainly related to the approaching launch of the fully electric XC40, the S60 and engines. Investments in intangible assets amounted to MSEK –9,176 (–7,283) as a result of continuous investments in new and upcoming car models and new technology. Dividend amounting to MSEK 1,672 (—) has been received from AB Volvo.

Cash flow from financing activities amounted to MSEK 5,712 (37,516) mainly related to proceeds from credit institutions of MSEK 16,790 (40,618) and proceeds from bond issuance of MSEK 12,483 (2,265), offset by repayments of liabilities of MSEK –18,088 (–), dividends paid to shareholders of MSEK –1,510 (–67) and investments in marketable securities (net) of –1,985 (2,558).

Total cash and cash equivalents including marketable securities have increased to MSEK 60,869 (42,630). Net cash decreased to MSEK –12,665 (–18,608). Including undrawn credit facilities of MSEK 13,593 (13,328), liquidity was at MSEK 74,462 (55,958).

EQUITY

Total equity increased to MSEK 61,654 (51,252), resulting in an equity ratio of 21.8 (21.4) per cent. The change is attributable to the positive net income of MSEK 9,244, capital injection of MSEK 1,153 from Geely to Polestar Group which is a joint venture under common control, and change in fair value of the shares in AB Volvo of MSEK 6,942, partly offset by negative effects in other comprehensive income. The latter is related to change in cash flow hedge reserve from unrealised hedge contracts of MSEK –2,556 (net of tax), whereof hedge contracts recycled to income statement amounted to MSEK 1,003. The change in value of cash flow hedges is mainly due to a weakened SEK against USD and GBP. Remeasurements of provisions for post-employment benefits have had a negative effect in other comprehensive income of MSEK –2,988 (net of tax) due to changes in actuarial assumptions, mainly lower discount rates. This has partly been offset by a positive foreign exchange translation effect, including hedges of net investments in foreign operations of MSEK 873 (net of tax).

Dividend of MSEK 1,510 was paid to shareholders, whereof MSEK 125 was distributed to the holders of preference shares. In December 2019, a new issue of preference shares was made of MSEK 4,989 (net) which was offset by the redemption of the preference shares issued in December 2016 of MSEK –5,745. For more information about the transaction, see Note 22 – Equity.

Consolidated Balance Sheets

MSEK	Note	Dec 31, 2019	Dec 31, 2018
ASSETS			
Non-current assets			
Intangible assets	15	32,806	29,646
Property, plant and equipment	7, 16	70,963	61,777
Assets held under operating leases	7, 16	3,243	2,523
Investments in joint ventures and associates	13	14,233	14,311
Other long-term securities holdings	20	26,652	19,604
Deferred tax assets	14	7,448	6,592
Other non-current assets	17	3,472	3,113
Total non-current assets		**158,817**	**137,566**
Current assets			
Inventories	18	38,911	35,163
Accounts receivable	4, 19	13,278	14,065
Current tax assets		959	568
Other current assets	19	10,616	9,494
Marketable securities	21	3,518	1,577
Cash and cash equivalents	21	57,351	41,053
Total current assets		**124,633**	**101,920**
TOTAL ASSETS		**283,450**	**239,486**
EQUITY & LIABILITIES			
Equity	22		
Equity attributable to owners of the parent company		50,704	42,345
Non-controlling interests		10,950	8,907
Total equity		**61,654**	**51,252**
Non-current liabilities			
Provisions for post-employment benefits	23	12,583	8,425
Deferred tax liabilities	14	975	1,683
Other non-current provisions	24	7,316	6,214
Liabilities to credit institutions	20	40,125	29,734
Bonds	20	27,863	15,418
Non-current contract liabilities to customers	25	5,210	4,184
Other non-current interest bearing liabilities	7	5,076	—
Other non-current liabilities	4, 26	5,318	4,637
Total non-current liabilities		**104,466**	**70,295**
Current liabilities			
Current provisions	24	8,357	6,936
Liabilities to credit institutions	20	5,482	16,016
Current contract liabilities to customers	25	20,478	17,511
Accounts payable	4	45,008	43,714
Current tax liabilities		1,295	1,648
Other current interest bearing liabilities	7	1,073	—
Other current liabilities	27	35,637	32,114
Total current liabilities		**117,330**	**117,939**
TOTAL EQUITY & LIABILITIES		**283,450**	**239,486**

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, 2018	**–**	**11,405**	**7,993**	**-258**	**1,270**	**29,319**	**49,729**	**6,416**	**56,145**
Net income	**–**	**–**	**–**	**–**	**–**	**7,790**	**7,790**	**2,941**	**10,731**
Other comprehensive income									
Change in fair value of other long-term securities holdings[2]	–	–	–	–	-12,012	–	-12,012	–	-12,012
Remeasurements of provisions for post-employment benefits	–	–	–	–	–	-1,925	-1,925	–	-1,925
Translation difference on foreign operations	–	–	–	696	–	–	696	109	805
Translation difference of hedge instruments of net investments in foreign operations	–	–	–	-16	–	–	-16	–	-16
Change in fair value of cash flow hedge related to currency and commodity price risks	–	–	–	–	-3,249	–	-3,249	13	-3,236
Currency and commodity risk hedge contracts recycled to income statement	–	–	–	–	-602	–	-602	-1	-603
Tax attributable to items recognised in other comprehensive income	–	–	–	1	816	404	1,221	-2	1,219
Other comprehensive income	**–**	**–**	**–**	**681**	**-15,047**	**-1,521**	**-15,887**	**119**	**-15,768**
Total comprehensive income	**–**	**–**	**–**	**681**	**-15,047**	**6,269**	**-8,097**	**3,060**	**-5,037**
Transactions with owners									
Capital contribution from non-controlling interests[3) 4)]	–	–	–	–	–	–	–	662	662
Transactions with non-controlling interests[3)]	–	–	–	–	–	-44	-44	44	–
Divestment of non-controlling interests[3) 4) 5)]	–	–	–	–	–	-17	-17	-1,271	-1,288
Change in the Group's composition[4) 5)]	–	–	–	–	–	-9	-9	–	-9
Capital injection into joint venture under common control[4) 5)]	–	–	–	–	–	846	846	–	846
Dividend to shareholders[6)]	–	–	–	–	–	-63	-63	-4	-67
Transactions with owners	**–**	**–**	**–**	**–**	**–**	**713**	**713**	**-569**	**144**
Balance at December 31, 2018	**–**	**11,405**	**7,993**	**423**	**-13,777**	**36,301**	**42,345**	**8,907**	**51,252**
Net income	**–**	**–**	**–**	**–**	**–**	**6,757**	**6,757**	**2,487**	**9,244**
Other comprehensive income									
Change in fair value of other long-term securities holdings[2]	–	–	–	–	6,942	–	6,942	–	6,942
Remeasurements of provisions for post-employment benefits	–	–	–	–	–	-3,780	-3,780	–	-3,780
Translation difference on foreign operations	–	–	–	744	–	–	744	238	982
Translation difference of hedge instruments of net investments in foreign operations	–	–	–	-139	–	–	-139	–	-139
Change in fair value of cash flow hedge related to currency and commodity price risks	–	–	–	–	-4,221	–	-4,221	1	-4,220
Currency and commodity risk hedge contracts recycled to income statement	–	–	–	–	1,016	–	1,016	-13	1,003
Tax attributable to items recognised in other comprehensive income	–	–	–	30	660	792	1,482	1	1,483
Other comprehensive income	**–**	**–**	**–**	**635**	**4,397**	**-2,988**	**2,044**	**227**	**2,271**
Total comprehensive income	**–**	**–**	**–**	**635**	**4,397**	**3,769**	**8,801**	**2,714**	**11,515**
Transactions with owners									
Issue of preference shares[3)]	1	4,988	–	–	–	–	4,989	–	4,989
Redemption of preference shares[3)]	-1	-4,896	–	–	–	-848	-5,745	–	-5,745
Transactions with non-controlling interests[3)]	–	–	–	–	–	-714	-714	714	–
Capital injection into joint venture under common control[4) 5)]	–	–	–	–	–	1,153	1,153	–	1,153
Dividend to shareholders[6)]	–	–	–	–	–	-125	-125	-1,385	-1,510
Transactions with owners	**–**	**92**	**–**	**–**	**–**	**-534**	**-442**	**-671**	**-1,113**
Balance at December 31, 2019	**–**	**11,497**	**7,993**	**1,058**	**-9,380**	**39,536**	**50,704**	**10,950**	**61,654**

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 8 – Participation in subsidiaries (Parent company).
5) For further information, see Note 31 – Business Combinations.
6) For further information, see Note 4 – Related parties.

Consolidated Statement of Cash Flows

MSEK	Note	2019	2018
OPERATING ACTIVITIES			
Operating income		13,371	14,679
Depreciation and amortisation of non-current assets	9	15,548	13,213
Interest and similar items received		514	413
Interest and similar items paid		–1,372	–1,114
Other financial items		–667	–233
Income tax paid		–4,094	–4,132
Adjustments for items not affecting cash flow	30	–1,533	–457
		21,767	**22,369**
Movements in working capital			
Change in inventories		–3,066	–3,706
Change in accounts receivable		1,030	–2,633
Change in accounts payable		2,019	4,452
Change in provisions		926	–608
Change in contract liabilities to customers		6,503	6,093
Change in other working capital assets/liabilities[1)]		274	553
Cash flow from movements in working capital		**7,686**	**4,151**
Cash flow from operating activities		**29,453**	**26,520**
INVESTING ACTIVITIES			
Investments in shares and participations, net[2)]	13, 31	–287	–40,131
Dividends received from joint ventures and associates	13	64	240
Dividends received from investments in other long-term securities holdings		1 672	—
Investments in intangible assets[1)]		–9,176	–7,283
Investments in tangible assets		–12,464	–13,744
Disposal of tangible assets		353	122
Cash flow from investing activities		**-19,838**	**-60,796**
Cash flow from operating and investing activities		**9,615**	**-34,276**
FINANCING ACTIVITIES			
Proceeds from credit institutions		16,790	40,618
Proceeds from bond issuance	20	12,483	2,265
Repayment of liabilities to credit institutions		–18,088	—
Repayment of interest bearing liabilities		–1,356	–8,891
Proceeds from preference shares issuance	22	5,011	—
Redemption of preference shares	22	–5,745	—
Dividend paid to shareholders	4	–1,510	–67
Investments in marketable securities, net	21	–1,985	2,558
Other[3)]		112	1,033
Cash flow from financing activities		**5,712**	**37,516**
Cash flow for the year		**15,327**	**3,240**
Cash and cash equivalents at beginning of year		**41,053**	**36,941**
Exchange difference on cash and cash equivalents		971	872
Cash and cash equivalents at end of year	21	**57,351**	**41,053**

1) Up until the second quarter, expenses related to the delivery of unique IP (now classified as customer contracts) were capitalised as an intangible asset, an asset expensed when transferred to the customer. For comparison reasons, the affected line items for 2018 have been restated.
2) Investments in shares and participations, net, includes for 2018: effects from loss of control of Polestar Group.
3) Other is attributable to realised result from financial instruments MSEK 226 (694) and change in Other non-current liabilitities MSEK –114 (339).

Notes to the Consolidated Financial Statements

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

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

Basis of preparation

The consolidated financial statements of Geely Sweden Holdings AB Group have been 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 is prepared in accordance with IAS 1 Presentation of Financial Statements and the Swedish Annual Accounts Act. In addition, RFR 1 Supplementary Rules for Groups has been applied, a standard issued by the Swedish Financial Reporting Board. 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 has been described in conjunction with each note. When a new accounting principle has been implemented or when there has 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. The results of these estimates and judgements are used to report the values of assets and liabilities. The actual outcome (value) may differ from these estimates and judgements and corrections maybe necessary to make. Therefore, 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.

In order to avoid duplication of information, cross-references have been made between notes. The estimates and judgements that are deemed to be the most important for an understanding of the Group's financial reports within each area, taking into account the degree of materiality and uncertainty, are presented as part of each applicaple note.

Basis of consolidation

The consolidated accounts 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 power over the entity.

All wholly owned subsidiaries, 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 currencies other than the functional currency (foreign currencies) are translated to the functional currency using the balance sheet closing rate. 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 in 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 to 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	**2019**	2018	**2019**	2018
China	CNY	1.37	1.32	1.34	1.30
Euro zone	EUR	10.56	10.27	10.46	10.25
Great Britain	GBP	12.04	11.60	12.31	11.35
United States	USD	9.42	8.69	9.32	8.95
Japan	JPY	0.09	0.08	0.09	0.08

Classification of current and non-current assets and liabilities

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

NOTE 2 – REVENUE

ACCOUNTING PRINCIPLES

Revenue is defined as the sales price for goods or services net of variable considerations, for instance discounts and variable marketing expenses.

Revenue is recognised when the customer obtains control of a delivered good or service, 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 applied business model. The sale of goods or services will sometime give rise to the recognition of contract liabilities to customers. These liabilities are recognised when the Group are obligated to transfer goods or services for which consideration is already received. Contract liabilities to customers include sales generated obligations, deferred revenue from extended service business, 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. At the point of revenue recognition, there are normally no material unfulfilled obligations that could affect the customer's acceptance. If the customer contracts include variable considerations 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 as well the case for other variable considerations, like incentive programs and variable marketing expenses.

Revenue from sale of a vehicle to a customer, where there is a residual value guarantee 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 at the Group is classified and 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 the 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, refer to 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 end customers. Income from these sales is deferred and revenue recognised on a straight-line basis over the contract period. The deferred revenue is presented as contract liabilities to customers, since the customers payment is made before the service is transferred. 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 is 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 in general is 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 sold licence gives the customer a right to use or a 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 licenses 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 are recognised as revenue on a straight-line basis over the leasing period.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Variable consideration

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

Volume discounts

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

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 change of market conditions, vehicle quality data and repair and reconditioning costs etc.

Repurchase Commitment

Cars sold with a repurchase obligation are recognised in the balance sheet as assets under operating leases or inventories depending on the contract period. The Group is exposed to a risk (in principle the same risk as for contracts including residual value guarantees). During the contract period there is risk for a potential loss for the Group as the estimated value of the car is or might be 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 of market conditions, vehicle quality data and repair and reconditioning costs etc. The value of the car in the balance sheet is adjusted if necessary.

The Revenue allocated to geographical regions:	**2019**	2018
China	60,530	54,653
US	40,110	39,366
Europe[1)]	131,015	121,671
of which Sweden	*26,124*	*28,034*
of which Germany	*20,343*	*18,366*
of which United Kingdom	*16,911*	*14,933*
Other markets	42,494	36,963
of which Japan	*7,937*	*6,593*
of which South Korea	*4,623*	*3,322*
Total	**274,149**	**252,653**

The Revenue allocated to category:		
Sale of products and related goods and services	251,139	231,891
Sale of used cars	15,840	13,808
Revenue from subscription, leasing and rental business	4,177	3,326
Sale of licences	1,648	2,542
Other revenue	1,345	1,086
Total	**274,149**	**252,653**

1) Europe is defined as EU28+EFTA.

Revenue recognised in relation to contract liabilities to customers

For revenue recognised in the current reporting period in relation to opening balance of contract liabilities see Note 25 – Current and non-current contract liabilities to customers. The majority of the contracts recgonised as a contract liability are classified as current.

NOTE 3 – EXPENSES BY NATURE

	2019	2018
Material cost incl. freight, distribution and warranty	–186,126	–170,921
Personnel	–37,026	–33,077
Amortisation/depreciation	–15,548	–13,213
Other	–21,655	–22,417
Total	**–260,355**	**–239,628**

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

NOTE 4 – RELATED PARTIES

ACCOUNTING PRINCIPLES

The Group has multiple related parties especially 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 performed on commercial terms.

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

	Sales of goods, services and other		Purchases of goods, services and other	
	2019	2018	**2019**	2018
Related companies[1) 2)]	4,147	5,715	–1,491	–217
Joint ventures and associated companies[1)]	1,320	981	–2,603	–1,659

	Receivables		Payables	
	Dec 31, 2019	Dec 31, 2018	**Dec 31, 2019**	Dec 31, 2018
Related companies[1)]	8,964	7,943	2,941	4,723
Joint ventures and associated companies[1)]	733	465	408	271

1) Joint ventures within the Geely sphere are reported as related companies. For joint ventures and associated companies see Note 13 – Investments in joint ventures and associates.
2) Licence revenue represent a value of MSEK 1,410 (2,458).

As of September 28, 2018 the Group deconsolidated the Polestar Group. Thereafter, the Polestar Group is a related party and transactions with entities within the Polestar Group are disclosed accordingly[3)].

The bond loan in Geely Sweden Finance AB (publ.) is guaranteed by Zhejiang Geely Holding Group Co., Ltd.

Significant transactions during the year

- The Group have issued short term loan deposits towards Geely International (Hong Kong) Ltd. of MEUR 116 (—), Geely Group Ltd. of MEUR 35 (—) and Geely Financials Denmark A/S of MEUR 53 (—).
- The Group sold Technology licences to Polestar Performance AB of MSEK 874 (1,769) and to Polestar New Energy Vehicle Co., Ltd of MSEK 446 (378). In 2019, the Group also sold services to Polestar Performance AB of MSEK 253 (80) and to Polestar New Energy Vehicle Co., Ltd, generating other operating income of MSEK 478 (305). Volvo Cars offers a Polestar performance enhancement product to its end customers. This product is purchased from Polestar Performance AB and resulted in other operating expenses of MSEK 472 (56).
- Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd, has sold engines to Asia-Europe Automobile Manufacturing (Taizhou) Co., Ltd (Luqiao plant) for the production of Lynk&Co CX11 vehicles. The sales generated revenue of MSEK 856 (1,691).
- Volvo Car AB (publ.) has paid dividend of MSEK 125 (63) to its preference shareholders.
- Daqing Volvo Car Manufacturing Co., Ltd has paid dividend of MSEK 1,381 (—) to its shareholder Zhejiang Geely Holding Group Co., Ltd.

Significant transactions in previous years

- In 2016, the Group entered into an agreement with Asia-Europe Automobile Manufacturing (Taizhou) Co., Ltd, the Luqiao plant that produces the range of smaller 40-series CMA-based cars. The plant is owned by Zhejiang Geely Holding Group Co., Ltd but is operated by the Group. The agreement covers support service for operating the plant and resulted 2019 in other income of MSEK 356 (307).
- In 2017, the Group signed a licence agreement with London Taxi Co., Ltd, a wholly owned subsidiary to Zhejiang Geely Holding Group Co., Ltd, which has resulted in an income during 2019 of MSEK — (300).

During 2019 the subsidiary Volvo Personvagnar AB sold shares in the company PSINV for a value of MSEK 38 (—) to certain members of its EMT members.

With the exception of above described transaction the Group does not engage in any transactions with Board Members or senior executives except remuneration for services and the share-based programme as described in Note 8 – Employees and remuneration.

3) See the Note 31 – Business combinations and Note 8 – Participation in subsidiaries (Parent company).

NOTE 5 – AUDIT FEES

	2019	2018
Deloitte		
Audit fees	–38	–35
Audit-related fees	–5	–18
Tax services	–4	–2
Other services	–5	–12
Total	**-52**	**-67**

Audit fees involve audit of the Annual Report, interim report 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.

Tax services include tax-related advisory.

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

NOTE 6 – OTHER OPERATING INCOME AND EXPENSES

	2019	2018
Other operating income		
Foreign exchange rate gains	537	62
Sold services	1,379	1,117
Government grants	633	776
Other	1,331	1,433
Total	**3,880**	**3,388**

	2019	2018
Other operating expenses		
Amortisation and depreciation of intangible and tangible assets	–244	–229
Royalty	–916	–826
Property tax	–110	–109
Other	–1,982	–1,160
Total	**-3,252**	**-2,324**

NOTE 7 – LEASING

ACCOUNTING PRINCIPLES

As of January 1, 2019 IFRS 16 – Leasing has been applied. IAS 17 has been applied for 2018.

Change in accounting principle and disclosures

IFRS 16 – Leasing was endorsed by the EU in November 2017 and replaced IAS 17 Leases. IFRS 16 represents a new framework for how to account for and disclose leasing contracts. For lessees, the new standard has had an impact on the financial statements, as most of the leases previously have been accounted for off-balance sheet, operating leases have been recognised on the balance sheet. For lessors, IFRS 16 does not contain substantial changes compared to IAS 17. The lessor still has to classify leases as either finance or operating leases, depending on whether substantially all of the risk and rewards associated with ownership of the underlying asset has been transferred.

In order to implement IFRS 16, the Group has analysed all significant contracts where the Group is the lessee focusing on the following areas: asset category, contract length, number of leased items, if the contract includes service or maintenance fees and how many short-term leases and/or leases of low value assets there are. The Group has defined low value assets as asset classes that are typically of low value, for example small IT equipment (cell-phones, laptops, computers, printers) and office furniture. Short-term leases are leases with a lease term of twelve months or less.

The following conclusions have been made:

- The major leasing commitments consist of land and buildings and machinery and equipment as follows: land and buildings 80 per cent and machinery and equipment 19 per cent.
- Low value assets are common within the Group but represent less than 1 per cent of the total remaining leasing commitments.
- Short-term leases are not common since the majority of the leasing agreements have a minimum leasing term of more than twelve months.
- The leasing period for larger real estate contracts has taken into consideration extension options.

The Group has applied the modified retrospective approach and the comparative information has not been restated. For all asset classes, the Group has recognised the right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognised in the balance sheet immediately before the date of initial application. When applying IFRS 16 for the first time, the Group has applied relevant practical expedients, that are;

- Leases ending within twelve months from January 1, 2019 has been classified as short-term leases. This means these leases have not been included in the lease liability, but instead accounted for as operating leases.
- Initial direct costs have been excluded from the measurement of the lease liability.
- No hindsight has been applied when determining the lease term for the contract containing options to extend or terminate the lease.

The adoption of IFRS 16 resulted in increased assets of MSEK 6,978 and increased liabilities of MSEK 6,698 as of January 1, 2019. The difference is due to the land-use-rights in China that are prepaid and therefore the Group does not recognise a liability for these. The implementation of IFRS 16 has not rendered any change in equity. Further, the implementation has impacted the timing of the expense recognition in the consolidated income statements over the period of the lease and impacted the classification of expenses. The walk from lease commitments for operating lease contracts according to IAS 17 and the lease liability according to IFRS 16 are presented in the table below.

IAS 17 – applied for year 2018

The Group as a lessee

When a finance leases, the asset was recognised as a current or non-current asset at the lower of fair value or the present value of the minimum lease payments. The asset was depreciated using the straight-line method over the asset's useful life or over the term of the lease if this was shorter. The commitment to pay future lease payments was discounted to a net present value and recognised as a current or non-current liability in the balance sheet. The lease payments were allocated between amortisation of liabilities and interest expense.

For operating leases, i.e., when the risks and rewards associated with the ownership of the asset were not transferred to the Group, lease payments were expensed as they arose on a straight-line basis over the leasing period.

The Group as a lessor

The Group did not have any finance leases as lessor during 2018.

Sale transactions including repurchase commitments were recognised as operating leases. Operating lease contracts with a maturity less or equal to twelve months were recognised as inventory in the balance sheet, see Note 18 – Inventories. Operating lease contracts with a maturity more than twelve months were recognised as Property, Plant and Equipment, see Note 16 – Tangible assets. These operating leases were mainly related to vehicles sold with repurchase commitments. The difference between the original sales price and the repurchase price was recognised in the income statement as revenue on a straight-line basis over the lease term, see Note 2 – Revenue. The remaining lease revenue to be recognised was 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 was considered to be a financial liability and was classified as Other non-current liabilities, see Note 26 and Other current liabilities, see Note 27.

IFRS 16 – Information on the transition to the new leasing standard

Lease commitments for operational lease contracts as of December 31, 2018	5,818
Discounted with the Group's average incremental borrowing rate 2,5 %	–1,131
Include liabilities for financial lease contracts as of December 31, 2018	113
Exclude short-term lease contracts with a lease term of 12 months or less as they are expensed on a linear basis	–390
Exclude lease contracts for which the underlying asset is of low value and therefore expensed on a linear basis	–53
Exclude lease contracts that have been classified as service agreements	—
Include/exclude adjustments due to different handling of options to extend or terminate agreements	2,335
Include/exclude adjustments due to changes in index or price attributable to variable lease payments	6
Lease liability as of January 1, 2019	6,698

IFRS 16 – applied for year 2019

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 most contracts this is not the case. 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 twelve 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, the lease liabilities are presented as Other non-current and current interest bearing liabilities. The right-of-use asset is presented as part of property, plant and equipment, see Note 16 – Tangible assets. In the income statement, depreciation expenses of the right-of-use asset is presented on the same line item/items in which similar expenses are. The interest expense on the lease liability is presented as part of finance expenses. In the statement of cash flows, amortisations on the lease liability are 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

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

Sale transactions including repurchase commitments are recognised as operating leases. Operating lease contracts with a maturity less or equal to twelve months are recognised as inventory in the balance sheet, see Note 18 – Inventories. Operating lease contracts with a maturity more than twelve months are recognised as Property, Plant and Equipment, 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. Although accounting remains substantially the same for lessors, there is new guidance impacting subleases and the accounting for sale and leaseback transactions. The sub-leases and sale and leaseback transactions are not considered material for the Group.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

IFRS 16 requires the Group to make judgmental 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 in the organisation have considered all facts and circumstances that creates an economic incentive to exercise an extension option, or not exercise a termination option. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment.

Discount rate

The Group has a process of indicating discount rates to use when evaluating whether to lease or buy an asset. The same process is used when determining the disount rate to by applied. The Group uses an applicable industrial yield curve and taking into consideration for example the Groups credit risk, adjustment for currency, lease term and economic environment.

The Group as lessee

IAS 17 – 2018
Operating lease contracts

The operating lease contracts the Group holds are mainly contracts for premises and office equipment. Also some production equipment such as forklifts for the factories are classified as operating lease contracts.

Operating lease expenses	2018
Minimum lease payments	–1,325
Contingent rents	–46
Less subleases	14
Total	**-1,357**

Operating lease commitments per Dec 31, 2018	Minimum lease payments	Less subleases	Total	Present value of operating lease commitments less subleases
No later than 1 year	1,125	22	1,103	1,088
Later than 1 year but no later than 5 years	2,947	80	2,867	2,649
Later than 5 years	1,946	98	1,848	1,499
Total	**6,018**	**200**	**5,818**	**5,236**

Finance lease contracts

The Group holds finance lease contracts for production equipment and for some buildings and land used in production. The assets will be owned by the Group at the end of the lease contracts at no additional cost. All leases are fixed terms with fixed payments.

Finance lease assets	Asset under Construction	Buildings and land	Machinery and equipment
Acquisition cost			
Balance at January 1, 2018	—	97	75
Additions	22	47	29
Disposals	—	–82	—
Effect of foreign currency exchange differences	—	4	3
Balance at December 31, 2018	**22**	**66**	**107**
Accumulated depreciation			
Balance at January 1, 2018	—	–89	–7
Depreciation expense	—	–10	–4
Disposals	—	82	—
Effect of foreign currency exchange differences	—	–4	—
Balance at December 31, 2018	—	–21	–11
Net balance at December 31, 2018	**22**	**45**	**96**

Gross finance lease liabilities - minimum lease payments	Dec 31, 2018
No later than 1 year	18
Later than 1 year but no later than 5 years	57
Later than 5 years	58
Total	**133**
Future finance charges on finance leases	**–20**
Present value of finance lease liabilities	**113**

The present value of finance lease liabilities is as follows:

Gross finance lease liabilities - minimum lease payments	Dec 31, 2018
No later than 1 year	15
Later than 1 year but no later than 5 years	50
Later than 5 years	48
Total	**113**

As of December 31, 2018 the finance lease liabilities are included in the financial statement as Non-current liabilities to credit institutions of MSEK (97) and Current liabilities to credit institutions of MSEK (16).

IFRS 16 – 2019

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

Right-of-use asset	Buildings and land	Machinery and equipment	Total
Acquisition cost			
Balance at January 1, 2019	–	–	–
Reclassification from finance lease of Tangible assets (Note 16)	36	58	94
Operating leases (first application, IFRS 16)	6,294	590	6,884
Additions	308	131	439
Balance at December 31, 2019	**6,638**	**779**	**7,417**
Accumulated depreciation			
Balance at January 1, 2019	–	–	–
Depreciation expense	–981	–221	–1,202
Balance at December 31, 2019	**–981**	**–221**	**–1,202**
Net balance at December 31, 2019	**5,657**	**558**	**6,215**

Lease liabilities	2019
Non-current lease liabilities	5,076
Current lease liabilities	1,073

The lease liabilities related to the leasing contracts are presented in the balance sheet as Other non-current interest bearing liabilities and Other current interest bearing liabilities. The difference between Right-of-use asset is due to the land-used-rights in China that are prepaid and therefore not included as a liability. The maturity analysis of lease liabilities is presented in Note 20 – Financial risks and financial instruments.

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

The total cash outflow for leases amounts to MSEK 1,641. 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.

IAS 17 – 2018

Operating leases contracts

Future lease income of operating lease contracts	2018
No later than 1 year	973
Later than 1 year but no later than 5 years	443
Total	**1,416**

Finance lease contracts

The Group did not have any finance leases during 2018.

IFRS 16 – 2019

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 day.

Future lease income of operating lease contracts, undiscounted.	2019
No later than 1 year	934
Later than 1 year but no later than 2 years	194
Later than 2 years but no later than 3 years	104
Later than 3 years but no later than 4 years	9
Later than 4 years but no later than 5 years	8
Later than 5 years	–
Total	**1 249**

Finance lease contracts

During 2019 the Group entered into finance leasing arrangements as a lessor for certain equipment.

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

The following table presents the amounts included in income statement

	2019
Finance income on the net investment in finance leases	10

NOTE 8 – EMPLOYEES AND REMUNERATION

ACCOUNTING PRINCIPLES

Incentive programmes

The Group manages various global incentive programmes. Two of them are short-term and one is long-term and the design and payout of the programmes are subject to annual approval of the Board of Directors of Volvo Car Group.

Short-term incentive programmes

There are two short-term programmes. The Short Term Variable Pay for Senior Leaders (STVP for Senior Leaders) is an incentive programme for the CEO, EMT and certain senior executives within Volvo Car Group. Volvo Bonus is another incentive programme within Volvo Car Group that includes all other employees. If all criteria are met a liability is recognised.

Long-term incentive programme

The Long Term Variable Pay (LTVP) is a cash-settled share based programme for the CEO, EMT and certain senior executives within Volvo Car Group.

The fair value of the cash-settled payments is determined on the grant date. It is remeasured on each balance sheet date and recognised as an expense during the vesting period and as a corresponding liability. An assessment is made on a continual basis regarding fulfilment of the terms for allotment. The expense recognised may be adjusted based on this assessment.

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

Share-based incentive programme

This share-based incentive programme is cash-settled. The fair value of the warrants acquired is determined on the grant date and is recognised as a financial liability. The liability is remeasured on each balance sheet date and changes in the fair value are recognised in the income statement as a financial expense or income.

Throughout the duration of the programme the participants, at certain predetermined periods between 2016 to 2021, have an option to sell their warrants at fair value to the parent company. The warrants are acquired by the participants at fair value and for this reason, the programme will not recognise any personnel expense.

Average number of employees by region:	2019	Of whom women	2018	Of whom women
Sweden	23,012	28%	23,078	28%
Nordic countries other than Sweden	736	34%	834	48%
Belgium	5,109	15%	5,521	14%
Europe other than the Nordic countries and Belgium	1,237	32%	974	32%
North and South America	2,036	33%	1,889	29%
China	8,404	16%	8,253	15%
Asia other than China	883	17%	776	17%
Other countries	112	32%	99	31%
Total	**41,529**	**24%**	**41,424**[1]	**24%**

Number of Board members and senior executives[2]	Dec 31, 2019	Of whom women	Dec 31, 2018	Of whom women
	Board members (Chief Executive Officers and senior executives)		Board members (Chief Executive Officers and senior executives)	
Parent company	4	25%	4	—
Subsidiaries	129 (303)	19% (26%)	117 (290)	18% (23%)
Total	**133 (303)**	**19% (26%)**	**121 (290)**	**17% (23%)**

Salaries and other remuneration	2019		2018	
	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	6	4(2)	—	—(—)
Subsidiaries	22,748	8,823 (4,233)	20,271	8,231 (3,984)
Total	**22,754**	**8,827 (4,235)**	**20,271**	**8,231 (3,984)**

1) The comparative number of FTEs has been restated due to a changed and improved method of calculating the average number of FTEs.
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 2019.

Board member	2019 Ordinary remuneration, TSEK	2018 Ordinary remuneration, TSEK
Li Shufu, Chairman	—	—
Li Donghui	—	—
Hans Oscarsson (from November 2019)	—	—
Lone Fønss Schrøder (from November 2019)	—	—
Carl Peter Forster (until November 2019)	—	—
Hans-Olov Olsson (until November 2019)	—	—
Total	—	—

Terms of employment and remuneration to the CEO

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

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

Short-term incentive programmes

STVP for Senior Leaders

The qualifier for the STVP for Senior Leaders is that the profit target (EBIT) is reached. To reach maximum pay-out a number of performance targets must be reached. The STVP for Senior Leaders is based on a percentage of annual base salary and the remuneration is paid in cash.

Volvo Bonus

The qualifier for the Volvo Bonus is that the profit target (EBIT) is reached. This is called the threshold level and the remaining two levels (target and maximum) increase the bonus paid out in relation to increased performance. Depending on the employee's position, he/she is eligible for a certain target level that be either a fixed amount or a percentage of the employee´s annual base salary. The remuneration is paid in cash. For 2019 the cost for the Volvo Bonus/STVP programmes amounted to MSEK 1,402 including social security expenses. For 2018 the threshold level was not met and no Volvo Bonus was paid.

Long-term incentive programme

Long term variable pay

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

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

Depending on the participants' position they receive a 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.

The programme is capped at a maximum of 200 per cent of the value of the award at grant date. To be eligible for pay out, the employee must still be employed within the Group on the pay-out date. The cost for the LTVP-programme amounted to MSEK 130 (149) including social security expenses. The total liability amounted to MSEK 214 (221).

Share-based incentive programme

In 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 members to purchase. The purchase was made at fair market value in accordance with an external valuation. Each warrant gives the right to subscribe for one share in Volvo Car Corporation for a predetermined amount under certain periods during the years 2016–2021.

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

The agreement term is from 2016 to 2021 and will thereafter be extended provided that none of the parties terminates the agreement. The warrants have been valued at fair market value by an external party. The valuation has been made based on all material conditions in the agreement in accordance with the Black & Scholes model. The valuation has been made based on the following assumptions:

- The market value of the warrants has been established at SEK 214,775 as per December 31, 2019.
- The duration for the warrants has been established at six years.
- The volatility has been established at 30 per cent.
- The assessed risk free interest has been established at –0.34 per cent.

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

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

TSEK	Number of warrants	Assessed fair market value
At the beginning of the year	1,274	311,856
Used/redeemed	–719	–176,000
Sold during the year	12	2,937
Change in value	—	–17,016
At the end of the year	**567**	**121,777**

As the amount is recognised at fair value, there is no difference between book value and fair value. Fair value measurement is made continually based on external valuations.

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

Other long-term benefits

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

	2019				2018			
Remuneration for CEO, TSEK	Salary[3]	Short term variable pay[4]	Long term variable pay[4]	Social security expenses (of which pension expenses)	Salary[3]	Short term variable pay[4]	Long term variable pay[4]	Social security expenses (of which pension expenses)
Hans Oscarsson, CEO in Geely Sweden Holdings AB	1,345	656	525	1,425 (631)	—	—	—	—(—)
Total	**1,345**	**656**	**525**	**1,425 (631)**	—	—	—	**—(—)**

3) Includes benefits such as healthcare and company car.
4) Refers to the STVP and LTVP program within Volvo Car Group.

NOTE 9 – DEPRECIATION AND AMORTISATION

ACCOUNTING PRINCIPLES

Amortisation methods for intangible assets

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

Dealer network	30 years
Software	3–8 years
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 part of a tangible assets, with a cost that is significant in relation to the total cost of the item, is depreciated separately when the useful life for the part differs from the useful life of the other parts 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 life's. They are depreciated from their original acquisition value 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 set residual value, the depreciations made are adjusted during the contract period.

The following useful lives are applied in the Group:

Buildings	14.5–50 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 amounts of intangible and tangible assets are tested regularly to assess whether there is an indication of impairment. Intangible assets that have an indefinite useful life as well as assets that are not yet available for use are not subject for amortisation and are tested for impairment at least annually or whenever there is an indication that the value will not be recoverable. The carrying amount of tangible and intangible assets with definite useful lives are tested whenever events or changes in circumstances indicate that the value of the asset will not be recovered.

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 value an impairment loss is recognised. Previously recognised impairment loss is reversed, with the exception of goodwill, if reasons for the previously impairment 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 reported if no impairment loss had been recognised in prior years.

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 the 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:	**2019**	2018
Software	–287	–213
Capitalised product development cost	–4,872	–4,563
Other intangible assets	–472	–434
Buildings and land improvements[1)]	–1,839	–719
Machinery and equipment[1)]	–7,673	–6,974
Assets under operating leases	–405	–310
Total	**-15,548**	**-13,213**

Depreciation and amortisation according to plan by function:	**2019**	2018
Cost of sales[2)]	–8,550	–7,340
Research and development expenses	–5,357	–4,944
Selling expenses[2)]	–496	–201
Administrative expenses	–808	–499
Other income and expense	–337	–229
Total	**-15,548**	**-13,213**

1) The adoption of IFRS 16 has resulted in increased depreciation during the year. Depreciation expense related to Buildings and land improvements include Right-of-use asset of MSEK –981 (—) and Machinery and equipment Right-of-use-asset of MSEK –221 (—).
2) Of which impairment loss MSEK –10 (–66).

NOTE 10 – GOVERNMENT GRANTS

ACCOUNTING PRINCIPLES

Government grants are recognised in the financial statements in accordance with their purpose, either as a reduction of expense or a reduction of the carrying amount of the asset. Government grants accounted 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 recorded 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 assessment is that there are no government grants received where there is a risk of material repayments.

The Group receives grants from several parties, such as Swedish, American, Chinese and Belgian Governments as well as from the European Union. In 2019, the government grants received amounted to MSEK 1,177 (3,058) and the government grants realised in the income statement amounted to MSEK 741 (2,243). MSEK 138 (35) of the grants have been received as support for the production of new car models and to upgrade facilities used for production. The received grants have 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 manufacturing site.

NOTE 11 – FINANCIAL INCOME

	2019	2018
Net foreign exchange gain on financing activities	–	711
Interest income on bank deposits from related companies	67	12
Interest income on bank deposits	2,194	398
Total	**2,261**	**1,121**

NOTE 12 – FINANCIAL EXPENSES

	2019	2018
Net foreign exchange rate losses on financing activities	–418	–
Interest effect from the measurement of repurchase obligations	–187	–185
Interest expenses related to provisions for post-employment benefits	–216	–175
Expenses for credit facilities	–81	–489
Interest expenses to related companies	–7	–6
Interest expenses	–1,700	–878
Interest expenses related to IFRS 16 lease liabilities	–242	–
Other financial expenses	–113	–199
Total	**-2,964**	**-1,932**

NOTE 13 – INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

ACCOUNTING PRINCIPLES

Joint ventures refer to joint arrangements whereby the Group together with one or more parties that have joint control and have 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, but it also includes investments with less participation if significant influence is proven based on other criteria.

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The critical judgement in terms of associates refer to situations where the Group has voting power of less than 20 per cent but based on other facts and 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 could conclude on significant influence. Currently the Group do not recognise any associate with a voting power of less than 20 per cent.

In terms of a joint venture the judgement is whether facts and circumstances indicate that joint control really exists when other facts and circumstances are taken into consideration. It could be circumstances when the Group owns more than 50 or less than 50 per cent of the shares but not having control over or 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 Group owns 95 per cent of the shares in Geely Financials Denmark A/S and recognises the company as a joint venture based on the conclusion that the Group does not have a controlling interest in Geely Financials Denmark A/S, including Saxo Bank Group. The critical judgement is based on existing agreements with Geely Group Ltd.

	2019	2018
Share of income in joint ventures	–1,054	588
Share of income in associates	3	2
Total	**-1,051**	**590**

Share of income in joint ventures and associates is specified below:	2019	2018
V2 Plug-In Hybrid Vehicle Partnership HB[1)]	454	401
Volvofinans Bank AB[2)]	210	187
Zenuity AB[3)]	–657	–540
Lynk & Co Investment Co., Ltd[4)]	237	218
Polestar Automotive (Shanghai) Co., Ltd[5)]	–414	–214
Geely Financials Denmark A/S[6)]	–883	523
Other companies	2	15
Total	**-1 051**	**590**

Investments in joint ventures and associates	Dec 31, 2019	Dec 31, 2018
At beginning of the year/acquired acquisition value	14,311	5,480
Share of net income	–1,051	590
Investment in Zenuity AB[3]	550	600
Investment in GV Automobile Technology (Ningbo) Co., Ltd[7]	—	37
Investment in Saxo Geely Tech Holding A/S[8]	52	—
Reclassification from subsidiaries to joint venture[5] [6]	—	9,126
Divestment of shares in Geely Financials Denmark A/S[6]	—	–364
Elimination of intra-group profit[5]	–891	–1,252
Capital injection into joint venture under common control[5]	1,153	846
Obligation to cover accumulated losses classified as Non-current liabilities[3]	107	–59
Capital repayment V2 Plug-In Hybrid Vehicle Partnership HB[1]	–418	–464
Dividends	–67	–240
Translation difference	487	11
Total	**14,233**	**14,311**

The Group's carrying amount on investments in joint ventures and associates:	Corp. ID no.	Country of incorporation	% interest held	Dec 31, 2019	Dec 31, 2018
Joint ventures					
Geely Financials Denmark A/S[6]	38976176	Denmark	95	6,773	7,308
Saxo Geely Tech Holding A/S[8]	15731249	Denmark	50	52	—
Volvo Trademark Holding AB	556567-0428	Sweden	50	6	5
V2 Plug-In Hybrid Vehicle Partnership HB[1]	969741-9175	Sweden	50	232	197
Volvofinans Bank AB[2]	556069-0967	Sweden	50	2,427	2,267
VH Systems AB	556820-9455	Sweden	50	37	41
Zenuity AB[3]	559073-6871	Sweden	50	—	—
VCFS Germany GmbH	HRB 85091	Germany	50	1	1
VCIS Germany GmbH	HRB 86800	Germany	50	5	3
Polestar Automotive (Shanghai) Co., Ltd[5]	91310000MA1FL17P99	China	50	1,195	1,288
GV Automobile Technology (Ningbo) Co., Ltd[7]	91330201MA2AGKLQ8E	China	50	34	37
Lynk & Co Investment Co., Ltd[4]	91330200MA2AF25Y7B	China	30	3,446	3,126
Associated companies					
VCC Tjänstebilar KB	969673-1950	Sweden	50	4	3
VCC Försäljnings KB	969712-0153	Sweden	50	2	—
Volvohandelns PV Försäljnings KB	916839-7009	Sweden	50	4	18
Volvohandelns PV Försäljnings AB	556430-4748	Sweden	50	11	11
Volvo Event Management Corporation[9]	444517742	Belgium	33	—	1
Trio Bilservice AB	556199-1059	Sweden	33	—	—
Göteborgs Tekniska College AB	556570-6768	Sweden	26	4	5
Leiebilservice AS	879 548 632	Norway	20	—	—
Carrying amount, participation in joint ventures and associates				**14,233**	**14,311**

The share of voting power corresponds to holdings in per cent as per above, if not otherwise specified below. For practical reasons, some of the joint ventures and associates are included in the consolidated financial statements with a certain time lag, normally one month.

1) V2 Plug-In Hybrid Vehicle Partnership HB is a joint venture between Volvo Car PHEV Holding AB and Vattenfall PHEV Holding AB. The Group and Vattenfall have together developed the world's first diesel-powered hybrid car, which can be driven as an ordinary diesel car, as a hybrid, or as a fully electric car. During 2019, V2 Plug-In Hybrid Vehicle Partnership HB provided a repayment of MSEK 418 (464) to Volvo Car PHEV Holding AB.
2) Volvofinans Bank AB is a joint venture between Volvo Car Corporation and AB Volverkinvest. In Sweden, Volvofinans Bank AB is the leading bank within vehicle financing services.
3) Zenuity AB is a joint venture between Volvo Car Corporation and Veoneer Sweden AB. The purpose of the company is to develop software for autonomous driving and driver assistance systems. Due to the fact that Volvo Car Group, together with the other investor, is obligated to cover the accumulated losses in Zenuity AB larger than the accumulated investment, a non-current liability is recognized, see Note 26 – Other non-current liabilities.
4) The joint venture company Lynk & Co Investment Co., Ltd is an establishment between Volvo Cars (China) Investment Co., Ltd, (30 per cent), Zhejiang Jirun Automobile Co., Ltd (50 per cent) and Zhejiang Haoqing Automobile Manufacturing Co., Ltd (20 per cent). The principal activity of the Lynk & Co Investment Co., Ltd is to engage in the manufacturing and sale of vechicles under the "Lynk & Co" brand, and support after-sale services relating thereto.
5) In September 2018, Zhejiang Geely Holding Group Co., Ltd subscribed for 50 per cent of the equity in Polestar Automotive (Shanghai) Co., Ltd, the parent company in the Polestar Group, resulting in Polestar 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 Group. Polestar Group is since then a joint venture company. See Note 31 – Business Combinations and Note 8 – Participation in subsidiaries (Parent company) for further information.
6) 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, whereby Geely Group Ltd has an option to acquire another 46 per cent of the shares in Geely Financials Denmark A/S, hence the voting power is 49 per cent. In August 2019, a capital contribution was made to Saxo Bank Group and as an effect, Geely Financials Denmark A/S ownership in the Saxo Bank Group decreased to 51 per cent. Based on the sale and the option agreement existing and when taking all contractual arrangements into consideration, the Group has concluded that it does not have a controlling interest in Geely Financials Denmark A/S, including Saxo Bank, from the time of the acquisition in September 2018. 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 31 – Business Combinations for further information.
7) 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.
8) 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.
9) Volvo Event Management Corporation was liquidated in December 2019.

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

	Geely Financials Denmark A/S[6]		V2 Plug-In Hybrid Vehicle Partnership HB[1]		Volvofinans Bank AB[2] [14]		Polestar Automotive (Shanghai) Co., Ltd[5] [15]		Lynk & Co Investment Co., Ltd[4] [16]		Zenuity AB[3] [17]	
Summarised balance sheets	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Percentage voting/ownership	49/95	49/95	50	50	50	50	50	50	30	30	50	50
Non-current assets	8,052	7,588	60	133	37,162	37,393	10,094	5,691	13,126	9,211	456	474
Cash and cash equivalents	4	5	199	200	2,622	1,185	2,178	2,283	2,134	624	326	498
Other current assets	87	27	254	159	4,474	4,734	2,723	3,886	9,165	10,477	176	162
Total assets	**8,143**	**7,620**	**513**	**492**	**44,258**	**43,312**	**14,995**	**11,860**	**24,425**	**20,312**	**958**	**1,134**
Equity[10]	7,498	7,592	469	447	4,103	3,782	6,075	5,051	11,448	10,442	697	910
Non-current liabilities[10] [11]	—	—	13	28	37,659	37,077	145	24	3,377	430	40	51
Current liabilities[12] [13]	645	28	31	17	2,496	2,453	8,775	6,785	9,600	9,440	221	173
Total equity and liabilities	**8,143**	**7,620**	**513**	**492**	**44,258**	**43,312**	**14,995**	**11,860**	**24,425**	**20,312**	**958**	**1,134**

10) Equity and non-current liabilities are adjusted with the portion of untaxed reserves where appropriate.
11) In Volvofinans Bank AB, the non-current liabilities include financial liabilities of MSEK 36,775 (35,879).
12) In Geely Financials Denmark A/S, the current liabilities include financial liabilities of MSEK 555 (2).
13) In Polestar Automotive (Shanghai) Co.,Ltd, the current liabilities include financial liabilities of MSEK 4,980 (4,737).
14) Volvofinans Bank AB's equity share in the Volvo Car Group is included with a time lag of a quarter.
15) The figures include the consolidated figures from Polestar Automotive (Shanghai) Co., Ltd and its subsidiaries Polestar Performance AB, Polestar Holding AB, Polestar New Energy Vehicle Co., Ltd, Polestar Automotive Consulting Service (Shanghai) Co., Ltd, Polestar Automotive China Distribution Co., Ltd, Polestar Automotive USA Inc, Polestar Automotive UK Ltd, Polestar Automotive Netherlands B.V., Polestar Automotive Norway AS, Polestar Automotive Canada Inc, Polestar Automotive Belgium BV, Polestar Automotive Germany GmbH and Polestar Automotive Sweden AB.
16) 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 Auto Technology (Taizhou) Co., Ltd, Lynk & Co International AB, Lynk & Co Hong Kong Investment Co., Ltd, Lynk & Co Europe AB and Yuyao Lynk & Co Automobile Part Co., Ltd.
17) The figures include the consolidated figures from Zenuity AB and its subsidiaries Zenuity GmbH, Zenuity Inc and Zenuity Software Technology Co., Ltd.

	Geely Financials Denmark A/S[6]		V2 Plug-In Hybrid Vehicle Partnership HB[1]		Volvofinans Bank AB[2] [14]		Polestar Automotive (Shanghai) Co., Ltd[5] [15]		Lynk & Co Investment Co., Ltd[4] [16]		Zenuity AB[3] [17]	
Summarised income statements	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Revenue	—	—	916	826	4,729	4,419	721	454	23,673	22,635	35	39
Profit/loss from continuing operations[18] [19] [20] [21] [22] [23]	-227	528	916	826	325	319	-1,511	-520	694	764	-1,316	-1,086
Profit (loss) for the year	**-227**	**528**	**916**	**826**	**325**	**319**	**-1,511**	**-520**	**694**	**764**	**-1,316**	**-1,086**
Other comprehensive income for the year	**12**	**6**	**–**	**–**	**–**	**–**	**85**	**–**	**-9**	**-4**	**3**	**8**
Total comprehensive income for the year	**-215**	**534**	**916**	**826**	**325**	**319**	**-1,426**	**-520**	**685**	**760**	**-1,313**	**-1,078**
Dividends received from joint ventures during the year	—	—	—	—	49	240	—	—	—	—	—	—

18) In Geely Financials Denmark A/S the loss for the year includes interest expenses of MSEK 2 (–).
19) In V2 Plug-In Hybrid Vehicle Partnership HB the profit for the year includes depreciation and amortisation of MSEK –73 (–73).
20) In Volvofinans Bank AB the profit for the year includes depreciation and amortisation of MSEK –6 (–4).
21) In Polestar Automotive (Shanghai) Co., Ltd the loss for the year includes depreciation and amortisation of MSEK –276 (–33), interest income of MSEK 124 (45) and interest expenses of MSEK –174 (–23).
22) In Lynk & Co Investment Co., Ltd the profit for the year includes depreciation and amortisation of MSEK –1,268 (–877) and interest income of MSEK 14 (12).
23) In Zenuity AB the loss for the year includes depreciation and amortisation of MSEK –113 (–92), interest income of MSEK 5 (4) and interest expenses of MSEK –5 (–3).

Reconcilation of the summarised financial information presented to the carrying amount of its interest in joint ventures.

	Geely Financials Denmark A/S[6]		V2 Plug-In Hybrid Vehicle Partnership HB[1]		Volvofinans Bank AB[2] [14]		Polestar Automotive (Shanghai) Co., Ltd[5] [15]		Lynk & Co Investment Co., Ltd[4] [16]		Zenuity AB[3] [17]	
Reconciliation of summarised financial information	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Net asset of the joint venture	7,498	7,592	469	447	4,103	3,782	6,075	5,051	11,448	10,442	697	910
Proportion of the Group's ownership in the joint venture	95%	95%	50%	50%	50%	50%	50%	50%	30%	30%	50%	50%
Adjustments for differences in accounting principles	—	—	-3	-27	—	—	—	—	—	—	—	—
Goodwill	—	—	—	—	376	376	—	—	—	—	—	—
Adjustments for Common control transaction	21	24	—	—	—	—	—	—	11	-7	—	—
Elimination of intra-group profit, net of foreign exchange rate effect	-666	—	—	—	—	—	-1,843	-1,238	—	—	—	—
Capital transactions with other investors than the Group	27	—	—	—	—	—	—	—	—	—	-139	-352
Obligation to cover accumulated losses classified as Non-current liabilities	—	—	—	—	—	—	—	—	—	—	-210	-103
Net foreign exchange rate effect	268	72	—	—	—	—	—	—	—	—	—	—
Carrying amount of the Group´s interest in joint ventures	**6,773**	**7,308**	**232**	**197**	**2,427**	**2,267**	**1,195**	**1,288**	**3,446**	**3,126**	**–**	**–**

Significant restrictions

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

NOTE 14 – TAXES

ACCOUNTING PRINCIPLES

Income taxes

The Group's tax expense consists of current tax 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 other comprehensive income.

Current tax is tax that must be paid or will be received for the current year. Current tax also 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 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 business climate, altered tax laws, etc. An assessment is made at each closing date of the likelihood that the deferred tax asset will be utilised. If needed the carrying amount of the deferred tax asset will be altered. The judgements that have been made may affect net income both positively and negatively.

Income tax recognised in income statement	2019	2018
Current income tax for the year	–3,114	–3,989
Current income tax for previous years	–46	36
Deferred taxes	–140	935
Other taxes	–124	–119
Total	**-3,424**	**-3,137**

Information regarding current year tax expense compared to tax expense based on the applicable Swedish tax rate	2019	2018
Income before tax for the year	12,668	13,868
Tax according to applicable Swedish tax rate, 21.4% (22.0%)	–2,711	–3,051
Operating income/costs, non-taxable	–69	60
Other taxes, non-taxable	–124	–119
Capital gains or losses, non-taxable	–15	–19
Effect of different tax rates	–213	20
Tax effect on deferred tax due to change of tax rate	–68	–84
Revaluation of previously non-valued losses and other temporary differences	–216	–28
Other	–8	84
Total	**-3,424**	**-3,137**

Income tax recognised in other comprehensive income	2019	2018
Deferred tax		
Tax effects on cash flow hedge reserve	–661	–814
Tax effect of remeasurement of provisions for post-employment benefits	–792	–404
Tax effects on translation difference of hedge instruments of net investments in foreign operations	–30	–1
Total	**-1,483**	**-1,219**

Specification of deferred tax assets	Dec 31, 2019	Dec 31, 2018
Goodwill arising from the purchase of the net assets of a business	161	183
Provision for employee benefits	2,489	1,715
Unutilised tax loss carry-forwards	5,593	7,201
Reserve for unrealised income in inventory	78	19
Provision for warranty	1,382	1,262
Fair value of derivative instruments	1,090	528
Other temporary differences	6,375	5,826
Total deferred tax assets	**17,168**	**16,734**
Netting of assets/liabilities	–9,720	–10,142
Total deferred tax assets, net	**7,448**	**6,592**

Specification of deferred tax liabilities	Dec 31, 2019	Dec 31, 2018
Fixed assets	7,771	6,789
Untaxed reserves	219	648
Auto lease portfolio	2,664	3,858
Other temporary differences	41	530
Total deferred tax liabilities	**10,695**	**11,825**
Netting of assets/liabilities	–9,720	–10,142
Total deferred tax liabilities, net	**975**	**1,683**

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 US. Of the total MSEK 5,593 (7,201) recognised deferred tax assets related to tax loss carry-forwards, MSEK 4,258 (4,142) relates to Sweden with indefinite periods of utilisation. MSEK 1,230 (2,987) relates to US where tax loss carry-forwards are expected to be utilised before expiration date. The assesse-

ment 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 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, 2019	Dec 31, 2018
Net book value of deferred taxes at January 1	4,909	2,582
Deferred tax income/expense recognised through income statement	-140	935
Change in deferred taxes recognised directly in other comprehensive income	1,483	1,219
Acquired through business combinations	–	-11
Exchange rate impact	221	184
Net book value of deferred taxes at December 31	**6,473**	**4,909**

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

Deferred tax assets have been considered on all tax losses carry forward as per 2019 and as of December 31, 2019, the recognised tax loss carry-forwards amounted to MSEK 25,836 (31,719). 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, 2019	Dec 31, 2018
Due date		
2020	–	–
2021	–	6
2022	–	1
2023	17	76
2024	64	–
2025–	25,755	31,636
Total	**25,836**	**31,719**

NOTE 15 – INTANGIBLE ASSETS

ACCOUNTING PRINCIPLES

An intangible asset is recognised when it is identifiable, the Group controls the asset 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 at the date of the acquisition less any accumulated impairment losses. When applicable, internal costs directly related to the development of intangible assets are included in the value. Borrowing costs are included in the cost of assets that take a substantial period of time to get ready for its intended use. Subsequent expenditure on intangible assets increases the cost only if it is likely that the Group will have future economic benefit from it. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Capitalised development costs

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

When a research and development project has developed to the extent that there is a definable future product that is assessed 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 comprised of 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 previously recognised as an expense are not recognised as an asset in a subsequent period.

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

- Part of the asset controlled by the Group,
- Incurred in the product development phase and
- The conditions for capitalisation are met.

The Group incur 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, licenses or IP. Refer to 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 has to be revised, additional amortisation expense could be the result in future periods. Assets with definite useful lives are only tested 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 made by calculating the asset or assets recoverable value. If the recoverable value is less than the carrying value, the asset is written down to its recoverable value. The recoverable value in the form of value in use, is based on discounted cash flow, 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 lifetime 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, the market growth as well as the products' profitability.

	Capitalised development cost[1) 4)]	Software	Trademark and goodwill[2)]	Other intangible assets[3)]	Total
Aquisition cost					
Balance at January 1, 2018	31,838	3,167	4,219	12,005	51,229
Additions	6,444	726	5	387	7,562
Acquired through business combinations	—	—	42	—	42
Divestments and disposals	–334	–47	–507	–22	–910
Reclassifications	—	13	–4	2	11
Effect of foreign currency exchange differences	32	–7	—	50	75
Balance at December 31, 2018	**37,980**	**3,852**	**3,755**	**12,422**	**58,009**
Additions	8,088	576	—	103	8,767
Divestments and disposals	–28	–424	–20	–7,052	–7,524
Reclassifications	3	65	23	2	93
Effect of foreign currency exchange differences	—	–6	—	38	32
Balance at December 31, 2019	**46,043**	**4,063**	**3,758**	**5,513**	**59,377**
Accumulated amortisation and impairment					
Balance at January 1, 2018	–12,371	–1,839	—	–9,048	–23,258
Amortisation expense	–4,563	–213	—	–434	–5,210
Divestments and disposals	97	31	—	9	137
Reclassifications	—	–7	—	—	–7
Effect of foreign currency exchange differences	—	1	—	–26	–25
Balance at December 31, 2018	**-16,837**	**-2,027**	**—**	**-9,499**	**-28,363**
Amortisation expense	–4,872	–287	—	–472	–5,631
Divestments and disposals	—	414	17	7,048	7,479
Reclassifications	–1	–15	–21	–4	–41
Effect of foreign currency exchange differences	—	6	—	–21	–15
Balance at December 31, 2019	**-21,710**	**-1,909**	**-4**	**-2,948**	**-26,571**
Net balance at December 31, 2018	**21,143**	**1,825**	**3,755**	**2,923**	**29,646**
Net balance at December 31, 2019	**24,333**	**2,154**	**3,754**	**2,565**	**32,806**

1) The Group has capitalised borrowing costs related to product development of MSEK 133 (154). A capitalisation rate of 2.6 (2.6) per cent was used to determine the amount of borrowing costs eligible for capitalisation.
2) Of the total Net balance at December 31, 2019, Goodwill amounted to MSEK 156 (154).
3) Other intangible assets refers to licences, dealer network and patents.
4) Reclassification of research and development expenses (related to amortisation of intangible assets sold to Polestar) to Cost of sales amounted to MSEK 1,195 in 2018.

Since the majority of the intangible assets with indefinite useful lives in Geely Sweden Holdings Group (99.4 per cent) derives from Volvo Car Group, the impairment test has been made at Volvo Car Group level. When performing impairment test by calculating the asset or assets recoverable value based on discounted cash-flow Volvo Car Group constitues one single Cash Generating Unit. Assumption of future market share, market growth and Volvo Car Group expected performance in this environment is the basis for the valuation.

Management's business plan for 2020–2023 is used as a basis for the calculation. In the model, the Group is expected to maintain stable efficiency over time and the estimates for the cash flows following 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 the historic and current financial performance and financial position of the company, i.e. assumptions for margin development, fixed cost and new investments are based on current year financials and balanced towards what is containable given the projection of exogenous factors. Exogenous factors as industry and segment volumes, exchange rates, raw material etc. are based on external assessments from analyst companies and banks. In 2019, the discounted cash flow exceeded the carrying amount and no impairment loss was recognised. A sensitivity test has been performed whether a negative adjustment of one percentage point to the margin or in the discount rate would result in impairment. The discount rate before tax was 11.5 (10.3) per cent. No impairment loss was recognised as a result of performed test.

NOTE 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 twelve months to get it ready for its intended use or sale.

Repairs and maintenance expenditures are charged to the income statement during the period in which they incur.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

	Buildings and land[1) 2) 3) 4)]	Machinery and equipment[1) 2) 3) 4)]	Construction in progress[1)]	Assets under operating leases	Total
Aquisition cost					
Balance at January 1, 2018	17,704	96,542	8,622	3,005	125,873
Additions	813	8,066	4,781	1,330	14,990
Acquired through business combinations	462	—	19	—	481
Divestments and disposals	–559	–6,399	–179	–1,362	–8,499
Reclassification	3,002	4,726	–7,728	—	—
Effect of foreign currency exchange differences	331	834	462	—	1,627
Balance at December 31, 2018	**21,753**	**103,769**	**5,977**	**2,973**	**134,472**
Adjustment on transition to IFRS 16	6,330	648	—	—	6,978
Additions	1,011	7,208	3,669	2,301	14,189
Divestments and disposals	–169	–3,086	–1	–1,535	–4,791
Reclassification	2,346	2,434	–4,631	—	149
Effect of foreign currency exchange differences	321	728	98	—	1,147
Balance at December 31, 2019	**31,592**	**111,701**	**5,112**	**3,739**	**152,144**
Accumulated depreciation and impairment					
Balance at January 1, 2018	–8,824	–58,799	—	–428	–68,051
Depreciation expense	–719	–6,974	—	–310	–8,003
Divestments and disposals	156	6,015	—	288	6,459
Effect of foreign currency exchange differences	–144	–433	—	—	–577
Balance at December 31, 2018	**-9,531**	**-60,191**	**—**	**-450**	**-70,172**
Depreciation expense[5)]	–1,839	–7,673	—	–405	–9,917
Divestments and disposals	137	2,163	—	359	2,659
Reclassification	–90	–110	—	—	–200
Effect of foreign currency exchange differences	–88	–220	—	—	–308
Balance at December 31, 2019	**-11,411**	**-66,031**	**—**	**-496**	**-77,938**
Net balance at December 31, 2018	**12,222**	**43,578**	**5,977**	**2,523**	**64,300**
Net balance at December 31, 2019	**20,181**	**45,670**	**5,112**	**3,243**	**74,206**

1) Buildings and land include Right-of-use asset of MSEK 5,657 (45), Machinery and equipment include Right-of-use asset of MSEK 558 (96) and Construction in progress include Right-of-use asset of MSEK 23 (22). For further information regarding lesase, see Note 7 – Leasing.
2) Depreciation expense includes an impairment loss of MSEK –10 (–66) and selling expenses of MEUR –27 (—). (For further information regarding depreciations, see Note 9 – Depreciation and amortisation.
3) The Group has no mortgages in property, plant and equipment. For further information regarding pledged assets, see Note 28 – Pledged assets.
4) The Group has capitalised borrowing costs related to Machinery and equipment of MSEK 5 (—) and Buildings of MSEK 8 (79).
5) The adoption of IFRS 16 has resulted in increased depreciation during the year. Depreciation expense related to Buildings and Land include Right-of-use asset of MSEK –981 (—) and Machinery and equipment Right-of-use-asset of MSEK –221 (—).

NOTE 17 – OTHER NON-CURRENT ASSETS

	Dec 31, 2019	Dec 31, 2018
Restricted cash	287	315
Endowment insurance for pensions	381	337
Rental deposition	60	57
Derivative assets, non-current	290	314
Other receivables, non-current	654	679
Other non-current assets	1,800	1,411
Total	**3,472**	**3,113**

NOTE 18 – INVENTORIES

ACCOUNTING PRINCIPLES

Inventories consist of raw material, consumables and supplies, semi-manufactured goods, work in progress, finished goods and goods for resale. Assets held under operating lease, with a maturity less or equal to twelve months, are also reported 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, 2019	Dec 31, 2018
Raw materials and consumables	112	145
Work in progress	8,359	7,558
Current assets held under operating lease	8,735	6,886
Finished goods and goods for resale	21,705	20,574
Total	**38,911**	**35,163**
Of which value adjustment reserve:	–693	–522

The cost of inventories recognised as an expense and included in cost of sales amounted to MSEK 212,945 (195,002). Current assets held under operating lease consists of a sale of vehicles combined with a repurchase committment with a maturity less or equal to twelve months.

NOTE 19 – ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

ACCOUNTING PRINCIPLES

Accounts receivables are recognised at amortised cost after a provision is made for doubtful receivables. A credit loss provision for accounts receivable is recognised as soon as it is expected. The credit loss reserve is consisting of incurred losses as well of expected credit losses. A credit loss has been incurred when there has been an event that has triggered the customers inability to pay. The expected credit loss reserve is as well including a general provision for credit losses based on, for instance macroeconomic trends in different countries. In these cases there has not yet been any events incurred showing any inability to pay.

	Dec 31, 2019	Dec 31, 2018
Accounts receivable from non-group companies	7,818	7,037
Accounts receivable from related companies	5,460	7,028
VAT receivables	2,243	2,741
Prepaid expenses and accrued income	2,141	2,150
Other financial receivables	281	1,001
Restricted cash	185	152
Other receivables	5,766	3,450
Total	**23 894**	**23,559**

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
2019					
Accounts receivable gross	11,767	454	356	829	13,406
Provision doubtful accounts receivable	–92	13	–39	–10	–128
Accounts receivable net	**11,675**	**467**	**317**	**819**	**13,278**
2018					
Accounts receivable gross	13,148	263	380	360	14,151
Provision doubtful accounts receivable	–15	–1	–59	–11	–86
Accounts receivable net	**13,133**	**262**	**321**	**349**	**14,065**

Accounts receivable amounted to MSEK 13,278 (14,065) and included provision for doubtful accounts receivable of MSEK 128 (86) as well as provision for potential future credit losses of MSEK 18 (20). As of December 31, 2019 the total provision for doubtful accounts recievable and future credit losses was 1.09 (0.75) per cent of total accounts receivable. Accounts receivable not yet due or subject to impairment have been assessed to have high credit quality.

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

Change in provision for doubtful accounts receivable is as follows:	2019	2018
Balance at January 1	86	65
Additions	57	37
Reversals	–5	–3
Write-offs	–12	–14
Translation difference	2	1
Balance at December 31	**128**	**86**

NOTE 20 – FINANCIAL RISKS AND FINANCIAL INSTRUMENTS

ACCOUNTING PRINCIPLES

Financial assets and liabilities

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

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 and swaps.

Financial liabilities in the consolidated balance sheet consist of liabilities to credit institutions, issued bonds, accounts payables, other current and non-current financial liabilities and derivative liabilities, including issued warrants related to share-based incentive programme, 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 formula. Fair value of commodity contracts is calculated by discounting the difference between the actual contractual forward price and the contracted forward price that can be obtained on the balance sheet date for the remaining contract period.

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 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 based on an average of the Default Probability of a peer group of car manufacturers.

Initial recognition and final derecognition of financial assets and liabilities

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

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

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

Classification of financial assets and liabilities

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

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

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

The basis for classification depends on the entity's 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, 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 period 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 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 amortised cost consists of the difference between the bond's par value and the fair values of the derivatives.

Hedge accounting

Hedge accounting is applied for derivative instruments that 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 or financial liabilities as either a:

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

The fair value of a hedging instrument is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than twelve months, and as a current asset or liability when the remaining maturity of the hedged item is less than twelve months.

a) Fair value hedge

The purpose of a fair value hedge is to hedge the variability in the recorded fair value adjustment of fixed-rate debt (issued bond) from changes in the relevant benchmark yield curve for its entire term by converting fixed interest payments 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 recorded 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 are attributable to the hedged risk. Gains and losses relating to the interest rate swaps, hedging of fixed rate borrowings and the changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk are recognised in the income statement as a financial expense.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to 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 result from the hedge is immediately transferred from the hedge reserve in equity to the income statement.

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 the hedging instruments are recognised in other comprehensive income and accumulated in the 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 being recognised in the income statement.

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

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 that business model. The majority of interest-bearing assets will therefore be valued at amortised cost.
- **Derecognition of accounts receivable:** Invoiced sales are in certain cases subject to contracts for factoring with a third party (bank or financial institution). If the right to payment no longer exists in accordance with the initial sale and the Group is no longer in any way involved in the relevant assets, they are derecognised.
- **Recognition of fair value changes with regards to holdings of equity instruments:** The Group has invested in listed shares (equity instruments) in the form of AB Volvo shares. This holding is measured at fair value (level 1 instruments) and changes in value are recognised in other comprehensive income. As the holding in AB Volvo shares is intended as a long-term (strategic) holding and the shares are not traded, Geely Sweden Holdings initially chose to recognise changes in the value of the holding in other comprehensive income. The holding of unlisted instruments is measured at fair value through profit or loss. As it is difficult to measure the value of these holdings on an ongoing basis, measurement is mainly carried out when a transaction is executed and there is a fair value is available.
- **Identification and recognition of embedded derivates:** An assessment is made of whether an embedded derivative is closely related to the host contract. Derivatives that are not embedded need to be separated and recognised on their own merits if the whole financial instrument (bond) is recognised at fair value through the income statement). The embedded derivates constitute level 3 instruments and Geely Sweden Holdings is using an external appraiser to measure the fair value of embedded derivatives.

Financial risks

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

The Group's treasury is responsible for management and control of these financial risks, it ensures that appropriate financing is in place through capital market transactions, loans and committed credit facilities and manages the Group's liquidity. The management of financial risks is governed by the Group's Financial Policy Framework which is approved by the Board of Directors and is subject to annual review. The policy is focused on minimising the effects of fluctuating financial markets on the Group's financial earnings.

Currency risk

The currency exposure arises from the 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 twenty-four months and up to 60 per cent of the future expected cash flows in the coming twenty-five to forty-eight 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 exposures (over forty-eight 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, 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 that 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	
	2019	2018	**2019**	2018
CNY	24%	23%	25%	27%
EUR	28%	28%	50%	49%
GBP	7%	7%	1%	1%
JPY	3%	3%	7%	7%
USD	19%	20%	12%	10%
Other	19%	19%	5%	6%

Forward contracts, currency options and foreign exchange swaps are used to hedge the currency risk in expected future cash flows from sales and purchases in foreign currencies. The CFaR at year-end for the Group's cash flows in one year excluding hedges was approximately SEK 5 (5) billion. The table below shows the percentage of the forecasted cash flows that were hedged expressed both in nominal terms and in CFaR. CFaR has a higher percentage hedge than the nominal cash flow because it leverages the correlation between currencies.

	0-24 months		25-48 months	
	2019	2018	**2019**	2018
Nominal hedge, %	31	33	6	8
CFaR incl hedges, %	36	51	11	19

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

Maturity	AUD	CAD	CHF	CNY	DKK	EUR	GBP	JPY	KRW	NOK	PLN	RUB	USD
1–12 months	–256	–351	–256	–1,709	–503	1,472	–924	29,700	–235,510	–1,000	–68	–5,665	–1,923
13–24 months	–16	–205	–162	—	–480	404	–500	6,000	–26,358	—	—	—	–1,377
25–36 months	—	–101	–127	—	–120	77	–420	—	—	—	—	—	–690
37–48 months	—	—	–48	—	—	11	–80	—	—	—	—	—	–40

The average duration of the portfolio was 13 (14) months. The fair value of the outstanding currency derivatives as at December 31, 2019 amounted to MSEK –5,458 (–2,319).

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 forty-eight 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, 2019 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.

The cash flow hedge reserve related to currency hedges, included in other reserves, in shareholders' equity as at December 31, 2019 amounts to MSEK –5,458 (–2,318) before tax. The fluctuation from December 31, 2018 to December 31, 2019 within the hedge reserve that has had an impact on other comprehensive income in 2019 is MSEK –3,140 (–3,926) before tax. The balance of MSEK –5,458 (–2,318) represents the fair value of derivatives used for cash flow hedging as at December 31, 2019. Along with cross currency options recorded in the income statement, this amounts to a total fair value of MSEK –5,458 (–2,319).

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	**2019**	2018
Hedge reserve	–5,458	–2,318
Recognised in other comprehensive income	**-5,458**	–2,318
Time value in options and cross currency options	—	–1
Recognised in other operating income and expenses	**–**	–1
Total fair value	**-5,458**	–2,319

Translation exposure risk

The Group's Financial Policy Framework

Translation risk within the Group relates to the translation of net investments in foreign operations. This exposure can generate a positive or negative impact on other comprehensive income.

Translation risk of assets and liabilities in foreign currencies relating to operations, in accounts receivable, accounts payable and warranty provisions, will impact 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.

Status at year end

The table below shows the translation exposure of net investments in foreign operations as at December 31, 2019.

	CNY	EUR	USD	JPY	MYR	Other	Total
Investments in foreign operations (MSEK)	28,955	5,136	3,239	1,012	843	2,735	41,920
Translation exposure	**28,955**	**5,136**	**3,239**	**1,012**	**843**	**2,735**	**41,920**

A one per cent change in the Swedish krona against major currencies has a net impact on other comprehensive income of around MSEK 419 (332). Part of the investments in operations in the Eurozone and Americas are hedged. This is further explained 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 982 (805). 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 at December 31, 2019 amounts to MSEK –620 (–482) before tax. No ineffectiveness has affected net income for 2019 or 2018.

Fair value of financial instruments for hedging of net investment in foreign operations	2019	2018
Hedge reserve	–620	–482
Recognised in other comprehensive income	**-620**	**-482**
Total fair value	**-620**	**-482**

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, 2019 is 21.8 (21.4) per cent, of which shareholders' equity amounted to MSEK 61,654 (51 252).

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 twelve 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 twelve 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 February, April and June the Group issued bonds of MSEK 2,000, MEUR 600 and MEUR 400, respectively.

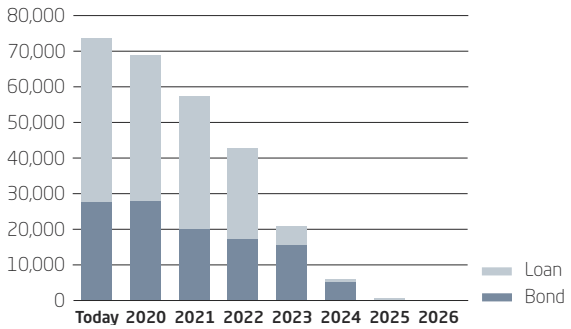
The outstanding amount of bonds and liabilities to credit institutions, excluding finance lease contracts and capitalised transaction costs, within the Group as per year end 2019 was MSEK 73,920 (61,403). The remaining credit term of the outstanding facilities was 3.1 (3.0) years. Debt maturing over the next twelve months was 7 per cent at year-end. 69 per cent of the Group's long term debt is refinanceable within three years and refinancing activities are ongoing.

The outstanding debt is shown below.

Funding	Currency	Nominal amount in respective currency (million)	MSEK
Bank loan	EUR	3,518	36,780
Bank loan	USD	642	5,978
Bank loan	SEK	2,420	2,420
Bond	EUR	1,976	20,661
Bond	USD	250	2,330
Bond	SEK	5,000	5,000
Other	SEK	751	751
Total			**73,920**

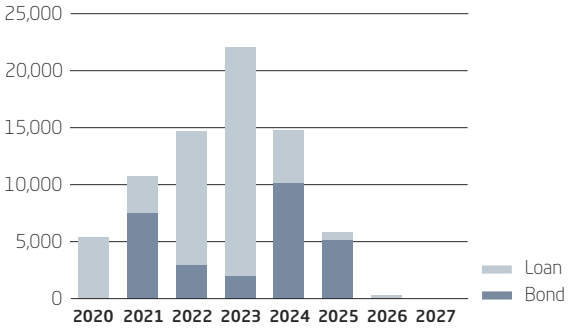
Maturity structure of bonds and liabilities to credit institutions

MSEK



Loan and bond amortisation schedule

MSEK



In relation to all external financing there are information undertakings and covenants in place according to Loan Market Association (LMA) and capital market standards. These are monitored and calculated quarterly to fulfil the terms and conditions stated in the financial agreements. Covenants are based on standard measurements such as EBITDA and Net debt. As of December 31, 2019 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 twelve 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, 2019**	Dec 31, 2018
– Expiring after one year but within five years	13,593	13,328
– Expiring after five years	—	—
Total	**13,593**	**13,328**

Status at year-end

As at December 31, 2019, the Group had committed credit facilities and cash and marketable securities available of MSEK 74,462 (55,958) around 27 (22) 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 and 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 contract date, when the Group is liable to pay or eligible to receive, and includes both interest and nominal amounts.

	2019				**2018**			
	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	—	—	290	—	—	—	314	—
Other non-current assets[1]	—	—	2,159	450	—	—	2,097	574
Total non-current financial assets	**–**	**–**	**2,449**	**450**	**–**	**–**	**2,411**	**574**
Accounts receivable	12,134	1,144	—	—	13,112	953	—	—
Derivative assets	51	70	—	—	356	549	—	—
Other current assets[1]	995	4,832	—	—	1,289	2,140	—	—
Marketable securities	1,134	2,384	—	—	—	1,577	—	—
Cash and cash equivalents	57,351	—	—	—	41,053	—	—	—
Total current financial assets	**71,665**	**8,430**	—	—	55,810	5,219	—	—
Total financial assets	**71,665**	**8,430**	**2,449**	**450**	**55,810**	**5,219**	**2,411**	**574**
Liabilities								
Bonds[2]	134	516	24,014	5,318	105	315	11,310	5,315
Liabilities to credit institutions[2]	—	—	39,775	642	—	—	30,941	1,157
Derivative liabilities	—	—	2,860	—	—	—	1,639	—
Other non-current interest bearing liabilities[3]	—	—	3,050	1,942	—	—	—	—
Other non-current liabilities[1]	—	—	2,535	6	—	—	2,944	54
Total non-current financial liabilities	**134**	**516**	**72,234**	**7,908**	**105**	**315**	**46,834**	**6,526**
Liabilities to credit institutions[2]	622	5,679	—	—	525	16,354	—	—
Accounts payable	43,501	1,507	—	—	38,819	4,895	—	—
Derivative liabilities	1,143	2,311	—	—	663	1,177	—	—
Other current interest bearing liabilities[3]	258	815	—	—	—	—	—	—
Other current liabilities[1]	5,489	8,480	—	—	3,882	8,653	—	—
Total current financial liabilities	**51,013**	**18,792**	**–**	**–**	**43,889**	**31,079**	**–**	**–**
Total financial liabilities	**51,147**	**19,308**	**72,234**	**7,908**	**43,994**	**31,394**	**46,834**	**6,526**

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

Interest rate risk management

Changes in interest rates will impact the Group's net financial income/expense and the value of financial assets and liabilities. The return on cash and cash equivalents, short-term investments and credit facilities are impacted by changes in the interest rates. The exposure can be either direct from interest rate bearing debt or indirect through leasing 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 twelve 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 at December 31, 2019, the Group's interest-bearing assets consisted of cash in the form of cash in banks, short term deposits and commercial papers. The average fixed interest term on these assets was less than one month. The average fixed interest term on debt was around 24 months. At year end the duration of the net debt position was 24 (15) months. The average cost of borrowing was 2.2 (2.6) per cent.

To manage interest rate risk, the Group uses interest rate swaps and forward rate agreements.

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

Interest rate sensitivity, effect on net financial income/expense	2019	2018
Market rate +1%	–14	–1
Market rate –1%	–1	–16

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 rate. 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 that are 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 the interest rate swaps and the changes in the fair value of the hedged fixed rate loans attributable to the interest rate risk are recognised in the income statement within financial expenses.

The Group hedges the fair value risk of the MEUR 500 bond issued in May 2016 by using interest rate swaps, the bond with fixed interest payments has been swapped into floating interest. Changes in fair value of the interest component of the bond is hedged through a fair value hedge by means of interest rate swaps. The carrying amount of the bond is MSEK 5,217 (5,105). A fair value adjustment related to the interest component of the bond is included in the carrying amount of the bond. The fair value component of the carrying value amounts to MSEK 20 (14).

Commodity price risk management

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

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

The Group's Financial Policy Framework

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

Status at year-end

Raw material

In 2019, the Group had raw material costs of around SEK 16 (16) billion. A one per cent change in the prices of raw materials has an impact on operating income of around MSEK 157 (159).

As of April 2019, the Group manages the risk of changes in copper prices in the forecasted copper consumption through forwards and futures contracts.

Electricity

The Group manages changes in electricity prices by using forward contracts. Hedging is applied for electricity usage in the Swedish factory and is managed under an advisory contract with Vattenfall Power Management AB. The highly probable forecast transactions in electricity consumption that are hedged are expected to occur in any chosen calendar quarter during the next forty-eight months.

The hedging instruments used are bilateral OTC contracts between Volvo Car Corporation and Vattenfall Power Management AB.

A one per cent change in the electricity spot price has an impact on other comprehensive income of MSEK 3 (4).

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 are recognised in other comprehensive income and accumulated in other reserves in equity. Any ineffectiveness in a hedge relationship is recognised in the income statement.

The cash flow hedge reserve related to commodity hedges, included in other reserves in shareholders' equity as at December 31, 2019 amounts to MSEK 31 (109) before tax. No ineffectiveness has affected net income for 2019 or 2018.

Fair value of derivatives for commodity hedging	2019	2018
Hedge reserve	31	109
Recognised in other comprehensive income	**31**	**109**
Non hedge accounting	—	—
Recognised in other operating income and expenses	**–**	**–**
Total fair value	**31**	**109**

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 the exposure with any single counterparty is limited. All counterparties used for investments and derivative transactions must have credit rating A- or better from one of the well-established credit rating institutions and 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 between banks. Subsidiaries' bank balances are diversified in order to limit credit risk.

Status at year-end

The maximum amount exposed to financial credit risk is the sum of cash and cash equivalents MSEK 57,351 (41,053), investments in marketable securities MSEK 3,518 (1,577) and fair value of outstanding derivative assets MSEK 411 (1,219). The maximum amount exposed to credit risk for financial instruments is best represented by their fair values. See 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, 2019					
Derivative assets	411	—	411	–250	161
Derivative liabilities	6,314		6,314	–250	6,064
December 31, 2018					
Derivative assets	1,219	—	1,219	–950	269
Derivative liabilities	3,479	—	3,479	–950	2,529

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 table Financial assets and liabilities by category in this note. For quantification of credit risk in accounts receivable, refer to Note 19 Accounts receivable and other current assets.

Financial Instruments – Classification and measurement

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

- Level 1: Instruments are measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Instruments are measured based on quoted prices included within level 1 that are observable for the assets or liabilities, either directly or indirectly.
- Level 3: Instruments are measured based on unobservable inputs for the assets or liabilities.

Since 2018, 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. All derivative financial instruments and commercial papers that the Group held as of December 31, 2019 belong to level 2. In level 3, the amount invested in other long-term securities holdings MSEK 296 (190) is valued based on internal valuation methods. No transfers took place between the levels in the fair value hierarchy in 2019.

Fair value estimation

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

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

December 31, 2018	Level 1	Level 2	Level 3	Total
Derivative instruments for hedging of currency risk in future commercial cash flows	—	1,007	—	1,007
Derivative instruments for hedging of currency risk related to financial assets and liabilities	—	85	—	85
Derivative instruments for hedging of interest rate risk	—	16	—	16
Commodity derivatives	—	111	—	111
Commercial papers[1)]	—	2,152	—	2,152
Other long-term securities holdings	19,414	—	190	19,604
Total assets	**19,414**	**3,371**	**190**	**22,975**
Derivative instruments for hedging of currency risk in future commercial cash flows	—	3,327	—	3,327
Derivative instruments for hedging of currency risk related to financial assets and liabilities	—	122	—	122
Derivative instruments for hedging of interest rate risk	—	28	—	28
Commodity derivatives	—	2	—	2
Total liabilities	**—**	**3,479**	**—**	**3,479**

1) Of which MSEK 1,101 (1,064) is reported as marketable securities in the balance sheet and MSEK 6,220 (1,088) as cash and cash equivalents.

	Financial instruments measured at fair value through the income statement							
Financial assets and liabilities by category	Instruments held for trading	Derivatives used in hedge accounting	Financial liabilities	Financial assets carried at fair value	Financial assets carried at amortised cost	Other liabilities	**Total**	Fair value
December 31, 2019								
Other long-term securities holdings	—	—	—	26,652	—	—	26,652	26,652
Other non-current assets[1)]	—	—	—	—	2,985	—	2,985	2,985
Accounts receivable	—	—	—	—	13,278	—	13,278	13,278
Derivative assets	147	264	—	—	—	—	411	411
Other current assets[1)]	—	—	—	—	5,827	—	5,827	5,827
Marketable securities	1,101	—	—	—	2,417	—	3,518	3,518
Cash and cash equivalents	6,219	—	—	—	51,132	—	57,351	57,351
Total financial assets	**7,467**	**264**	—	**26,652**	**75,639**	—	**110,022**	**110,022**
Bonds and liabilities to credit institutions[2)]	—	—	—	—	—	73,470	73,470	74,930
Other non-current liabilities[1)]	—	—	122	—	—	2,420	2,542	2,542
Accounts payable	—	—	—	—	—	45,008	45,008	45,008
Derivative liabilities	624	5,690	—	—	—	—	6,314	6,314
Other current liabilities[1)]	—	—	—	—	—	13,945	13,945	13,945
Total financial liabilities	**624**	**5,690**	**122**	—	—	**134,843**	**141,279**	**142,739**
December 31, 2018								
Other long-term securities holdings	—	—	—	19,604		—	19,604	19,604
Other non-current assets[1)]	—	—	—	—	2,671	—	2,671	2,671
Accounts receivable	—	—	—	—	14,065	—	14,065	14,065
Derivative assets	101	1,118	—	—	—	—	1,219	1,219
Other current assets[1)]	—	—	—	—	3,429	—	3,429	3,429
Marketable securities	1,064	—	—	—	513	—	1,577	1,577
Cash and cash equivalents	1,088	—	—	—	39,965	—	41,053	41,053
Total financial assets	**2,253**	**1,118**	—	**19,604**	**60,643**	—	**83,618**	**83,618**
Bonds and liabilities to credit institutions[2)]	—	—	—	—	—	61,168	61,168	61,203
Other non-current liabilities[1)]	—	—	312	—	—	2,687	2,999	2,999
Accounts payable	—	—	—	—	—	43,714	43,714	43,714
Derivative liabilities	152	3,327	—	—	—	—	3,479	3,479
Other current liabilities[1)]	—	—	—	—	—	12,535	12,535	12,535
Total financial liabilities	**152**	**3,327**	**312**	—	—	**120,104**	**123,895**	**123,930**

1) Pre-payments as well as statutory receivables and liabilities excluded.
2) The carrying amount of the bonds are presented above including a fair value adjustment amounting to MSEK 20 (14), 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 aging analysis regarding accounts receivable, refer to Note 19 – Accounts receivable and other current assets. For aging analysis regarding liabilities to credit institutions, refer to 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, 2019 Nominal amount	Dec 31, 2019 Fair value	Dec 31, 2018 Nominal amount	Dec 31, 2018 Fair value
Derivative instruments for hedging of currency risk related to financial assets and liabilities				
Foreign exchange swaps, forward contracts and currency options				
– receivable position[1)]	8,237	114	13,510	85
– payable position[2)]	17,250	–554	13,928	–122
Subtotal	**25,487**	**-440**	**27,438**	**-37**
Derivative instruments for hedging of currency risk in future commercial cash flows				
Foreign exchange swaps and forward contracts				
– receivable position[1)]	14,409	221	31,900	1,002
– payable position[2)]	64,763	–5,679	61,750	–3,317
Currency options				
– receivable position[1)]	732	3	2,005	5
– payable position[2)]	1,465	–8	3,152	–10
Subtotal	**81,369**	**-5,463**	**98,807**	**-2,320**
Derivative instruments for hedging of interest rate risk				
Interest rate swaps				
– receivable position[1)]	7,774	31	5,876	16
– payable position[2)]	5,228	–62	5,126	–28
Subtotal	**13,002**	–31	**11,002**	–12
Derivative instruments for hedging of commodity price risk				
Forward contracts				
– receivable position[1)]	494	42	47	111
– payable position[2)]	127	–11	3	–2
Subtotal	**621**	**31**	**50**	**109**
Total	**120,479**	**-5,903**	**137,297**	**-2,260**

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

The table below shows how gains and losses as well as interest income and expenses have affected the income statement divided on the different categories of financial instruments.

Net gains/losses, interest income and expenses related to financial instruments	2019			2018		
Recognised in operating income	Gains/ losses	Interest income	Interest expenses	Gains/ losses	Interest income	Interest expenses
Financial assets and liabilities at fair value through the income statement						
Derivative instruments for hedging of currency and commodity risk in future commercial cash flows rerouted from the hedge reserve, including time value in options and cross currency options	–3,537	—	—	–796	—	—
Electricity derivatives	—	—	—	–2	—	—
Financial assets carried at amortised cost, other financial liabilities						
Accounts receivable/accounts payable[1),2)]	540	—	—	76	—	—
Effect on operating income	**-2,997**	—	—	**-722**	**–**	**–**
Recognised in financial items						
Financial assets and liabilities at fair value through the income statement						
Derivative instruments for hedging of currency risk related to financial assets and liabilities	156	—	—	673	—	—
Derivative instruments for hedging of interest rate risk	–107	15	—	–25	11	—
Financial liabilities at fair value through profit and loss	17	—	—	–96	—	—
Marketable securities	24	41	—	117	62	—
Financial assets carried at amortised cost, other financial liabilities						
Financial assets carried at amortised cost	241	—	—	408	—	—
Cash and cash equivalents[1)]	393	474	—	423	336	—
Other financial liabilities including currency effects[1)]	–1,261	—	–1,708	–911	—	–1,123
Effect on financial items	**-537**	**530**	**-1,708**	**589**	**409**	**-1,123**

1) The total income and expense from items that are not measured at fair value through income statement amounts to MSEK 1,648 (1,243) and MSEK –2,969 (–2,034) respectively.
2) Unrealised and realised foreign exchange effect on accounts receivable and accounts payable.

NOTE 21 – MARKETABLE SECURITIES AND CASH AND CASH EQUIVALENTS

ACCOUNTING PRINCIPLES

Marketable securities

Marketable securities are liquid financial instruments that can be quickly converted into cash. The liquidity of marketable securities comes from the fact that 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 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 maximum 90 days from the date of acquisition, which are subject to an insignificant risk of fluctuations in value.

Marketable securities	Dec 31, 2019	Dec 31, 2018
Commercial papers	1,101	1,064
Time deposits in banks	2,417	513
Total	**3,518**	**1,577**

Cash and cash equivalents	Dec 31, 2019	Dec 31, 2018
Cash in banks	35,212	25,614
Time deposits in banks	15,919	14,351
Commercial papers	6,220	1,088
Total	**57,351**	**41,053**

Cash and Cash equivalents includes MSEK 2,537 (1,913) 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 for use in the Group's operation in the respective country.

NOTE 22 – EQUITY

ACCOUNTING PRINCIPLES

Equity

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

Group contributions and unconditional shareholders' contributions

Distributed group contributions to the main owner are recorded 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 shareholders' contributions received from the main owner are recognised in equity.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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

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

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

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

The currency translation reserve comprises exchange rate differences of hedge instruments of net investments in foreign operations and exchange rate differences resulting from the translation of financial reports of foreign operations that have prepared their financial reports in a currency other than the Group's reporting currency. The parent company and the Group present their financial reports 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 the 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 up until July 2018 Polestar New Energy Vehicle Co., Ltd and has the decision-making power over the operation. In the consolidated financial statements, these companies are classified as subsidiaries and fully consolidated with a non-controlling interest of 50 per cent. The non-controlling interests increased during the year with MSEK 657 (44) due to the directed issue of preference shares made in the subsidiary Volvo Car AB (publ.) to a group of Swedish institutional investors. The increase in non-controlling interests was partly offset by a dividend paid of MSEK 1,381 (—) from Daqing Volvo Car Manufacturing Co., Ltd to its shareholder Zhejiang Geely Holding Group Co., Ltd. In year 2018 the non-controlling interests increased through a capital contribution to Polestar New Energy Vehicle Co., Ltd with MSEK — (662).

In July 2018, the wholly owned subsidiary Polestar Automotive (Shanghai) Co., Ltd acquired the 50 per cent non-controlling interest in Polestar New Energy Vehicle Co., Ltd, resulting in a divestment of non-controlling interests of MSEK –1,271. See Note 8 – Participation in subsidiaries (Parent company) for further information.

At year end 2019, non-controlling interests amounted to MSEK 10,950 (8,907).

Total equity consists of the equity attributable to the owners of the parent company and non-controlling interests. At year end 2019, the Group's total equity amounted to MSEK 61,654 (51,252).

NOTE 23 – POST EMPLOYMENT BENEFITS

ACCOUNTING PRINCIPLES

Pension benefits

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

The portion secured through insurance with Alecta 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 2019, the Group did not have access to the information to report it's proportionate share of the plan's obligations, assets under management and cost, that would make it possible to report this plan as a defined benefit plan. The Group estimates it will pay premiums of about MSEK 172 to Alecta in 2020. The Group's share of the total saving premiums for ITP2 in Alecta as at December 31, 2019 amounted to 0.28 (0.30) per cent and the Group's share of the total number of active policy holders amounted to 1.47 (1.48) 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 2019, the consolidation level amounted to 148 (142) 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 recorded in the balance sheet as follows:

	Dec 31, 2019	Dec 31, 2018
Post-employment benefits	12,583	8,425
Other provisions (Note 24)	381	337
Closing balance	**12,964**	**8,762**

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 12,964 (8,762) in total, which includes endowment insurances and similar undertakings amounting to MSEK 381 (337) in respect of defined premium pension plans in Sweden.

Financial year ending on	Total Dec 31, 2019	of which Sweden Dec 31, 2019	of which Belgium Dec 31, 2019	Total Dec 31, 2018	of which Sweden Dec 31, 2018	of which Belgium Dec 31, 2018
Amounts recognised in the statement of financial position						
Defined benefit obligation	27,345	19,145	4,227	22,146	15,064	3,784
Fair value of plan assets	14,762	8,873	3,046	13,721	8,455	2,749
Funded status	**12,583**	**10,272**	**1,181**	**8,425**	**6,609**	**1,035**
Net provision (asset) as recorded in the balance sheets	**12,583**	**10,272**	**1,181**	**8,425**	**6,609**	**1,035**
Principal actuarial assumptions						
Weighted average assumptions to determine benefit obligations						
Discount rate, %	1.60	1.70	0.85	2.45	2.50	1.82
Rate of salary increase, %	2.97	3.00	2.91	3.09	3.00	3.16
Rate of price inflation, %	1.73	1.60	1.75	1.91	1.75	2.00
Rate of pension indexation, %	1.73	1.60	N/A	1.88	1.75	N/A

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

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

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

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

Financial year ending on	Total Dec 31, 2019	of which Sweden Dec 31, 2019	of which Belgium Dec 31, 2019	Total Dec 31, 2018	of which Sweden Dec 31, 2018	of which Belgium Dec 31, 2018
Change in defined benefit obligation						
Defined benefit obligation at end of prior year	22,146	15,064	3,784	19,653	12,916	3,450
Service cost	670	688	–58	771	565	158
Interest expense	542	373	70	490	345	56
Cash flows	–571	–291	–129	–554	–273	–125
Remeasurements	4,284	3,311	490	1,500	1,511	101
Effect of changes in foreign exchange rates	274	—	70	286	—	144
Defined benefit obligation at end of year	**27,345**	**19,145**	**4,227**	**22,146**	**15,064**	**3,784**
Change in fair value of plan assets						
Fair value of plan assets at end of prior year	13,721	8,455	2,749	13,128	8,135	2,458
Interest income	346	211	53	446	220	153
Cash flows	–21	—	61	422	450	55
Remeasurements	477	207	132	–475	–350	–20
Effect of changes in foreign exchange rates	239	—	51	200	—	103
Fair value of plan assets at end of year	**14,762**	**8,873**	**3,046**	**13,721**	**8,455**	**2,749**
Components of defined pension cost						
Service cost	670	688	–58	771	565	158
Net interest cost	196	162	17	44	125	–97
Remeasurements of Other long term benefits	28	—	25	52	—	50
Administrative expenses and taxes	24	—	21	22	—	18
Total pension cost for defined benefit plans	**918**	**850**	**5**	**889**	**690**	**129**
Pension cost for defined contribution plans	3,317	2,748	271	3,095	2,624	266
Total pension cost recognised in P&L	**4,235**	**3,598**	**276**	**3,984**	**3,314**	**395**
Remeasurements (recognised in other comprehensive income)	3,780	3,105	333	1,925	1,861	73
Effect of changes in demographic assumptions	13	—	—	74	—	78
Effect of changes in financial assumptions	3,617	2,756	388	455	651	–91
Effect of experience adjustments	625	555	76	920	861	64
Return on plan assets (excluding interest income)	–475	–206	–131	476	349	22
Total defined benefit cost recognised in P&L and OCI	**4,698**	**3,955**	**338**	**2,814**	**2,551**	**202**

Financial year ending on	Total Dec 31, 2019	of which Sweden Dec 31, 2019	of which Belgium Dec 31, 2019	Total Dec 31, 2018	of which Sweden Dec 31, 2018	of which Belgium Dec 31, 2018
Net defined benefit provision (asset) reconciliation						
Net defined benefit provision (asset)	8,425	6,609	1,035	6,525	4,781	992
Defined benefit cost included in the income statement	918	850	5	889	690	129
Total remeasurements included in OCI	3,780	3,105	333	1,925	1,861	73
Cash flows	–576	–292	–211	–1,000	–723	–200
Employer contributions	–225	—	–180	–660	–450	–167
Employer direct benefit payments	–331	–292	–31	–340	–273	–33
Effect of changes in foreign exchange rates	36	—	19	86	—	41
Net defined benefit provision (asset) as of end of year	**12,583**	**10,272**	**1,181**	**8,425**	**6,609**	**1,035**
Defined benefit obligation						
Defined benefit obligation by participant status						
Actives	16,982	11,807	3,589	13,289	8,873	3,107
Vested deferreds	4,854	3,391	458	3,903	2,718	385
Retirees	5,509	3,947	180	4,954	3,473	292
Total	**27,345**	**19,145**	**4,227**	**22,146**	**15,064**	**3,784**

Plan assets

Fair value of plan assets	2019	2018	Of which with a quoted market price 2019	Of which with a quoted market price 2018
Cash and cash equivalents	479	360	479	360
Equity instruments	1,949	1,511	1,949	1,511
Debt instruments	2,793	1,920	2,793	1,808
Real estate	138	159	9	10
Investment funds	7,824	8,353	7,343	7,194
Other	1,579	1,418	1,562	1,418
Total	**14,762**	**13,721**	**14,135**	**12,301**

Responsibility for the management of the pension plans rest with the Group and therefore pension funds have been set up in different countries. Assets are held by long-term employee benefit funds that is legally separate from the Group.

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

The Group has a wholly-owned subsidiary, VCG Investment Management AB ("VCGIM") to manage the Group's pension fund assets. VCGIM is regulated and authorised by the Swedish Financial Supervisory Authority to perform Investment Advisory and Discretionary Portfolio Management Services.

The actual return on plan assets amounts to MSEK 824 (–139).

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 principle 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 to 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%	–2,082	–239
Discount rate –0,5%	2,354	270
Inflation rate +0,5 %	2,354	156
Inflation rate –0,5%	–2,082	–146

The weighted average duration of the obligation is 23.1 years for Sweden and 12 years for Belgium.

NOTE 24 – CURRENT AND OTHER NON-CURRENT PROVISIONS

ACCOUNTING PRINCIPLES

Provisions

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

Warranties

Warranty provisions include the Group's cost of satisfying the customers with specific contractual warranties, as well as other costs not covered by standard contractual commitments. All warranty provisions are recognised at the sale of the vehicles or spare parts. The initial calculations of the reserves are based on historical warranty statistics considering known quality improvements, costs for remedy of defaults etc. The warranty provision booked at point of sale is adjusted as campaign decisions for specific quality problems are made. On a quarterly basis the provisions are adjusted to reflect latest available data such as actual 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 provision is the best estimate of the expenditure required to settle the present obligation at 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 such risks that are taken into consideration in the estimated future cash flow. Revisions to estimated cash flows (both amount and likelihood) are allocated as operating cost. Changes to present value due to the passage of time and revisions of discount rates to reflect prevailing current market conditions are recognised as a financial cost.

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 relation with the customer. Warranty provisions are estimated based on historical claims statistics and the warranty period. Quality index improvements based on historical patterns have been reflected in all categories of warranty. Refunds from suppliers that decrease the Group's warranty costs are recognised to the extent these are considered to be virtually certain, based on historical experience.

	Warranties	Other provisions	**Total**
Balance at 1 January 2018	**8,467**	**3,032**	**11,499**
Provided for during the year	6,662	4,606	**11,268**
Utilised during the year	–4,702	–4,579	**-9,281**
Reversal of unutilised amounts	–559	–83	**–642**
Translation differences and other	257	49	**306**
Balance at December 31, 2018	**10,125**	**3,025**	**13,150**
Of which current	4,706	2,230	**6,936**
Of which non-current	5,419	795	**6,214**

	Warranties	Other provisions	**Total**
Balance at 1 January 2019	**10,125**	**3,025**	**13,150**
Provided for during the year	6,755	4,992	**11,747**
Utilised during the year	–5,701	–3,265	**-8,966**
Reversal of unutilised amounts	–50	–511	**-561**
Translation differences and other	264	39	**303**
Balance at December 31, 2019	**11,393**	**4,280**	**15,673**
Of which current	4,972	3,385	**8,357**
Of which non-current	6,421	895	**7,316**

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

ACCOUNTING PRINCIPLES

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

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

	Sales generated obligations	Deferred revenue – extended service business	Deferred revenue – sale with repurchase commitment	Advance payments from customers	Total
Balance at 1 January 2018	**11,840**	**3,370**	**1,708**	**1,252**	**18,170**
Provided for during the year	38,161	2,547	4,674	1,311	**46,693**
Utilised during the year	–35,767	–2,208	–5,088	–957	**–44,020**
Translation differences and other	489	243	120	—	**852**
Balance at 31 December 2018	**14,723**	**3,952**	**1,414**	**1,606**	**21,695**
Of which current	14,162	1,421	973	955	17,511
Of which non-current	561	2,530	443	650	4,184
Balance at 1 January 2019	**14,723**	**3,952**	**1,414**	**1,606**	**21,695**
Provided for during the year	30,432	3,683	4,390	1,084	**39,589**
Utilised during the year	–27,550	–2,914	–4,797	–955	**-36,216**
Translation differences and other	509	195	–84	—	**620**
Balance at 31 December 2019	**18,114**	**4,916**	**923**	**1,735**	**25,688**
Of which current	17,264	1,765	737	712	20,478
Of which non-current	850	3,151	186	1,023	5,210

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. This is normally referred to as Extended Service Business. The customer signs up for regular services, paid for upfront or by monthly payments. The contracts can also be a marketing promotion.

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

NOTE 26 – OTHER NON-CURRENT LIABILITIES

	Dec 31, 2019	Dec 31, 2018
Liabilities related to repurchase commitments	977	1,307
Derivative liabilities	2,860	1,638
Participation in joint venture company[1)]	210	103
Other liabilities	1,271	1,589
Total	**5,318**	**4,637**

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

NOTE 27 – OTHER CURRENT LIABILITIES

	Dec 31, 2019	Dec 31, 2018
Accrued expenses and prepaid income	10,313	10,147
Liabilities related to repurchase commitments	10,552	7,869
Personnel related liabilities	5,653	5,026
VAT liabilities	2,591	2,790
Derivative liabilities	3,454	1,841
Other liabilities	3,074	4,441
Total	**35,637**	**32,114**

NOTE 28 – PLEDGED ASSETS

	Dec 31, 2019	Dec 31, 2018
Shares in subsidiaries[1)]	—	—
Restricted cash	330	340
Inventory	374	311
Real estate mortgages	168	161
Floating charges	205	154
Other pledged assets	679	666
Total	**1,756**	**1,632**

1) Geely Sweden Holdings AB has pledged the shares in the subsidiaries Geely Sweden Investment AB and Geely Sweden Industry Investment AB for external bank loans. The value of the share pledge on consolidated group level has been assessed to 0(0). During 2019 Geely Sweden Holdings AB has also pledged the shares in Geely Sweden Financials AB. The value of the share pledge on consolidated group level amounts to TSEK 63.

NOTE 29 – CONTINGENT LIABILITIES

ACCOUNTING PRINCIPLES

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Legal proceedings

Companies within the Group may at times be involved in legal proceedings. Such proceedings may cover a range of different matters 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. The various matters 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. The 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 such liability.

Tax processes

The Group is, like other global companies, at times involved in tax processes of varying scope and in various stages. These tax processes are evaluated regularly and provisions are made when it is more likely than not that additional tax must be paid and the outcome can be reliably estimated. If it is not probable that the additional tax will be paid but the risk is more than remote, such amounts are disclosed as contingent liabilities.

	Dec 31, 2019	Dec 31, 2018
Guarantees to insurance company FPG	164	150
Legal claims	48	111
Tax claims[1)]	423	315
Guarantee commitments	573	731
Other contingent liabilities[2)]	162	118
Total	**1,370**	**1,425**

1) In addition to the contingent liabilities related to tax claims there are also tax related contingent assets amounting to MSEK — (33).
2) Apart from the above contingent liabilities, there are other commitments and guarantees that are not recognised since the likelihood of an outflow of resources is very low.

NOTE 30 – CASH FLOW STATEMENTS

	2019	2018
Adjustments for items not affecting cash flow consist of:		
Capital gains/losses on sale of tangible and intangible assets	388	772
Share of income in joint ventures and associates	1,051	–590
Interest effect from the measurement of repurchase obligations	–187	–185
Provision for variable pay	1,035	334
Provision for repurchase commitments	–23	–110
Deferred income	–3,011	–2,566
Inventory impairment	171	92
Elimination of intra-group profit[1)]	891	1,252
Effects of the Polestar Group deconsolidation	—	280
IFRS 16 Adjustments	–1,354	—
Other non-cash items	–494	264
Total	**–1,533**	**–457**

1) Reclassification of Research and development expenses (related to amortisation of intangible assets sold to Polestar) to Cost of sales amounted to MSEK 1,195 in 2018.

		Cash flows	Non-cash changes					
Change in net cash	**Jan 1, 2018**		Acquisition	Reclassi-fications	Foreign exchange movement	Fair value changes	Other non-cash changes	**Dec 31, 2018**
Cash and cash equivalents	36,941	3,240	2	—	870	—	—	41,053
Marketable securities	3,992	–2,558	—	—	144	–1	—	1,577
Liabilities to credit institutions (non-current)	–6,622	–24,601	—	1,559	22	—	–92	–29,734
Bonds[2)]	–12,749	–2,265	—	—	–366	–28	4	–15,404
Other non-current interest-bearing liabilities	–84	—	—	—	—	—	—	–84
Liabilities to credit institutions (current)	–7,426	–7,134	—	–1,559	121	—	–18	–16,016
Net cash	**14,052**	**-33,318**	**2**	**–**	**791**	**-29**	**-106**	**-18,608**
Change in net cash	**Jan 1, 2019**							**Dec 31, 2019**
Cash and cash equivalents	41,053	15,327	—	—	971	—	—	57,351
Marketable securities	1,577	1,985	—	—	–47	3	—	3,518
Liabilities to credit institutions (non-current)	–29,734	–14,255	—	4,402	–485	—	–53	–40,125
Bonds[2)]	–15,404	–12,483	—	—	45	–6	5	–27,843
Other non-current interest-bearing liabilities	–84	—	—	—	—	—	—	–84
Liabilities to credit institutions (current)	–16,016	15,553	—	–4,402	–628	—	11	–5,482
Net cash	**-18,608**	**6,127**	**–**	**–**	**-144**	**-3**	**-37**	**-12,665**

2) The bonds are presented above at amortised cost. The MEUR 500 fixed interest rate bond issued in May 2016, is hedged into a variable interest rate bond, hence a part of the bond is valued at fair value through the income statement, amounting to MSEK 20 (14) and the remaining part is valued at amortised cost.

NOTE 31 – BUSINESS COMBINATIONS

ACCOUNTING PRINCIPLES

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

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

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. When applying predecessor accounting, the Group has chosen to include acquired entities under common control for the entire period and not only from the transaction date. Adjustment is also made for the comparative period. Hence, the consolidated financial statements include the acquired entity's results as if both entities (acquirer and acquire) have always been combined. These consolidated financial statements will reflect both entities' full year's results. The corresponding amounts for the previous years also reflect the combined results of both entities, even though the transaction did not occur until the current year. The effect in the opening balance of the comparative period is accounted for directly in equity.

In 2018, the Group derecognised the Polestar business, i.e. Polestar Automotive (Shanghai) Co., Ltd and its wholly-owned subsidiaries. During 2018 the Group also derecognised its subsidiary Geely Financials Denmark A/S. The derecognitions were made from the date that control of these subsidiaries ceased, subsequent to an assessment of level of ownership and contractual arrangements between the owners. The deconsolidation of Geely Financial Denmark A/S was based on their acquisition of Saxo Bank A/S and contractual arrangements in connection with this acquisition, see Note 13 – Investments in joint ventures and associates. In the case of Polestar control ceased as an effect of the Geely Group subscribing for 50 per cent of the equity in Polestar Automotive (Shanghai) Co., Ltd, the parent company in the Polestar Group, combined with joint control contractual arrangements. In the consolidated balance sheets, Polestar Group´s and Geely Financials Denmark´s assets and liabilities have been derecognised and replaced by investments in joint venture.

The investments retained in Polestar Group and Geely Financial Denmark A/S were recognised at its fair value at the date when control was lost. The differences between fair value and carring value were recognised directly in equity, as a transation with owners, due to common control transactions. The remeasured value at the date control was lost, was regarded as the cost on initial recognition of the investment in the joint venture.

In 2018 and 2019, subsequent to initial recognition of the investment in the joint venture, Geely Group injected capital into Polestar Automotive (Shanghai) Co., Ltd. As these capital injections were an integrated part of above common control transaction, the capital injection by Geely Group increased the Group's investment in the joint venture, and increased equity in the Group, reflected as a transaction with the owner.

Adoption of preliminary acquisition analysis

An acquistion analysis is preliminary until adopted which must take place within twelve months from the acquisition.

The preliminary acquisition analysis previously recognised for Fastighetsbolag Sörred 8:9 AB, Volvo Car Real Estate and Assets 3 AB, Geely Innovation Centre 1 AB and Geely Innovation Centre 2 AB were adopted in 2019.

NOTE 32 – SEGMENT REPORTING

ACCOUNTING PRINCIPLES

An operating segments 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 is related to the industrial operations, more specific the revenue generated by Volvo car Group. The industrial operation business includes all activities related to development, design, manufacturing, assembly and sale of vehicles, as well as sale of related parts and accessories. In relation to other operation, the 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 Management Report, the business is divided into three segments. The majority of the business is related to the industry segment and therefore the Group has not prepared any segment reporting.

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

	Sweden	China	Rest of the World
Dec 31, 2019			
Non-current assets	69%	12%	19%
Dec 31, 2018			
Non-current assets	67%	17%	16%

Definitions of Performance Measures

Performance measures disclosed in the annual report are those that are deemed to give 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 per cent of total revenue that the Group retains after incurring the direct costs associated with producing the goods and services sold.

EBIT
EBIT represents 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 measurement of the operating performance. It measures the profit the Group generate from its operations without effect from previous periods capitalisation levels.

EBITDA margin
EBITDA margin is EBITDA in percentage of revenue.

Equity ratio
Total equity divided by total assets, is 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 consist 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	2019	2018
Gross income in % of revenue	**19.0**	**19.5**

EBIT Margin	2019	2018
Operating income (EBIT) in % of revenue	**4.9**	**5.8**

EBITDA/EBITDA Margin	2019	2018
Operating income	13,371	14,679
Depreciation and amortisation of non-current assets	15,548	13,213
EBITDA	**28,919**	**27,892**
EBITDA in % of revenue	**10.5**	**11.0**

Equity ratio	Dec 31, 2019	Dec 31, 2018
Total equity	61,654	51,252
Total assets	283,450	239,486
Equity in % total assets	**21.8**	**21.4**

Net cash	Dec 31, 2019	Dec 31, 2018
Cash and cash equivalents	57,351	41,053
Marketable securities	3,518	1,577
Liabilities to credit institutions (non-current)	–40,125	–29,734
Bonds[1]	–27,843	–15,404
Other non-current interest-bearing liabilities	–84	–84
Liabilities to credit institutions (current)	–5,482	–16,016
Net cash[2)]	**-12,665**	**-18,608**

1) The bond loans are presented above at amortised cost. The MEUR 500 fixed interest rate bond issued in May 2016, is hedged into a variable interest rate bond, hence a part of the bond is valued at fair value through the income statement, amounting to MSEK 20 (14) and the remaining part is valued at amortised cost.
2) The net cash calculation excludes financial liabilities related to the new leasing standard IFRS 16 amounting to MSEK –6,065.

Liquidity	Dec 31, 2019	Dec 31, 2018
Cash and cash equivalents	57,351	41,053
Marketable securities	3,518	1,577
Undrawn credit facilities	13,593	13,328
Liquidity	**74,462**	**55,958**

Income Statements and Comprehensive Income – Parent Company

MSEK	Note	2019	2018
Revenue		7	—
Administrative expenses	4	–19	–3
Operating income	3, 5	**-12**	**-3**
Result from participation in subsidiary	6	1,388	—
Financial income	6	95	73
Financial expenses	6	–58	–2
Income before tax		**1,413**	**68**
Income tax	7	1	–1
Net income		**1,414**	**67**

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, 2019	Dec 31, 2018
ASSETS			
Non-current assets			
Participation in subsidiaries	8	21,746	21,632
Investments in joint ventures[1)]		52	—
Deferred tax assets	7	1	—
Receivables from group companies	3	2,714	—
Total non-current assets		**24,513**	**21,632**
Current assets			
Receivables from group companies	3	1,710	3,022
Other current assets		2	—
Accrued income and prepaid expenses		1	—
Cash and cash equivalents		3,193	683
Total current assets		**4,906**	**3,705**
TOTAL ASSETS		**29,419**	**25,337**
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		12,859	12,792
Net income		1,414	67
		24,475	**23,061**
Total equity		**24,475**	**23,061**
Non-current liabilities			
Non-current liabilities to group companies	3	4,802	54
Total non-current liabilities		**4,802**	**54**
Current liabilities			
Liabilities to group companies	3	129	2,219
Other current liabilities		3	—
Accrued expenses and prepaid income		10	3
Total current liabilities		**142**	**2,222**
TOTAL EQUITY & LIABILITIES		**29,419**	**25,337**

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, 2018	—	**6,509**	**3,693**	**12,792**	**22,994**
Net income for the year	**–**	**–**	**–**	**67**	**67**
Balance at December 31, 2018	—	**6,509**	**3,693**	**12,859**	**23,061**
Net income for the year	**–**	**–**	**–**	**1,414**	**1,414**
Balance at December 31, 2019	—	**6,509**	**3,693**	**14,273**	**24,475**

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

Statement of Cash Flows – Parent Company

MSEK	Note	**2019**	2018
OPERATING ACTIVITIES			
Operating income		–12	–3
Interest received		74	10
Interest paid		–58	–2
Other financial items		109	—
		113	**5**
Movements in working capital			
Change in receivables group companies	3	–1,402	–3,011
Change in liabilities group companies	3	85	2,218
Change in current receivables		–3	—
Change in current liabilities		10	3
Cash flow from movements in working capital		**–1,310**	**–790**
Cash flow from operating activities		**–1,197**	**–785**
Cash flow from investing activities			
Investment in subsidiaries		–114	–127
Investment in joint ventures		–52	—
Cash flow from investing activities		**–166**	**–127**
Cash flow from operating and investing activities		**–1,363**	**–912**
FINANCING ACTIVITIES			
Change of deferred tax asset	7	1	—
Proceeds from long term liabilities group companies	3	2,573	—
Dividend received from subsidiaries		1,388	—
Cash flow from financing activities		**3,962**	**–**
Cash flow for the year		**2,599**	**–912**
Cash and cash equivalents at beginning of year		**683**	**1,532**
Change in cash and cash equivalents due to change in exchange rates		–89	63
Cash and cash equivalents at end of year		**3,193**	**683**

Notes to The Parent Company Financial Statements

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

NOTE 1 – SIGNIFICANT ACCOUNTING PRINCIPLES

Basis of preparation

The parent company has prepared its financial statements in accordance with the Swedish Annual Accounts Act (1995:1554) and RFR 2, Accounting for Legal entities. According to RFR 2, the parent company shall apply all the international financial Reporting standards endorsed by the EU as far as this is possible within the framework of the Swedish Annual Accounts Act. Changes in RFR 2 applicable to the fiscal year beginning January 1, 2019, 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 recgonised in the income statement. Group contributions made to parent company are recgonised in equity, along with the tax effect. Received group contributions from subsidiaries are recgonised as financial income. Tax effect on received group contributions are recgonised in the income statement. Received group contributions from parent company are recorded in equity, along with the tax effect.

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

Financial guarantees

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

Income taxes

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

Equity

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

NOTE 2 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

NOTE 3 – RELATED PARTIES

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

	Sales of goods, services and other		Purchase of goods, services and other	
	2019	2018	**2019**	2018
Companies within the Geely Sweden Holdings AB Group	100%	—	46%	—

	Receivables		Payables	
	Dec 31, 2019	Dec 31, 2018	**Dec 31, 2019**	Dec 31, 2018
Companies within the Geely Sweden Holdings AB Group	4,424	*3,022*	4,931	*2,273*
whereof short-term	*1,710*	*3,022*	*129*	*2,219*

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 2019, Geely Sweden Holdings AB has received dividend of MSEK 1,388 (—) from its subsidiary Volvo Car AB (publ.). Geely Sweden Holdings AB has given group contributions of MSEK 13 (64) to its subsidiaries.

Geely Sweden Holdings AB does not engage in any transactions with Board members or senior executives except ordinary remunerations for services. For further information regarding remunerations, see Note 8 – Employees and remuneration in the consolidated financial statements.

NOTE 4 – AUDIT FEES

TSEK	**2019**	2018
Deloitte		
Audit fees	–150	–150
Audit-related fees	–80	—
Other services	–539	—
Total	**-769**	**-150**

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

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

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

NOTE 5 – REMUNERATION TO THE BOARD OF DIRECTORS

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

NOTE 6 – FINANCIAL INCOME AND EXPENSES

	2019	2018
Financial income		
Dividend from subsidiaries	1,388	—
Foreign exchange gain	21	63
Interest income from subsidiaries	74	10
Total	**1,483**	**73**
Financial expenses		
Interest expenses to subsidiaries	–58	–2
Total	**-58**	**-2**

NOTE 7 – TAXES

Income tax recognised in income statement	**2019**	2018
Tax for the year	1	–1
Total	**1**	**-1**
Information regarding current year tax expense compared to tax expense based on the applicable Swedish tax rate		
Income before tax for the year	1,413	68
Tax according to applicable Swedish tax rate, 21,4% (22%)	–302	–15
Costs non-deductable	3	—
Non-taxable dividends	297	—
Tax effect of given group contributions reported in shares in subsidiares	3	14
Total	**1**	**-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.

NOTE 8 – PARTICIPATION IN SUBSIDIARIES

	Dec 31, 2019	Dec 31, 2018
At beginning of the year/acquired acquisition value	21 632	21 505
Group contributions given	13	64
Shareholder contributions provided	91	—
Investments	10	63
Total	**21 746**	**21 632**

Directly owned subsidiaries at the end of the reporting period are presented in below table. Other companies in the Group 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, 2019	Book value Dec 31, 2018
Volvo Car AB (publ.)[1]	556810-8988	Gothenburg/Sweden	50 000 000	98	21,560	21,560
Geely Europe Innovation Centre AB	559166-5699	Gothenburg/Sweden	100 000	100	61	10
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	0
Geely Sweden Financials Holding AB (publ.)	559179-7799	Gothenburg/Sweden	500	100	1	1
Geely Sweden Financials AB	559168-2157	Gothenburg/Sweden	500	100	0	0
Geely Sweden Finance AB (publ.)	559171-4950	Gothenburg/Sweden	501	100	11	1
Geely Sweden Investment AB	559150-4781	Gothenburg/Sweden	10 000	100	73	51
Summa					**21,746**	**21,632**

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 seen in the table 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.

The Polestar Group consists of the parent company Polestar Automotive (Shanghai) Co., Ltd based in China, with subsidiaries, currently in China, Sweden, US, UK, Netherlands, Norway, Canada, Belgium and Germany. Previously, the Polestar Group have been wholly owned by the Group through its subsidiary Volvo Cars (China) Investment Co., Ltd with the exception of the Chinese manufacturing subsidiary that has been under joint ownership with certain Geely Group companies, although still consolidated into the Group. On July 12, 2018 Polestar Automotive (Shanghai) Co., Ltd acquired the non-controlling interest of 50 per cent related to the Chinese manufacturing entity Polestar New Energy Vehicle Co., Ltd. Further, on September 28, 2018, Zhejiang Geely Holding Group Co., Ltd subscribed for 50 per cent of the equity in Polestar Automotive (Shanghai) Co., Ltd the parent company in the Polestar Group. A shareholders agreement was entered into between Volvo Cars (China) Investment Co., Ltd and Zhejiang Geely Holding Group Co., Ltd, giving the owners joint control over the Polestar Group. As a result, the Group no longer has control over the Polestar Group and it will no longer be consolidated into Volvo Car Group. Polestar Group is thereafter considered as a joint venture and accounted for in accordance with the equity method.

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

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

On September 22, 2017 Volvo Cars (China) Investment Co., Ltd has, through one of its wholly owned subsidiary, Polestar Automotive (Shanghai) Co., Ltd, established a new joint venture company Polestar New Energy Vehicle Co., Ltd together with Zhejiang Haoqing Automobile Manufacturing Co., Ltd, 40 per cent shareholding, and Chengdu Zhaoyuan New Energy Vehicle Investment Co., Ltd, 10 per cent shareholding. Both companies are owned subsidiaries to Zhejiang Geely Holding Group Co., Ltd. In the consolidated financial statements up to July 12, 2018 this joint venture company was classified as a subsidiary and fully consolidated with a non-controlling interest of 50 per cent since the Group had the decision-making power over the operation. On July 12, 2018 Polestar Automotive (Shanghai) Co., Ltd acquired the non-controlling interest of 50 per cent related to Polestar New Energy Vehicle Co., Ltd and consequently the non-controlling interest ceased.

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

	Registered office	% interest held		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
Legal entity:		**Dec 31, 2019**	Dec 31, 2018	**Dec 31, 2019**	Dec 31, 2018	**Dec 31, 2019**	Dec 31, 2018
Daqing Volvo Car Manufacturing Co., Ltd.[2)]	China	50	50	2,318	2,829	8,218	7,085
Zhangjiakou Volvo Car Engine Manufacturing Co., Ltd.[2)]	China	50	50	142	104	1,214	1,045
Shanghai Volvo Car Research and Development Co., Ltd. [2)]	China	50	50	-1	1	108	106
Polestar New Energy Vehicle Co., Ltd. [2)]	China	—	—	—	-11	—	—
Bra Bil Sverige AB	Sweden	50	50	29	18	186	142
Total non-controlling interests				**2,488**	**2,941**	**9,726**	**8,378**

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

NOTE 9 – PLEDGED ASSETS

	Dec 31, 2019	Dec 31, 2018
Shares in subsidiaries[1)]	73	51
Total	**73**	**51**

1) Share pledges in Geely Sweden Investment AB of MSEK 73 (51) and in Geely Sweden Financials AB of TSEK 50 (—).

NOTE 10 – CONTINGENT LIABILITIES

	Dec 31, 2019	Dec 31, 2018
Guarantee commitments[1)]	497	698
Total	**497**	**698**

1) In addition to above stated guarantee commitments, Geely Sweden Holdings AB have a guarantee commitment related to the external loan in the subsidiary Geely Sweden Industry Investment AB. As a total, the loan amounts to MSEK 21,948 (29,663). The risk to fulfill this guarantee commitment 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	12,858,538,053
Net income for the year	SEK	1,414,057,389
At the disposal of the AGM	**SEK**	**24,474,927,341**

The Board proposes the following allocations of funds:

Carried forward	SEK	24,474,927,341
Total	**SEK**	**24,474,927,341**

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, May 15, 2020

Li Shufu
Chairman of the Board

Hans Oscarsson
Board member and CEO

Lone Fønss Schrøder
Board member

Li Donghui
Board member

Our audit report was submitted on May 15, 2020
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 2019-01-01–2019-12-31. The annual accounts and consolidated accounts of the company are included on pages 11–67 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 2019 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 2019 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

Basis for Opinions

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

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

Other Information than the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises pages 1–10 in this document but does not include the annual accounts, consolidated accounts and our auditor's report thereon. Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

Auditor's responsibility

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

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

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

any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group´s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

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

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Geely Sweden Holdings AB for the financial year 2019-01-01–2019-12-31 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 May 15, 2020
Deloitte AB

Signature on Swedish original

Jan Nilsson
Authorized public accountant

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