ANNUAL REPORT 2019

VOLVO CAR DENMARK A/S

Approved at the company's annual general meeting
May 29th 2020
Chairman

Name: Mats Rune Svensson

Volvo Car Denmark A/S
CVR-nr: 14 54 07 33
Lyskær 5
2730 Herlev

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Company information

Company
Volvo Car Denmark A/S
Lyskær 5
2730 Herlev

CVR-nr: 14 54 07 33
Residence: Herlev kommune

Phone: 70 11 27 00
Telefax: 44 73 44 06
Website: www.volvocars.dk

Board of Directors
Mats Rune Svensson (Chairman)
Karl Magnus Ragnmark
Svante Magnus Boman

Management
Svante Magnus Boman, CEO
Johan Edvin Olsson, CFO

Auditor
Deloitte Statsautoriseret Revisionspartnerselskab
Weidekampsgade 6
0900 København C

Management statement

The Board of Directors and the Executive Board have considered and approved the annual report for the the financial year January 1, 2019 – December 31, 2019 for Volvo Car Denmark A/S.

The annual report is presented in accordance with the Danish Financial Statements Act.

We believe that the financial statements give a true and fair view of the company's assets, liabilities and financial position as of December 31, 2019 and the result of the company's activities for the financial year January 1, 2019 – 31 December, 2019.

In our opinion, the management's statement contains a true and fair statement of the matters covered by the report.

The annual report is recommended for approval by the general meeting.

Herlev, May 29th, 2020

Management

Svante Magnus Boman CEO	Johan Edvin Olsson CFO

Board of Directors

Mats Rune Svensson Chairman	Karl Magnus Ragnmark	Svante Magnus Boman

To the shareholder of VOLVO CAR DENMARK A/S

Opinion

We have audited the financial statements of VOLVO CAR DENMARK A/S for the financial year 01.01.2019 - 31.12.2019, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity’s financial position at 31.12.2019 and of the results of its operations and cash flows for the financial year 01.01.2019 - 31.12.2019 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor’s responsibilities for the audit of the financial statements section of this auditor’s report. We are independent of the Entity in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other 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 opinion.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Entity’s ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark 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 financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, 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 opinion. 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 internal control relevant to the 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 Entity’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity'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 financial statements or, if such disclosures are inadequate, to modify our opinion. 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 the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the management commentary

Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the management commentary is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Copenhagen, 29.05.2020

Deloitte

Statsautoriseret Revisionspartnerselskab
Central Business Registration No (CVR)
33963556

Christian Sanderhage
State Authorised Public Accountant
Identification No (MNE) mne23347

Brian Schmit Jensen
State Authorised Public Accountant
Identification No (MNE) mne40050

Management report

Key figures and financial ratio

Millons kr.	2019	2018	2017	2016	2015
Key figures					
Net revenue	1460,7	1220,9	843,5	701,4	567,2
Gross income	64,2	69,9	56,9	51,2	54,8
Operating income	7,5	6,3	5,6	4,8	7,3
Net financial loss	-1,1	-0,5	-0,4	-0,4	-0,4
Net profit of the year	**4,8**	**4,4**	**3,9**	**3,4**	**5,1**
Balance	365,0	249,1	230,4	171,5	142,9
Investments in property, plant and equipment	10,7	10,7	15,8	17,8	15,1
Equity	20,1	44,5	60,1	56,3	58,0
Financial ratio					
Gross margin	4,4%	5,7%	6,7%	7,3%	9,7%
Net margin	0,3%	0,4%	0,5%	0,5%	0,9%
Return on equity	0,0%	9,8%	6,6%	5,9%	8,5%
Solidity	12,3%	17,9%	26,1%	32,8%	40,6%

Key figures and financial ratios are define and calculated in accordance with the Danish Financial Analysts' Association's ”Recommendations & Financial Ratios 2015”.

Key figures	Calculation	Key figures definition
Gross margin (%)	$\frac{\text{Gross profit x 100}}{\text{Net revenue}}$	The company's operating leverage.
Net margin (%)	$\frac{\text{Profit for the year x 100}}{\text{Net revenue}}$	The company's operating profitability. .
Return on equity (%)	$\frac{\text{Profit for the year x 100}}{\text{Total assets}}$	The company's return on the equity that the owners have invested in the company.
Solvency ratio (%)	$\frac{\text{Equity x 100}}{\text{Total assets}}$	The company's financial strength.

Main activity
Volvo Car Denmark A/S main activity, like previous years, consisted of the import and sale of new Volvo passenger cars, as well as the sale of spare parts and other activities related to this in the Danish market.

Market overview
The total car market for passenger cars (registrations) decreased marginally in 2019 to 225,588 units, compared with 218,489 units in 2018.

The served segment, in which Volvo competes, developed stronger than the market in general with a 24% growth. For the coming year, in the light of the Covid-19 crisis, we believe in a declining industry volume of around 20-25%. This excpected overall decline is further fueled by earlier market uncertainties around changed BIK taxation for corporate leased vehicles.

In 2019, Volvo cars achieved a total market share of 2,5 % compared with 2,1 % in 2018 (including Faroe Island and LCV sales). This corresponds to 5,539 units, which is an increase of + 19,3 % from the previous year.

Volvo's served segment share saw a slight decline in 2019 with 14,8 % versus 15,7 % last year, mainly due to out phasing of the V40/V40CC that reached the end of its lifecycle in 2019.

Development in activities and economic conditions
The income statement show a net revenue for the company of DKK 1 460.7 million which is an increase of 20 % compared to 2018. The improvement can largely be attributed to a larger number of cars sold and a positive sales mix.

The company's total profit after tax in 2019 is DKK 4.8 million against DKK 4.4 million in 2018, which is acceptable in relation to the market and competition situation.

In last year's annual report, Volvo Car Denmark forecasted growing revenues for the full year 2019. This also took place as we saw a year over year revenue growth of 20% materializing

Capital resources
The solvency ratio was 12,3 % at year-end 2019, compared with 17,9 % in 2018. The deterioration is primarily due to an increase in the company's balance sheet total and dividend paid to Volvo Car Corporation.

The development in the company's solvency must be considered acceptable, not least since the company is 100 % supported by Volvo Car Corporation, and Volvo Car Denmark's cash (via cash pool) exceeds the ongoing need.

Liquidity and working capital
The development in the company's current assets relative to the short-term debt is satisfactory. Equity at year-end 2019 was DKK 45 million against DKK 44 million in 2018. Liquidity at the end of 2019 was DKK 295 million.

Liquidity in the Volvo Car Corporation AB Group
The Group's business base consists of producing and selling Volvo cars and spare parts. The company is owned directly by the Swedish Volvo Car Corporation (Volvo Car Corporation / Volvo Car AB), which is owned by Zhejiang Geely Holding Group Co. Ltd.

The company has substantial cash and bank equivalents, most of which are located in a sister company (cash pool) in the VCC Group.

Strategy and objectives

Strategy
The company's short-term strategy is to increase its relative performance to direct competitors and thereby gaining market share. This growth in market share is expected to be achieved through retained customer loyalty and the introduction of new customers through gaining market share from competitors in existing segments.

Furthermore, the development of the positive trend in customer satisfaction continues with both product and sales and service. Finally, it is the company's goal to develop and optimize the dealer network both in terms of finances and facilities.

Goals and expectations for the coming year
The expectation before the Covid-19 crisis, was a year-over-year growth both from expected development in the general car market in Denmark as wells from gaining market share from competitors. Before Covid-19, revenues for 2020 were expected to grow. Now, in the light of Covid-19 we expect a year-over-year decline in revenues as a result of the deteriorating market, partially off-set by an expected improved relative market share.

For further information, please find subsequent events.

Research and development

The company has no actual research and development activities. These are handled centrally within the Volvo Car Corporation.

Intellectual capital

It is essential for the company to attract and retain competent employees; therefore, significant resources are invested in enhancing the competences of the company's employees at all levels. It is the company's policy and objective that all employees should develop in their jobs.

Our approach to sustainability

Volvo Car Denmark A/S is part of Volvo Cars' Global Sustainability Initiative 'Omtanke'. It is about minimizing the negative effects of our business and even creating positive changes through our activities. This involves minimizing the environmental impacts of our own activities, as well as promoting the health of the employees of Volvo Cars, and ensuring a working environment that supports diversity and inclusion. This is reflected in our promises to achieve sustainability:
• Take Resource efficient business: Climate neutral business operations in 2025
• Sustainable work environment: No one should die or be seriously injured at Volvo Cars
• Diversity and inclusive work culture: 35% internationally selected leaders & 35% female managers by 2020

For the statutory statement on corporate social responsibility for 2019, reference is therefore made to the Group's reporting.
https://investors.volvocars.com/annualreport2019/assets/pdf/VCG_AR_ENG_20200326.pdf

Statement of the gender composition of management

The company has set a target figure for the proportion of the under-represented gender on the board of directors of 35 %, which is sought to be achieved by 2020. At the end of 2019, the board of directors consists of three men. The target figure has not yet been achieved, which is due to the fact that it has been recently established.

Since the company has less than 50 employees, no special policy has been set for the under-represented gender in the other management teams.

Uncertainty regarding recognition and measurement

The annual report has not been subject to any uncertainty regarding recognition and measurement.

Unusual circumstances

There have been no unusual circumstances in 2019.

Special risks

Market risks

The Danish market and the Danish government's policy on taxes and duties make it difficult to plan the company's long-term goals in absolute terms. As already mentioned, we expect a declining total industry volume for 2020. For further information, please find sections market overview and subsequent evets.

Currency risks

There are no currency risks as settlement takes place in DKK. The company's deposits and balances are variable.

Credit risks

In addition to group companies, the company has no risks related to a single customer or business partner.

Subsequent events

On March 11, 2020, WHO characterized 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 corona virus will have a significant but not easily quantifiable impact on our societies and businesses. The corona pandemic is now severely affecting Volvo Cars in many ways, including a weakening market and production disruption as well as concerns for its employees.

The company'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.

At the date of signature, the Covid-19 situation is still having major impacts on the global economy, even though we are starting to see slight positive signs in Denmark with regards to containing the spread of the virus and a gradual opening of the Danish society taking place. Similar signs of opening of previous lock-down situations and heavy restrictions are starting to be seen across Europe.

Volvo Cars is taking actions as instructed by the relevant authorities, as well as other actions necessary to mitigate the effects on its business.

We anticipate the negative effects on our sales and production to continue in Q2 but stabilize in Q3 and Q4. Still, a lot of uncertainty remains regarding the development of government actions and the market in general, but we are currently excpecting decreased revenues versus the same period last year. Volvo Cars will continuously monitor the situation, work with different scenarios and will initiate actions depending on the development.

No other subsequent events have occurred

Income statement 2019

		Volvo Car Denmark A/S	
		2019	2018
	Note	tkr.	tkr.
Net revenue	2	1 460 725	1 220 939
Production costs		-1 396 529	-1 151 040
Gross income		**64 196**	**69 898**
Distribution costs	3	-42 572	-50 262
Administrative costs	3, 4	-16 312	-15 445
Other operating income	6	21 826	26 625
Other operating costs	3, 5, 7	-19 681	-24 556
Operating income		**7 457**	**6 260**
Income for investments in affiliated companies		0	0
Other financial income	8	51	203
Other financial costs	9	-1 106	-721
Income before tax		**6 402**	**5 743**
Income tax	10	-1 581	-1 374
Net profit for the year	11	**4 821**	**4 368**

Balance sheet 31.12.2019

	Note	Volvo Car Denmark A/S 2019 tkr.	2018 tkr.
ASSETS			
Fixed assets			
Property, plant and equipment		0	5 603
Improvment leasehold		50	70
Tangible fixed assets	12	**50**	**5 674**
Other receivables		836	1 520
Financial fixed assets	13	**836**	**1 520**
Fixed assets		**886**	**7 193**
Current assets			
Manufactured goods and commodities		22 755	29 014
Inventories		**22 755**	**29 014**
Receivables from sales and services		40 716	45 389
Receivables from group companies		3 632	6 537
Deferred tax assets	10	1 010	0
Other receivables		1 341	3 139
Receivables		**46 699**	**55 065**
Cash and bank	14	**294 660**	**157 844**
Current assets		**364 114**	**241 923**
ASSETS		**365 000**	**249 116**

Balance sheet 31.12.2019

	Note	Volvo Car Denmark A/S 2019 tkr.	2018 tkr.
LIABILITIES			
Share capital	15	20 000	20 000
Retained earnings		24 943	20 122
Proposed dividend		0	4 368
Total equity		**44 943**	**44 491**
Provision for deferred tax	10	0	55
Other provisions	16	3 134	831
Provisions		**3 134**	**886**
Other non-current liabilities	17	508	0
Non-current liabilities		**508**	**0**
Accounts payable		29 913	32 128
Liabilities to group companies		242 425	145 291
Income tax liability		2 380	2 738
Other liabilities	17	41 697	23 583
Current liabilities		**316 415**	**203 740**
Current liabilities		**316 415**	**203 740**
LIABILITIES		**365 000**	**249 116**

Subsequent events	1
Non-recognised rental and leasing obligations	18
Contingent liabilities	19
Pledges and collateral	20
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Changes in equity 2019

Volvo Car Denmark A/S

	Share capital kr.	Transfered profit/loss kr.	Propsed dividend for the financial year kr.	Total kr.
Balance at January 1, 2019	20 000	20 122	4 368	44 490
Dividends paid	0	0	-4 368	-4 368
Net income	0	4 821	0	4 821
Balance at December 31, 2019	**20 000**	**24 943**	**0**	**44 943**

Notes

1. Subsequent evetns

On March 11, 2020, WHO characterized 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 corona virus will have a significant but not easily quantifiable impact on our societies and businesses. The corona pandemic is now severely affecting Volvo Cars in many ways, including a weakening market and production disruption as well as concerns for its employees.

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Volvo Cars is taking actions as instructed by the relevant authorities, as well as other actions necessary to mitigate the effects on its business.

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No other subsequent events have occurred

2. Net revenue allocated to geographical markets

		2019 tkr.			2018 tkr.	
	Denmark	Other	Total	Denmark	Other	Total
Cars	1 279 322	0	1 279 322	1 061 179	0	1 061 179
Parts	178 295	3 108	181 403	156 896	2 864	159 760
	1 457 617	**3 108**	**1 460 725**	**1 218 075**	**2 864**	**1 220 939**

3. Employees and remuneration

	2019 tkr.	**2018 tkr.**
Wages, salaries and other remunerations	29 966	30 255
Pension expenses	2 130	2 755
Social security expenses	492	442
Other personnel costs	2 173	1 710
	34 761	**35 162**
Average number of employees	31	38

	Remuneration 2019	**2018**
Executive remuneration	3 570	3 066
	3 570	**3 066**

Included in the remuneration of 3 570 tkr are 677 tkr (2018: 638 tkr.) which are paid by a Group company.

4. Audit fees

Audit fees	278	377
Audit -related fees	0	0
Tax services	85	72
Other services	336	261
	699	**710**

5. Depreciation and write downs

Depreciation, tangible assets	252	3 230
Loss/gain on sale of tangible assets	-235	-3 540
	17	**-310**

6. Other operating income

Volvo Car Denmark A/S has historically handled the administration of a department organizing under Volvo Car Corporation's (VCC) central R&D function in Sweden. The department has been located in Copenhagen and consisted of 20 employees who were part of the company's staff. Volvo Car Corporation did however decide in Q1 2019 that they intended to close the R&D Copenhagen office located in Sydhavnen. By September 30th 2019 the office was closed and all employees related to this office terminated. Other operating income includes the income from this department.

7. Other operating costs

Volvo Car Denmark A/S has historically handled the administration of a department organizing under Volvo Car Corporation's (VCC) central R&D function in Sweden. The department has been located in Copenhagen and consisted of 20 employees who were part of the company's staff. Volvo Car Corporation did however decide in Q1 2019 that they intended to close the R&D Copenhagen office located in Sydhavnen. By September 30th 2019 the office was closed and all employees related to this office terminated. Other operating costs include the costs from this department.

Staff costs from the department's employees are included in note 2.

	2019	**2018**
	tkr.	**tkr.**
8. Financial income		
Financial income from group companies	7	42
Other interest income	0	52
Other financial income	1	103
Price adjustments	43	6
	51	**203**
9. Financial costs		
Financial costs from group companies	994	703
Other financial costs	24	18
Price adjustments	88	0
	1 106	**721**
10. Tax on profit		
Current income tax for the year	2 562	3 797
Deferred taxes	-1 064	-2 423
Regulation regarding previous years	83	0
	1 581	**1 374**
Net book value of deferred taxes at January 1	55	2 478
Deferred tax income/expense recognised through the income statement	-1 064	-2 423
Net book value of deferred taxed at December 31	**-1 009**	**55**
11. Profit allocation		
Proposal by the board as follows:		
Net profit for the year	4 821	0
Proposed dividend	0	4 368
	4 821	**4 368**

12. Tangible assets

	2019 tkr.	2018 tkr.
Property, plant and equipment		
Aquisition cost, balance at January 1	6 986	19 029
Additions	0	10 666
Disposals	-6 986	-22 709
Aquisition cost, balance at December 31	**0**	**6 986**
Accumulated depreciation and write downs, balance at January 1	-1 382	-2 513
Depreciation and write down	-243	-3 223
Disposals	1 625	4 354
Accumulated depreciation and write downs, balance at December 31	**0**	**-1 382**
Net balance at December 31	**0**	**5 603**
Improvement leasehold		
Aquisition cost, balance at January 1	744	683
Additions	0	61
Disposals	-19	0
Aquisition cost, balance at December 31	**725**	**744**
Accumulated depreciation and write downs, balance at January 1	-674	-667
Depreciation and write down	-10	-7
Disposals	9	0
Accumulated depreciation and write downs, balance at December 31	**-675**	**-674**
Net balance at December 31	**50**	**70**

13. Financial fixed assets

Other receivables		
Balance at January 1	1 520	1 206
Additions/disposals	-684	314
Balance at December 31	**836**	**1 520**
Net balance at December 31	**836**	**1 520**

14. Cash and bank

This is a cash pool arrangement with owner Volvo Car Corporation.

15. Company capital

	Number of shares	Nominal value	Rated value (tkr)
Share capital	20 000	1 000	20 000
	20 000	**1 000**	**20 000**

There has not been any changes in the company's capital over the past five financial years.

16. Other provisions

Other provisions are recognized as the best estimate of the costs necessary to settle the obligations towards the company's distributors per the balance sheet date.

17. Other liabilities

	2019 tkr.			2018 tkr.		
	0-1 years	1-5 years	+5 years	0-1 years	1-5 years	+5 years
VAT and taxes	38 280	0	0	19 415	0	0
Wages, A-tax, social contributions etc.	3 417	508	0	4 168	0	0
	41 697	**508**	**0**	**23 583**	**0**	**0**

18. Non-recognized rental and leasing obligations

The company has entered into the following binding agreements:

The company has entered into a lease contract at Lyskær 5, 2730 Herlev, where the total obliation in the non-cancellation period of 6 months for the parking and 9 months for the office that amounts to 772 t.kr. (2018: 757 t.kr.).

The company has entered into a lease agreement with Nordania Finans A/S regarding leasing of cars, where the total obligation in the non-cancellation period of 4 month amounts to 2 246 t.kr. (2018: 2 823 t.kr).

Warranty obligations regarding factory guarantee are recognized in the same way as in previous years, and in accordance with the group's accounting practices and are not included in the company's financial statments. Costs for this are reimbursed by the parent company.

19. Contingent liabilities

The company has a duty to recover leasehold in case of termination of contract 336 t.kr. (1 020 t.kr.)

20. Pledges and collateral

The company has deposited 500 t.kr. with SKAT for collateral for balances with the tax authorities.

The debt relating to this collateral includes a registration fee of 0 kr. (2018: 0 kr.)

21. Ownership and controlling influence

Related parties with controlling influence:

- Volvo Personvagnar AB, Assar Gabrielssons Väg, 405 31 Göteborg, Sweden
- Volvo Car AB, Assar Gabrielssons Väg, 405 31 Göteborg, Sweden
- Geely Sweden Holdings AB, Lindholmsallén 8B, 417 55 Göteborg, Sweden
- Shanghai Geely Zhaoyuan International Investment Co. Ltd, Shanghai China
- Zhejiang Geely Holding Group Co. Ltd, Jiangling Road, Hangzhou, Zhejiang, China
- Li Shufu

Volvo Car Denmark A/S is owned by Volvo Personvagnar AB (Sweden), which is owned by Volvo Car AB (Sweden), which is majority owned by Geely Sweden Holdings AB (Sweden), a subsidiary of Shanghai Geely Zhaoyuan International Investment Co. Ltd (China), with majority ownership held by Zhejiang Geely Holding Group Co. Ltd (China), with ultimate majority ownership held by Li Shufu (person).

22. Related party transactions

During the financial year, there has not been any transactions with related parties that were not made on market terms.

Accounting policies

Classifications
The annual report has been prepared in accordance with the provisions of the Danish Financial Statements Act for class C (large).

Generally about recognition and measurement
Assets are recognized in the balance sheet when, as a result of an earlier event, future economic benefits are likely to accrue to the company and the value of the asset can be measured reliably.

Liabilities are recognized in the balance sheet when, as a result of an earlier event, the company has a legal or constructive obligation and it is probable that the future economic benefits will flow from the company and the value of the liability can be measured reliably.

At initial recognition, assets and liabilities are measured at cost. Measurement after initial recognition takes place as described for each individual item below.

Recognition and measurement take into account predictable risks and losses that arise before the annual report is presented and which confirm or invalidate circumstances that existed at the balance sheet date.

Income is recognized in the income statement as it is earned, while costs are recognized in the amounts relating to the financial year.

Foreign currency transactions
Foreign currency transactions are initially valued at the exchange rate on the transaction date. Receivables, payable and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are valued at the exchange rate at the balance sheet date. Exchange rate differences arising between the exchange rate on the transaction date and the exchange rate on the date of payment and the balance sheet date, respectively, are recognized in the income statement as financial items. Tangible and intangible assets, inventories and other non-monetary assets purchased in foreign currencies are valued at historical rates.

Income statement

Net revenue
Revenue from the sale of merchandise and finished goods is recognized in the income statement when delivery and risk transfer to the buyer have taken place. Revenue is recognized exclusive of VAT, taxes and discounts in connection with the sale and is measured at the sales value of the stipulated consideration.

Production costs
Production costs comprise the consumption of goods during the financial year, including usual inventory write-downs, and other costs incurred to achieve the net revenue for the financial year.

Distribution costs
Distribution costs include the costs of selling and distributing the company's products, including salaries to sellers, advertising costs, travel and representation costs, etc. as well as depreciation and write-downs of intangible and tangible fixed assets associated with the distribution process.

Administrative costs
Administrative costs consists of cost relating to the company’s administrative functions, including salaries for employees in administration and management, office expenses, write-downs of receivables and depreciation and write downs of intangible and tangible fixed assets used in the administration of the company.

Other operating income
Other operating income includes income of a secondary nature in relation to the company’s main activity.

Other operating costs
Other operating costs include costs of a secondary nature in relation to the company’s main activity.

Income from investments in subsidiaries
Income from investments in subsidiaries include the proportionate share of the individual subsidiaries’ profit after full elimination of internal profits and losses.

Other financial income

Other financial income consists of interest income, including interest income from receivables from subsidiaries, net exchange gains on securities, debt and foreign currency transactions, amortization of financial income an remuneration under the aconto tax system, etc.

Other financial costs

Other financial costs consist of interest expenses, including interest expenses from debt to group companies, net loss on securities, debt and foreign currency transactions, amortization of financial liabilities and supplements under the aconto tax system, etc.

Tax

The tax of the year, which consists of the current tax for the year and a change in deferred tax, is recognized in the income statement with the part attributable to the profit for the year and directly on equity with the part attributable to entries directly on equity.

The company is jointly taxed with its Danishsister companies. The current Danish corporation tax is distributed among the jointly taxed companies in proportion to their taxable income (full distribution with reimbursement regarding tax losses).

Balance sheet

Tangible fixed assets

Other plants, property and equipment are measured at cost less accumulated depreciation and write down.

The cost comprises the acquisition price, costs directly related to the acquisition start-up cost for the asset until the time when the asset is ready for use. For proprietary assets, cost comprises direct and indirect costs for materials, components, subcontractors and salaries.

Indirect costs in the form of indirectly attributable personnel costs and amortization of intangible and tangible fixed assets used in the manufacturing process are recognized in the cost price based on the hourly consumption of the individual asset.

The basis for depreciation is the cost price less the expected residual value after the useful life. Linear depreciation is made based on the following assessment of the expected useful lives of the assets:

Other plants, operating equipment and fixtures	5-9 years
Leasehold improvements	5 years

For leasehold improvements, the depreciation period amounts to a maximum of the contract period.
Tangible fixed assets are written down to recoverable amount, if this is lower than the carrying amount.

The amortization period and residual value are reassessed annually.

Receivables

Receivables are measured at amortized cost, which usually corresponds to nominal value, less any write-downs to meet expected losses.

Tax liability and receivable

Current tax liabilities or current tax receivable are recognized in the balance sheet as calculated tax on the year's taxable income, which is regulated for paid tax aconto.

Deferred tax

Deferred tax is recognized on all temporary differences between the accounting and tax values of assets and liabilities, where the tax value of the assets is calculated on the basis of the planned use of the individual asset.

Deferred tax assets, including the tax value of taxable loss carryforwards, are recognized in the balance sheet at the value that the asset is expected to be realized, either by off-set against deferred tax liabilities or as net tax assets.

Inventories

Inventories are measured at cost, calculated according to the FIFO method, or net realizable value, where this is lower.

The cost price for merchandise comprises the purchase price plus home delivery costs.

The net realizable value of inventories is calculated as the expected sales price less completion costs and costs to be incurred to effect the sale.

Cash and bank

Cash and bank include bank deposits.

Other provisions

Other provisions include expected costs for guarantee commitments.

Other provisions are recognized and measured as the best estimate of the costs required to settle the liabilities at the balance sheet date. Provisions with an expected maturity exceeding one year from the balance sheet date are measured at discounted value.

Warranty obligations include obligations to repair defects within the warranty period.

Other financial liabilities

Other financial liabilities are measured at amortized cost, which usually corresponds to nominal value.

Operating leases

Leasing payments for operating leases are recognized on a straight-line basis in the income statement over the lease term.

Cash flow statement

The cash flow statement for the company is included in the consolidated financial statements of Geely Sweden Holding AB and can therefore, with reference to §86. 4 be omitted.