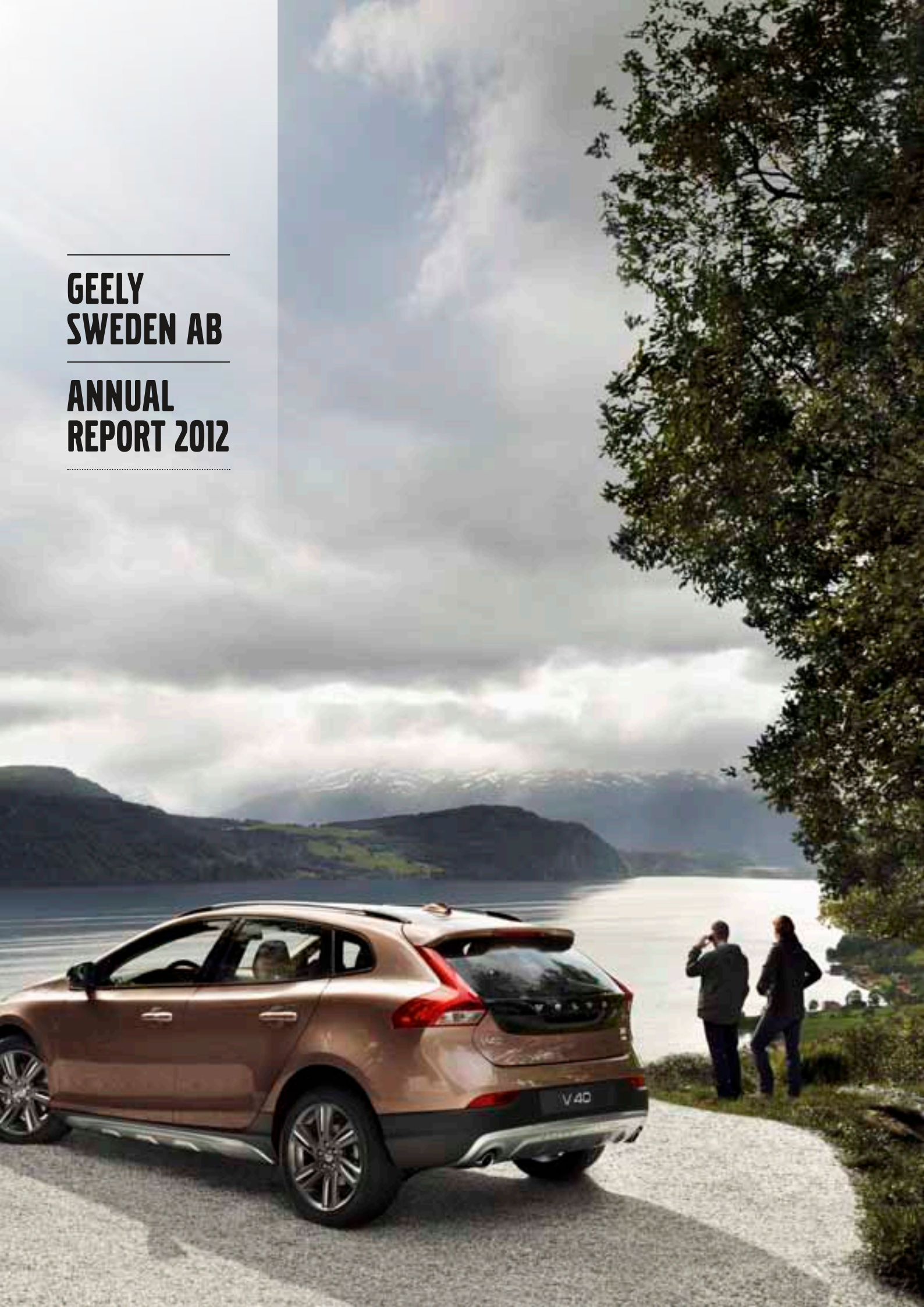

**GEELY
SWEDEN AB**

**ANNUAL
REPORT 2012**



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The Board of Directors for Geely Sweden AB Corporate identity number 556798-9966 hereby submit the Annual Report and Consolidated Financial Statements for January 1–December 31 2012.

BOARD OF DIRECTORS' REPORT

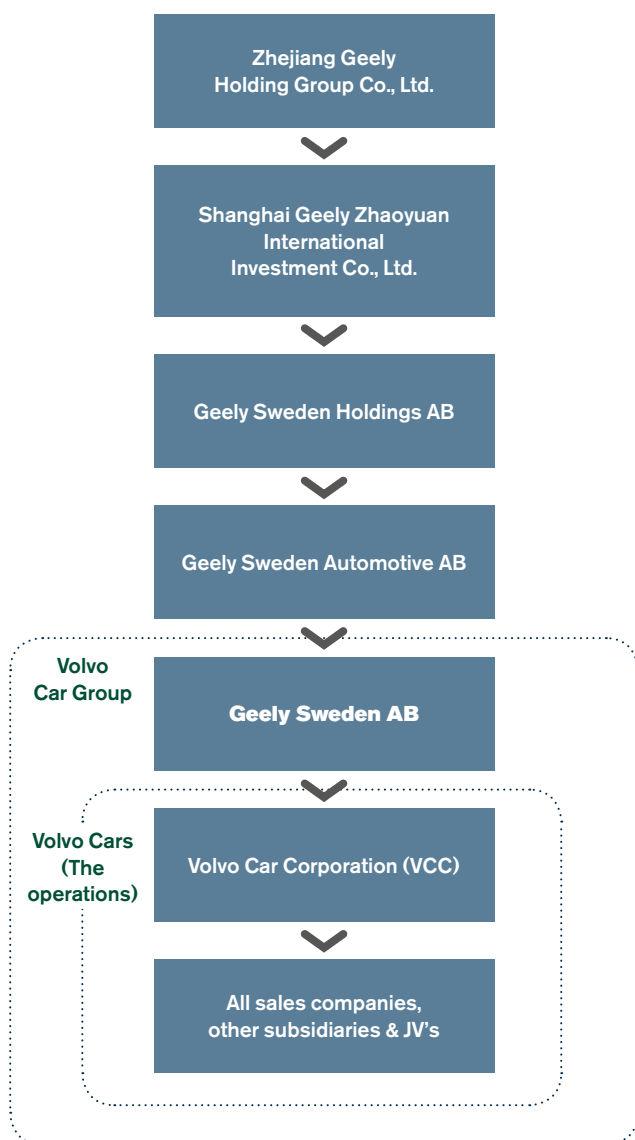
1. THE VOLVO CAR GROUP

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

Geely Sweden AB was established on January 11, 2010. Volvo Car Group consists of Geely Sweden AB, Volvo Personvagnar AB (Volvo Car Corporation) and all subsidiaries in which Volvo Car Corporation holds a voting interest of more than 50 per cent or has the power to control. Volvo Car Group structure is hereinafter referred to as "Volvo Car Group".

In its capacity as a holding company, Geely Sweden AB does not conduct any business, other than holding assets in its subsidiaries and affiliated companies.

CONSOLIDATION STRUCTURE



Geely Sweden AB, through Volvo Car Corporation and its subsidiaries (Volvo Car Corporation and its subsidiaries, hereinafter referred to as Volvo Cars) however operate in the automotive industry with business relating to the design, development, manufacturing and marketing of cars. Volvo Cars' headquarters are situated in Gothenburg, Sweden.

As the operational business is conducted in Volvo Cars, the Board of Directors' report will refer to Volvo Cars when describing the business operation, and specifically refer to Volvo Car Group where relevant.

When communicating the business performance and financial statements, besides from the Annual Report, the consolidated financial statements of Geely Sweden AB are used to represent the performance of the Volvo Car Group. This is done on a semiannual basis.

The manufacturing plants under construction in China are owned by Chinese subsidiaries of the parent company, Shanghai Geely Zhaoyuan International Investment Co. Ltd. supporting Volvo Cars business operations in China. Volvo Cars governs the operations to ensure the same processes and quality demands as in the European facilities.

2. BUSINESS SUMMARY 2012

For Volvo Cars, 2012 can be summarised as a year of transition. Several achievements were delivered in 2012, most significantly the launch of the all-new V40 and V40 Cross Country. At the same time, the external environment posed many challenges for the car industry and retail sales for Volvo Cars declined by 6.1 per cent to 421,951 (449,255) units. For Volvo Car Group net revenue amounted to SEK 124,547 million (125,678), a decrease of 0.9 per cent, due to lower sales volumes and a negative market mix, partially offset by positive exchange rate development and a positive carline mix. Gross income decreased by 3.9 per cent to SEK 19,947 million (20,767). Expenses in research & development increased by 17.6 per cent to SEK 6,289 million (5,347) to support the new product strategy of Volvo Cars. Administrative expenses increased by 11.5 per cent to SEK 5,240 million (4,699) mainly related to a higher number of employees. Selling expenses increased by 3.9 per cent to SEK 8,642 million (8,314) with higher marketing spend. Improved vehicle quality resulted in reduced warranty expenses.

A capital gain relating to the sale of technology amounting to SEK 590 million affected the operating income positively, which is further elaborated upon below. Operating income amounted to SEK 18 million (2,017), and net income for the year was SEK -480 million (1,024).

Sales in the USA were affected by the hurricane Sandy in October. Revenue reflects lost sales of 1,352 cars, which is partly offset by a realised insurance claim of SEK 200 million in 2012, and additional income may be realised in 2013.

The USA remained the largest market for Volvo Cars with sales of 68,079 cars, a minor increase of 1.2 per cent over 2011 (67,273). The European markets were impacted by economic uncertainties and sales for EU20¹⁾ declined by 10.0 per cent to 227,027 units (252,217). In China, the future second home market of Volvo Cars, sales declined by 10.9 per cent compared to 2011 to 41,989 units (47,140). The industrial expansion in China is progressing according to plan with the plant in Chengdu due to be operational in the latter part of 2013.

In 2012, Volvo Car Financial Services US LLC (VCFS), was established to provide Volvo retailers in the US a variety of financial services.

¹⁾ EU20 includes Sweden, Norway, Denmark, Finland, the Netherlands, Belgium, Luxembourg, France, Spain, Italy, Greece, Portugal, the UK, Ireland, Germany, Switzerland, Austria, Poland, Hungary and the Czech Republic.

VCFS has entered into a long-term relationship with Bank of America to provide funding for its financing products. VCFS is part of the Global Financial Services structure that has an overall responsibility within Volvo Cars for development of financing and insurance related products for dealers and end-customers.

Several important agreements were entered into during the year. In April, a Memorandum of Understanding was signed with China Development Bank (CDB) that materialised into a loan agreement dated November 30, 2012. The loan with CDB was used to refinance all existing loans within the Group and amounted to EUR 922 million, of which EUR 815 million were disbursed in 2012. Additionally, in 2012 Volvo Car Corporation entered into an agreement with a subsidiary within the Shanghai Geely Zhaoyuan International Investment Co. Ltd., Group for licensing intangible property rights from Volvo Car Corporation to enable production of cars in the Chengdu plant. Further, a Memorandum of Understanding was signed in March 2012, between Volvo Car Corporation and Zhejiang Geely Holding Group to evaluate the transfer of certain existing vehicle technologies. In December 2012, the intended co-operation materialised into a sale of the technology of a Volvo platform owned by Volvo Car Corporation to Geely Group Ltd Co. The platform technology has formed the basis for large Volvo cars such as older versions of V70/XC70/S60/S80 and is to a limited extent still used in the XC90.

In 2012 the development of the new vehicle and engine technology, Scalable Product Architecture (SPA) and Volvo Environment Architecture (VEA), of Volvo Cars continued. SPA and VEA are essential elements of the transformation of the Volvo brand into a truly premium car manufacturer with sustainable profitability. Construction work commenced in the manufacturing operations including the Torslanda plant to prepare for the first launch of SPA in 2014 with the all-new XC90, for which production will commence in early 2015. VEA will be introduced to the market in 2013.

Organisational changes

Håkan Samuelsson was appointed President and CEO of Volvo Car Corporation in October to deliver the transformation programme of Volvo Cars. Håkan has been a board member since 2010 and he brings extensive industrial experience to his new position.

In 2012 Geely Sweden AB transferred the shares of Volvo Cars North America LLC to Volvo Car Corporation with the purpose to simplify the legal structure.

On December 27, 2012, Volvo Car Corporation took complete ownership of Pininfarina Sverige AB (PFS), previously a joint venture operation with Pininfarina S.p.A., and renamed it Volvo Car Center Uddevalla AB. The joint venture was before the acquisition of the remaining shares consolidated within Volvo Car Group; for further information see Note 23 – Equity. The internal transfer did not have any impact on the consolidated income statement. The ownership transfer follows from an earlier agreement between the parties to terminate the joint venture. The production of the C70 convertible in the plant is scheduled to end by July 2013.

2013 outlook and subsequent events

The car industry will continue to be challenging in 2013 as manufacturers will seek to capture volumes and market shares in an increasingly competitive market, putting pressure on both volumes and pricing. The Chinese and USA car markets are expected to grow in 2013, whereas the European car market is expected to continue to be affected by economic uncertainty.

For Volvo Cars, 2013 is expected to be challenging from a sales perspective in particular in the European market, and focus will be on efficiency and costs as Volvo Cars continues its ongoing transformation programme. To improve sales and brand positioning, Volvo Cars presented the renewal of the majority of its model range in February 2013.

On February 5, 2013 Carl-Peter Forster was appointed member of the Board of Directors of Volvo Car Corporation.

On February 12, 2013 Volvo Cars announced two loan agreements with financial partners. The first agreement is an unsecured back-up facility of EUR 240 million with a maturity of three years, with Nordea, ING Belgium, DNB and Swedbank. Secondly, Volvo Cars entered into an unsecured loan agreement with Swedish Export Credit Corporation of SEK 1,000 million. This facility has a maturity of three years.

On February 20, 2013 it was announced that Shanghai Geely Zhaoyuan International Investment Co. Ltd, 2013 would establish a Research and Development Centre in Gothenburg, Sweden. The new centre will develop a new modular architecture and set of components for future C-segment cars, addressing the needs of both Volvo Cars and Geely, and will employ approximately 200 full-time employees.

Following the market downturn and need to adjust the cost structure to secure profitability for Volvo Cars, cost reductions amounting to SEK 1,500 million were announced in February 2013. The programme includes a reduction of consultants as well as voluntary resignations for white collar employees, affecting around 1,000 positions.

3. MARKET DEVELOPMENT

Car industry development

The global market development was characterised by a mixed picture in 2012. In Europe, the economic uncertainties in southern Europe affected the demand for vehicles negatively, in particular in the second half of the year, and total industry volume for EU20¹⁾ declined to 12,265,170 units (13,306,221). At the same time the US market increased to 14,491,873 units (12,777,939), following increased incentives and product offers. China continued to grow with total industry volume at 14,683,422 units (13,701,410).

Volvo retail sales

Full-year sales for Volvo Cars were 421,951 cars (449,255), a decline of 6.1 per cent compared to 2011, following decreased sales in the mature markets of Europe partly offset by growth in overseas market such as Russia and Japan. The phase-out of the Volvo C30, S40 and V50 models had a significant impact on sales as the all-new Volvo V40 reached markets fully only towards the end of the year.

¹⁾ EU20 includes Sweden, Norway, Denmark, Finland, the Netherlands, Belgium, Luxembourg, France, Spain, Italy, Greece, Portugal, the UK, Ireland, Germany, Switzerland, Austria, Poland, Hungary and the Czech Republic.

RETAIL SALES, UNITS

	2012	2011	Change, %
China	41,989	47,140	-10.9
USA	68,079	67,273	1.2
EU20¹⁾	227,027	252,217	-10.0
of which Sweden	51,832	58,463	-11.3
of which Germany	32,070	33,167	-3.3
of which UK	31,743	32,770	-3.1
Rest of the World	84,856	82,625	2.7
of which Russia	20,364	19,209	6.0
of which Japan	13,848	11,754	17.8
Total	421,951	449,255	-6.1

¹⁾ EU20 includes Sweden, Norway, Denmark, Finland, the Netherlands, Belgium, Luxembourg, France, Spain, Italy, Greece, Portugal, the UK, Ireland, Germany, Switzerland, Austria, Poland, Hungary and the Czech Republic.

4. CORPORATE STRATEGY

The corporate strategy of Volvo Cars, launched in 2011, is all about customer focus. Designed Around You is the foundation for the corporate culture and the strategy sets clear and ambitious objectives. By 2020, Volvo Cars aims to achieve Volvo sales of over 800,000 cars and to have truly established itself as a leading car manufacturer in the premium segment. With roots firmly based in its Swedish heritage, China is planned to become the second home market with extensive commercial and industrial presence. Additionally, new vehicle and engine technology in SPA and VEA will serve the global market and ensure a premium customer experience.

4A. OUR RESPONSIBILITY – SUSTAINABILITY VISION

Supporting the corporate strategy is Volvo Cars longstanding commitment to being a responsible corporate citizen with the business playing an important role towards sustainable development and creating shared value. Volvo Cars publishes reports annually on its progress within sustainability and follows the reporting principles of the Global Reporting Initiative (GRI).

4B. RESEARCH & DEVELOPMENT – SUSTAINABLE MOBILITY SOLUTIONS

The research and development department executes the development of products according to Volvo Cars Brand Strategy and Product Cycle Plan. This includes transforming ideas into innovations to meet the high standards of future vehicles. The latest technologies and methods are used to develop cars with worldclass safety. With great devotion to the environment the customers are offered a genuine driving experience. The main part of the product development is performed in Gothenburg.

Improving conventional technology

A range of new CO₂ reduction initiatives delivered fuel efficiency improvement during 2012. The model year 2013 line-up saw the introduction of CO₂ emissions below 120 g/km for the majority of diesel-powered versions of the Volvo S60, V60, V70 and S80. For model year 2014 further improvements have been executed with class-leading

emission levels and fuel consumptions across the range such as the S60 with 4.0 l/100km and CO₂ emissions of just 106 g/km. In the last two years Volvo Cars has brought CO₂ emissions from diesel and petrol models down by 13 per cent.

Electric cars & hybrid technology

The V60 Plug-in Hybrid, which reached customers in autumn 2012, is the world's first diesel-powered plug-in hybrid, giving owners an electric range of 50 km and fuel consumption as low as 1.8 l/100 km (48 g/km CO₂) in hybrid mode. Production of the model will be increased from 1,000 to around 5,000 units in 2013 following additional demand.

Safety innovations

Autonomous driving – with steering, acceleration and/or braking automatically controlled by a vehicle that requires very little human interaction – is a major focus area in Volvo Cars development work. In 2012 examples include SARTRE (Safe Road Trains for the Environment), that premiered on public roads and a new Traffic Jam assistance system whereby the car automatically follows the vehicle in front in slow-moving queues up to 50 km/h. This system will be ready for production in 2014.

4C. PRODUCTION

In 2012, manufacturing commenced of the V40 in Gent and the S60 and V60 Plug-in Hybrid in Torslanda. 429,397 cars were produced during the year. This is a reduction of just over 30,000 cars compared with 2011, and given the challenges in a volatile market situation, the focus in manufacturing has been on flexibility in quickly adapting production capacity to changes in demand. In Uddevalla, production decreased by 19 per cent following the phase-out of the C70 model.

During the year a new manufacturing strategy was launched focusing on four areas: Responsive Manufacturing Structure, Best Practice China ramp-up, World Class New Model Introduction and Productivity Step Change & Operational Excellence. In line with the strategy, the Manufacturing department also simplified the production system, which will be focused around five principles: Teamwork with involvement, Stability through standardisation, Right from me, Demand driven flow and Continuous improvements.

Sustainable production

Over the last five years Volvo Cars has reduced its overall consumption of energy by 30 per cent. Since 2008, the plants in Sweden and Belgium have been using electricity from renewable sources, especially hydro-electric power. At the Gent plant 15 per cent of the electricity consumed is obtained from three wind turbines located on the premises.

Volvo Cars has worked systematically to reduce its emissions to water, through the Global Water Footprint method, which includes both the quality of water and the total usage of water as such. The paint shops in Gothenburg and Gent are among the best in the world when it comes to minimising solvent emissions into the atmosphere. Volvo Cars ambition is to maintain this position.

Volvo Cars operations in Floby, Skövde, Olofström, Uddevalla and the Torslanda plant in Gothenburg have been approved under the provisions of the Environmental Code. The operations in Belgium, China and Malaysia are also carried out in accordance with the Environmental Code. Since 1998 Volvo Car Corporation has an Environmental Product Declaration. All businesses have permits covering their operations and the environmental impact of noise, emissions to air and water, waste produced and the consumption of energy and chemicals. Declaration is made continuously to both local and national Environmental authorities.

PRODUCED CARS (UNITS)

	2012	2011	Change, %
Gent	258,147	266,422	-3.1
Torslanda	155,411	167,838	-7.4
Uddevalla	7,811	9,640	-19.0
Chongqing ¹⁾	5,529	16,690	-66.9
Malaysia ²⁾	2,499	1,704	46.7
Total	429,397	462,294	-7.1

¹⁾ Manufacturing performed in a factory owned by Changan Automotive Co Ltd, Ford Motor Company and Mazda Automotive Co. Ltd.

²⁾ Production limited to knocked-down units.

5. HUMAN RESOURCES

Human Resources ensures the ability of building a global Volvo Cars' organisation with performance and health, with ability to act in a smart and nimble way. This is the essence of Volvo Cars' people strategy.

Volvo Cars has enhanced its appeal as an employer over the past year, and was included in the list of the world's most attractive employers for the first time. Internally, the results of the most recent employee analysis show an increasing number of highly committed employees expressing their willingness in contributing to the Volvo Cars success. Sick leave in Sweden 2012 is at an all-time low of 3.5 per cent. Sick leave including Belgium 2012 is also at an all-time low of 4.4 per cent.

The organisation also works actively on equality and practising the same rights and opportunities. Volvo Cars operates according to legal requirements and beyond.

6. GOVERNANCE

Volvo Cars promotes the value of sound corporate governance, characterized by high standards when it comes to transparency, reliability and ethical values.

Volvo Cars is managed by the Executive Management Team, (EMT) with 13 members, led by the CEO and overseen by the Board of Directors of Volvo Car Corporation. The Board of Directors consists of eight members. In addition, the trade unions have appointed three members and two deputy members. The Directors of the Board are proposed by the Shareholders nomination committee, including a proposed remuneration to the Directors. At the Annual shareholders meeting, the Board of Directors and the external auditors, are elected or re-elected on an annual basis. The majority of the board members are independent of Volvo Cars and out of the independent board members at least two shall further be independent of the shareholders.

The Board of Directors of Volvo Car Corporation has assigned an Audit Committee to oversee the corporate governance, financial reporting, risks and the compliance with external and internal regulations. The Board of Directors has also assigned a Compensation Committee to determine the remunerations to the CEO and the EMT members. In 2012, the Board of Directors of Volvo Car Corporation held six ordinary meetings.

In its capacity as a holding company, Geely Sweden AB does not conduct any business, other than holding assets in its subsidiaries and affiliated companies. Geely Sweden AB has a Board of Directors consisting of 4 members.

Internal control over financial reporting

Volvo Cars primarily builds its internal control principles around the recommendations of the Committee of Sponsoring Organisations of the Treadway Commission (COSO). Group Internal Control, including a local network with Internal Control Coordinators at all units, aims to ensure compliance with directives, policies and legal requirements. The Audit Committee is informed about the result of the work performed by the internal control function.

In addition there is an Internal Audit department with the assignment to perform an independent audit of the governance process, monitor the

management of risks and ensure that systems of internal control are adequate and effective. Internal Audit reports to the Audit Committee. The internal audit plan is approved by the Board of Volvo Car Corporation, and results from the audits are communicated to the Audit Committee and management.

7. RISKS AND RISK MANAGEMENT

Risks are a natural element in all business activities. In order to prevent and mitigate risks, risk management is part of the daily business in Volvo Cars. In 2012, Volvo Cars established an Enterprise Risk Management (ERM) process with focus on providing an overview of the risks Volvo Cars is facing and to enable the follow-up of risks and the manner in which they are managed. The ERM process involves all functions within Volvo Cars. ERM is reported to the Board of Directors of Volvo Car Corporation.

The risks of Volvo Cars are broadly categorised into strategic- and operational risks, financial risks and compliance risks.

Strategic and operational risks

Strategic and operational risks cover a number of different risks that may have a short- or long-term impact on Volvo Cars. This category of risks includes, but is not limited to: political decisions, conflicts, natural disasters and environmental impacts. Other examples of strategic and operational risks are changed customer patterns and the economy's effect on demand, reception of new products, technology and market developments, production disruptions, IT risks, supplier dependence and price fluctuations of raw material or components. Volvo Cars reviews strategies and long term objectives on an annual basis and is continuously working on how to mitigate identified risks.

Operational risks are owned and managed by the operation. Risk management is embedded in various process controls of the operations such as decision tollgates and approval levels. Certain cross-functional risks, such as corporate responsibility, business continuity, security, IT security and insurable risks are centrally co-ordinated.

During 2012 a new Group Insurance Policy was approved by the Board of Directors. The policy stipulates how the management of the insurable risks shall be done and how insurance programmes shall be procured in order to protect Volvo Car Group from unforeseen losses.

Financial risks

In the operations, Volvo Cars is exposed to various types of financial risks, such as currency risk, interest rate risk, liquidity risk, credit risk and commodity price risk. The Board of Directors has approved the financial policy for Volvo Cars that describes how the financial risks shall be managed and controlled. The management of the financial risks is centralised to the Volvo Car Group treasury function. Further information on financial risk management is available in Note 21 – Financial risks and financial instruments.

Compliance risks

Compliance risks include legislation and regulations, intellectual property rights, health, safety and the environment, authorities and control bodies, tax risks and disputes and damage claims. Volvo Cars has implemented group policies and directives to ensure compliance with applicable laws and regulations, including the Volvo Cars Code of Conduct and has established a Corporate Compliance Office.

8. PROPOSED DISTRIBUTION OF NET INCOME

The parent company

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

Share premium reserve	SEK	5,509,350,000
Shareholders contribution	SEK	2,906,073,669
Loss brought forward	SEK	-522,429,748
Net loss for the year	SEK	-291,651,408
At the disposal of the AGM	SEK	7,601,342,513

The Board proposes the following allocation of funds:

Carried forward	SEK	7,601,342,513
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For the results and financial position in general of the parent company, Geely Sweden AB and Volvo Car Group, reference should be made to the following financial statements.

CONSOLIDATED INCOME STATEMENTS

SEK million	Note	2012	2011
Net revenue	4	124,547	125,678
Cost of sales		-104,600	-104,911
Gross income		19,947	20,767
Research and development expenses	16	-6,289	-5,347
Selling expenses		-8,642	-8,314
Administrative expenses	6	-5,240	-4,699
Other operating income	7	1,732	935
Other operating expenses	7	-1,514	-1,506
Share of income in associates	14	24	181
Operating income	8, 9, 10, 11	18	2,017
Financial income	12	618	409
Financial expenses	13	-1,551	-1,216
Income before tax		-915	1,210
Income tax	15	435	-185
Net income		-480	1,024
Net income attributable to			
Owners of the parent company		-530	927
Non-controlling interests		50	97
		-480	1,024

CONSOLIDATED OTHER COMPREHENSIVE INCOME

SEK million	Note	2012	2011
Net income for the year		-480	1,024
<i>Other comprehensive income, net of income tax</i>			
Translation difference on foreign operations		-324	-17
Translation difference of hedge instruments of net investments in foreign operations		48	-
Change in cash flow hedge reserve		138	-
	23	-138	-17
Total comprehensive income for the year		-618	1,007
Total comprehensive income attributable to			
Owners of the parent company		-668	910
Non-controlling interests		50	97
		-618	1,007

CONSOLIDATED BALANCE SHEETS

SEK million	Note	Dec 31, 2012	Dec 31, 2011	Jan 1, 2011
ASSETS				
Non-current assets				
Intangible assets	16	15,666	14,840	13,899
Property, plant and equipment	8, 17	25,654	25,546	27,697
Assets held under operating leases	8, 17	3,542	3,032	2,427
Investments in associates	14	550	340	622
Other long-term securities holdings		10	9	12
Deferred tax assets	15	1,701	1,636	1,284
Other non-current assets	18	734	815	545
Total non-current assets		47,857	46,218	46,486
Current assets				
Inventories	19	11,812	13,219	10,310
Accounts receivable	20	4,735	3,808	3,937
Current tax assets		87	42	68
Other current assets	20	2,587	2,540	1,744
Cash and cash equivalents	22	9,607	14,634	9,443
Total current assets		28,829	34,242	25,502
TOTAL ASSETS		76,686	80,460	71,988
EQUITY & LIABILITIES				
Equity				
Equity attributable to owners of the parent company	23	23,544	22,360	20,373
Non-controlling interests		-	288	190
Total equity		23,544	22,648	20,563
Non-current liabilities				
Provisions for post-employee benefits	24	2,948	2,846	2,867
Deferred tax liabilities	15	1,902	2,790	3,204
Other non-current provisions	25	5,911	5,748	4,405
Liabilities to credit institutions	26	7,057	4,950	3,444
Liabilities to parent company		-	3,186	3,045
Other long-term liabilities	26	1,495	1,549	1,113
Total non-current liabilities		19,313	21,069	18,078
Current liabilities				
Current provisions	25	7,182	8,208	7,640
Liabilities to credit institutions		310	564	755
Advance payments from customers		187	266	227
Trade payables		12,626	15,464	12,947
Current tax liabilities		365	630	367
Other current liabilities	27	13,160	11,611	11,410
Total current liabilities		33,829	36,743	33,346
TOTAL EQUITY & LIABILITIES		76,686	80,460	71,988

CHANGES IN CONSOLIDATED EQUITY

SEK million	Share Capital	Share premium	Other contributed capital	Translation differences	Other reserves	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total
Balance at January 1, 2011	1,000	5,509	51	-285	-	14,099	20,374	191	20,565
Net income for the year	-	-	-	-	-	927	927	97	1,024
Other comprehensive income									
Translation difference on foreign operations	-	-	-	-17	-	-	-17	-	-17
Other comprehensive income	-	-	-	-17	-	-	-17	-	-17
Total comprehensive income	-	-	-	-17	-	927	910	97	1,007
Transactions with owners									
Unconditional shareholder's contribution	-	-	1,076	-	-	-	1,076	-	1,076
Transactions with owners	-	-	1,076	-	-	-	1,076	-	1,076
Balance at December 31, 2011	1,000	5,509	1,127	-302	-	15,026	22,360	288	22,648
Net income for the year	-	-	-	-	-	-530	-530	50	-480
Other comprehensive income									
Translation difference on foreign operations	-	-	-	-324	-	-	-324	-	-324
Translation difference of hedge instruments for net investments in foreign operations	-	-	-	61	-	-	61	-	61
Change in cash flow hedge reserve recognised in other comprehensive income	-	-	-	-	177	-	177	-	177
Tax attributable to items recognised in other comprehensive income	-	-	-	-13	-39	-	-52	-	-52
Other comprehensive income	-	-	-	-276	138	-	-138	-	-138
Total comprehensive income	-	-	-	-276	138	-530	-668	50	-618
Transactions with owners									
Unconditional shareholder's contribution	-	-	1,779	-	-	-	1,779	-	1,779
Acquisition of remaining shares in non-controlling interest ¹⁾	-	-	-	-	-	75	75	-333	-258
Other changes	-	-	-	-	-	-2	-2	-5	-7
Transactions with owners	-	-	1,779	-	-	73	1,852	-338	1,514
Balance at December 31, 2012	1,000	5,509	2,906	-578	138	14,569	23,544	-	23,544

¹⁾ Acquisition of remaining shares in Pininfarina Sverige AB (Volvo Car Center Uddevalla AB). For further information see Note 23 – Equity.

CONSOLIDATED STATEMENT OF CASH FLOW

SEK million	Note	2012	2011
OPERATING ACTIVITIES			
Operating income		18	2,017
Depreciation and amortisation of non-current assets	10	8,016	8,113
Interest and similar items received		120	191
Interest and similar items paid		-423	-459
Other financial items		-85	-120
Income tax paid		-928	-584
Adjustments for items not affecting cash flow	30	-362	-687
		6,356	8,471
Movements in working capital			
Change in inventory		1,407	-2,909
Change in accounts receivable		-928	130
Change in accounts payable		-2,838	2,519
Change in items relating to repurchase commitments		-1,132	-1,137
Change in provisions		-858	1,728
Change in other working capital assets/liabilities		743	-735
Cash flow from movements in working capital		-3,607	-404
Cash flow from operating activities		2,749	8,067
INVESTING ACTIVITIES			
Investments in shares and participations	30	-258	-
Divestments in shares and participations		-	511
Investments in intangible assets		-3,061	-2,734
Investments in property, plant and equipment		-4,466	-3,400
Disposal of property, plant and equipment		93	58
Other		14	-
Cash flow from investing activities		-7,678	-5,565
Cash flow from operating and investing activities		-4,929	2,502
FINANCING ACTIVITIES			
Liabilities to credit institutions	26	8,063	2,187
Repayment of liabilities to credit institutions	5, 26	-7,251	-850
Received shareholders contribution		-	1,076
Other		-356	-183
Cash flow from financing activities		456	2,230
Cash flow for the year		-4,473	4,732
Cash and cash equivalents at beginning of year	22	14,634	9,443
Exchange difference on cash and cash equivalents		-554	459
Cash and cash equivalents at end of year		9,607	14,634

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

All amounts are in SEK million unless otherwise stated.

Amounts in brackets refer to the preceding year.

NOTE 1 – ACCOUNTING PRINCIPLES

BASIS OF PREPARATION

The consolidated financial statements for Geely Sweden AB and its subsidiaries (Volvo Car Group) have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) as adopted by the European Union (EU). This annual report is prepared in accordance with IAS 1 – Presentation of financial statements and with Swedish Companies Act. In addition, RFR 1 – Supplementary accounting rules for groups from the Swedish financial reporting board has been applied. RFR 1 specifies the mandatory additions to the IFRS disclosure requirements in accordance with the Swedish Annual Accounts Act.

These are the first financial statements for Volvo Car Group prepared under IFRS as adopted by EU. In accordance with IFRS 1 – First time adoption of IFRS, the policies in place at December 31, 2012 were applied in the preparation of financial statements for all periods included in the consolidated financial statements, that is, the opening balance for January 1, 2011 and all information regarding 2011 and 2012. Additional information relating to the balance sheet of January 1, 2011 and the effect of the transition to IFRS has been disclosed in Note 3 – Effects of the transition to IFRS.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange of assets.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in applying Volvo Car Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates have significant impact on the consolidated financial statements, are disclosed in Note 2 – Key sources of estimation uncertainty.

The parent company applies the same accounting principles as Volvo Car Group, except in the cases specified in the section entitled notes to the parent company's financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

The consolidated accounts have been prepared based on the principles set forth in IAS 27 – Consolidated and separate financial statements. Volvo Car Group includes Geely Sweden AB and its subsidiary Volvo Car Corporation. Volvo Car Group also includes all of Volvo Car Corporation's subsidiaries, which means the companies in which Volvo Car Corporation directly or indirectly owns more than 50 per cent of the voting rights of the shares or otherwise holds power to control. Balances and transactions with Shanghai Geely Zhaoyuan International Investment Co. Ltd and its subsidiaries, companies that are not consolidated in the Volvo Car Group, are classified in the consolidated financial statements as balances and transactions with related companies.

IFRS 3 – Business combinations, is applied on acquisitions. Subsidiaries are reported in accordance with the purchase method. The value of the acquired net assets, the equity in the subsidiary is determined by measuring acquired assets and liabilities and contingent liabilities at fair value on the date of acquisition. These fair values constitute Volvo Car Group's acquisition cost. In business combinations where the cost of acquisition exceeds the fair value in the acquired identifiable net assets, the difference is recognised as goodwill. If the cost is less than the final fair value of the net assets, the difference is recognised directly in the income statement. Acquisition cost directly attributable to the acquisition is recognised directly in the income statement as it arises.

Associated companies are companies in which Volvo Car Group has a significant but not controlling influence, which generally is when Volvo Car Group holds between 20 and 50 per cent of shares, but it also includes investments with less participation if significant influence is proven. Investments in associated companies are reported in accordance with the equity method. Investments in associated companies in the balance sheet are carried at Volvo Car Group's share of the equity of the associated company after adjusting for Volvo Car Group's share of surplus and deficit values respectively. The share of income in associates consists of Volvo Car Group's share of the associated companies' net earnings after taxes.

Joint ventures are business arrangements where Volvo Car Group together with one or more parties have a joint control over the operational and financial management and are reported according to the equity method.

Receivables and liabilities, income and expenses and unrealised profit or loss that arise from transactions between group companies have been eliminated in their entirety when preparing the consolidated accounts. Consolidation begins at the point in time when Geely Sweden AB acquires the opportunity for control and it ends when that opportunity ceases to be available.

Non-controlling interests, that is equity in a subsidiary not attributable to the parent company, are recognised as a separate item in consolidated equity. In the consolidated income statement, the minorities' share is included in net income and separate disclosure of the portion of the year's earning that belongs to non-controlling interests is provided.

Foreign currency

Translation of foreign group entities

The financial statements of consolidated companies prepared in a foreign currency are translated using the functional currency concept. The functional currency is the currency in the primary economic environment where the company carries out its operations. Balance sheet and income statements for all group entities whose functional currency is not SEK are translated into Volvo Car Group's reporting currency using the procedures below, except for subsidiaries in hyperinflationary economies. Currently none of the entities within Volvo Car Group operates in a hyperinflationary economy.

- Assets and liabilities are translated at the exchange rates at the respective year end closing rate.
- Income and expenses are translated at the monthly exchange rates reported in the income statement and statement of other comprehensive income.
- All translation differences that arise are recognised as a separate item under other comprehensive income in the statement of other comprehensive income.

In cases where net investments in foreign operations are hedged with financial instruments, the foreign exchange differences arising on translation of these instruments are also recognised in other comprehensive income. When a foreign operation is disposed, the cumulative translation differences and exchange differences of any financial instruments held for hedging the net investment in the company, are recognised as part of the gain or loss on disposal. Currency translation variances arising from the differing exchange rates used in the balance sheet and income statement are recognised in Equity, without affecting income, until the disposal of the subsidiary.

Transactions and balance sheet items in foreign currency

Transactions in foreign currencies are translated to the functional currency at the exchange rate on the day of the transaction. Monetary assets and liabilities in foreign currencies are translated to the functional currency at the exchange rate at the respective year end (closing rate). Exchange rate differences arising from translation of currencies are reported in the income statement. Operationally derived exchange gains and losses are shown under other operating income and other operating expenses respectively. Financially derived exchange gains and losses are shown as financial income and financial expenses. The main exchange rates applied are shown in the table below:

EXCHANGE RATES

Country	Currency	Average rate		Close rate		
		2012	2011	2012	2011	2010
China	CNY	1,07	0,99	1,05	1,10	1,02
Euro zone	EUR	8,71	9,01	8,59	8,92	8,97
Great Britain	GBP	10,71	10,32	10,50	10,65	10,42
United states	USD	6,75	6,44	6,52	6,89	6,71
Russia	RUB	0,22	0,22	0,21	0,21	0,22

ACCOUNTING PRINCIPLES

Revenue recognition

Volvo Car Group's recognised net revenue mainly consist of sales of goods and services. Net revenue is reduced by discounts and returned goods. Revenue from the sale of goods is recognised when substantially all risks and rewards are transferred to the customer (generally dealers and distributors). For the majority of the sales, this occurs when products are shipped from the manufacturing facilities. However, if the sale of vehicles is combined with a repurchase agreement, the transactions are accounted for as operating lease contracts. Revenues related to an

operating lease arrangement are recognised straight-line over the lease period and the asset is recognised as an asset under operating lease in the balance sheet. Revenue from sale to an external party, subject to a subsequent issuance of a residual value guarantee to an independent financing provider, is recognised at the time of sale and a provision is made for the estimated residual value risk.

When extended services have been contractually agreed with the customer in addition to the sale of a vehicle, such as warranty extensions over a fixed period, the related revenue is recorded in the income statement over the contract period.

Interest income is recognised on a continuous basis and dividend income when the right to receive dividend is obtained.

Leases

Volvo Car Group as lessor

Lease contracts are defined in two categories, finance and operating leases. Volvo Car Group currently has no finance leases as a lessor per the closing date. Operating leases are carried as Assets held under operating leases among tangible assets. Revenue from operating leases is recognised on a straight-line basis over the leasing period. Depreciation of the asset occurs on a straight-line basis under the terms of the commitment and the amounts adjusted to conform to the estimated realisable value when the commitment expires. The estimated realisable value at the commitment termination is evaluated continuously. Transactions that include repurchase obligations or residual value guarantees, and for which significant risks remain with Volvo Car Group, are carried as operating leases. This is further explained in the section Revenue recognition.

Volvo Car Group as lessee

The criteria for classification as a finance lease are met if all material risks and rewards incidental to ownership have been transferred to the related company concerned. In such cases, the asset is 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 is depreciated using the straight-line method over the asset's useful life, or over the term of the lease if this is shorter. The payment obligations arising from future lease payments are discounted to net present value and recorded as a current or non-current liability in the balance sheet. The lease payments made are allocated between amortisation and interest expense. For operating leases, i.e., when the risks and rewards associated with the ownership of the asset have not been transferred to Volvo Car Group, lease and rental payments are recorded directly as expense in the income statement over the lease contract period.

Government grants

A government grant is recognised when there is reasonable assurance that Volvo Car Group will comply with the conditions attached to the grant and that the grant will be received. Government grants are recorded in the financial statements in accordance with their purpose,

either as reduction of expense or a reduction of the cost of the capital investment. Government grants are recognised in the income statement over the periods necessary to match them with the related expenses that they are intended to compensate. Government grants related to assets are deducted from the carrying amount of the asset, which will result in reduced depreciation expense over the useful life of the asset. In cases where the received government grant is not intended to compensate any expenses or acquisition of assets the grant is recognised as other income.

Income taxes

Volvo Car 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 with the application of the tax rates that are established or established in practice as of the balance sheet date. 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 that arise between the tax-related 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 apply 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 reporting date. Deferred tax assets relating to deductible temporary differences and loss carryforwards are recognised to the extent it is probable that they will be utilised in the future. Deferred tax assets and deferred tax liabilities are netted when they are attributable to the same taxation authority and the affected company has a legal 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.

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 assets. 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 liabilities.

Intangible assets

An intangible asset is recognised when the asset is identifiable, the Volvo Car Group controls the asset, and it is expected to yield future economic benefits. Intangible assets comprise product development, licences and patents, trademarks, dealer network and investments in administrative IT systems and software. Intangible assets such as trademarks and dealer networks are normally identified and measured in connection with business combinations.

Intangible assets, other than research and development expenses, are recognised at cost, less accumulated depreciation and any impairment loss. When applicable, internal costs directly related to the development of intangible assets are included in the acquisition value. Subsequent expenditure on intangible assets increases the cost only if it is likely that the Volvo Car Group will have future economic benefit from the subsequent expenditure. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Research and development expenses

Development costs for new products, production systems and software are capitalised at manufacturing cost, to the extent that attributable costs can be measured reliably and both technical feasibility and successful marketing are assured. It must also be probable that the development expenditure will generate future economic benefits. If the conditions for capitalisation are not met, the costs are expensed in the period they occur. Capitalised development costs comprise all expenditures that can be attributed directly to the development phase, including development related overhead and borrowing cost.

Amortisation methods for intangible assets

Intangible assets are systematically amortised over the expected economic life of the asset. Trademarks are assumed to have indefinite useful lives since the Volvo Car Group has the right and the intention to continue to use the trademarks for the foreseeable future and the useful life cannot be assessed. Dealer network is estimated to have a useful life of 30 years based on the fact that we have proven historically to have had a stable basis of dealers.

The following useful lives are applied:

Dealer network	30 years
Software, mainframe	8 years
Patents, licences and similar rights	3-7 years
Software, PC	3 years

Capitalised product development costs are amortised on a straight-line basis over the estimated product life following start of production.

Property, plant and equipment

The Volvo Car Group applies the cost method for measurement of tangible assets. Cost includes expenditure that can be directly attributed to the acquisition. Borrowing costs are included in the acquisition value of

an asset that takes more than 12 months to get ready for its intended use or sale, a so called qualifying asset. Tangible assets are recognised at cost, less accumulated depreciation and potential impairment loss.

Subsequent expenditure on property, plant and equipment increases the acquisition value only if it is probable that the Volvo Car Group will have future economic benefit from the subsequent expenditure. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Depreciation methods for tangible assets

Depreciation according to plan is based on the acquisition value. Tangible assets are systematically depreciated over the expected economic life of the asset. Land is assumed to have an indefinite useful life and is not depreciated.

The following useful lives are applied:

Buildings	14.5–50 years
Land improvements	30 years
Machinery	14.5–25 years
Equipment	5–14.5 years

Impairment of assets

The carrying amount of intangible and tangible assets as well as all shareholdings are tested regularly to assess whether there is an indication of impairment. Intangible assets that have an indefinite useful life are tested for impairment annually or whenever there is an indication of decline in value. The carrying amount of assets with definite useful life are tested when there is an indication that the value of the asset is reduced and there is an impairment loss. For these assets as well as assets with an indefinite useful life, the asset's recoverable amounts are 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 one cash-generating unit (CGU).

An impairment loss is recognised in the income statement to the recoverable amount if this amount is lower than the carrying value. Previously recognised impairment loss is reversed if reasons for the earlier impairment no longer exist. The amount of any reversal is restricted to increasing the carrying value of the relevant assets to the carrying value that would have been recognised had the original impairment not occurred.

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. This encompasses cash and cash equivalents, interest-bearing receivables, trade receivables, trade payables, loans and derivative instruments. Derivative instruments include forwards, options

and swaps used primarily to cover risks relating to exchange rate, exposure to interest rate risks and price fluctuations on electricity.

Financial assets and liabilities are recognised in the balance sheet when the Volvo Car Group becomes a party to the contractual terms and conditions. Receivables are recognised in the balance sheet when Volvo Car Group has a contractual right to receive payment and liabilities are recognised when the counter party has performed and there is a contractual obligation to pay. Derivative instruments are recognised in the balance sheet when agreements are made.

Classification and measurement

Financial assets and liabilities are measured at amortised cost or fair value depending on their initial classification. 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. Fair value is generally determined by reference to official market quotes. When market quotes are not available the fair value is determined using generally accepted valuation methods such as discounted future cash flows.

According to IFRS, financial assets and liabilities should be classified into four different categories: financial assets and financial liabilities carried at fair value through the income statement, held-to-maturity investments, loans and receivables and financial assets that are available for sale. Classification takes place at the time the transaction is carried out. Volvo Car Group has identified and classified its financial instruments in the categories described below. Exceptions from these principles apply to financial instruments included in hedge accounting, which are described further in the section "Hedge accounting".

Financial assets carried at fair value through the income statement

A financial asset is assigned to this category if it is held for trading. Derivative instruments with a positive market value are assigned to this category, unless included in hedge accounting. Changes in value in this category are recognised in the income statement. Based on the purpose of the contract, changes in value are reported either under operating income or as financial income/expense. Derivatives with positive values (unrealised gains) are recognised as other current assets.

Financial liabilities carried at fair value through the income statement

Derivative instruments with a negative fair value are assigned to this category, unless the instrument is included in hedge accounting. Changes in the fair values of these instruments are recognised in the income statement. Based on the purpose of the contract, changes in value are reported either under operating income or as financial income/expense. Derivatives with negative values (unrealised losses) are recognised as other current liabilities.

Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, for example accounts receivable and loan receivables, are assigned to this category. Loans and receivables are carried at amortised cost except for accounts receivable that have a short duration and are therefore valued at nominal value without discounting to net present value. The nominal value for these short term items will reflect the fair value.

Receivables are subject to impairment tests. Impairment of a financial asset takes place if events occur that provide evidence that the future cash flows from the asset will be adversely affected. Accounts receivable are recognised at the amount expected to be received, i.e. after deduction of bad debts allowance. A bad debt allowance has incurred when there has been a triggering event for the customer's inability to pay. The bad debts on accounts receivable are recognised as operating expenses.

Other financial liabilities

This category includes financial liabilities not held for trading, trade payables as well as borrowings and repurchase commitments. Financial liabilities are initially recognised at market value, which is equivalent to the amount received on that date less any transaction cost. Financial liabilities are later measured at amortised cost.

Transaction costs directly attributable to the issue or disposal of a financial liability are capitalised and released to the income statement over the term of the financial liability.

Derecognition of financial assets and liabilities

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

Invoiced sales are sometimes subject to contracts for factoring with a third party (bank or financial institution). This enables Volvo Car Group to receive payment for its accounts receivable within a few days after billing and thus free liquidity at an earlier stage. If the criteria for derecognition of accounts receivable are not fulfilled, the receivable remains on the balance sheet.

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

Hedge accounting

Hedge accounting is adopted for derivative instruments that are included in a documented hedge relationship. For hedge accounting to be applied, a direct connection between the hedge and the hedged item

is required. Further, it is necessary for the hedge to protect the risk effectively as intended, that the effectiveness of the measure can be demonstrated at all times to be sufficiently high through effectiveness testing, and that hedging documentation has been prepared. Volvo Car Group uses hedge accounting starting from April 1, 2012 for derivative instruments related to hedging of currency risk in future commercial cash flows. Volvo Car Group applies hedging of cash flow and net investments in foreign operations.

Cash flow hedging rules are applied to hedging instruments that were acquired for the purpose of hedging expected future commercial cash flows in foreign currencies against currency rate risks. A cash flow hedge is a hedge held to reduce the risk of an impact on profit or loss from foreign exchange changes in cash flow relating to a future transaction or in transactions associated with an asset or liability. In cash flow hedge accounting, the derivative is recognised in the balance sheet at fair value, and changes in the fair value is recognised under other comprehensive income and accumulated in a hedge reserve in equity. Amounts that have been recognised in the hedge reserve in equity are recognised in the income statement at the same time as the payment flows reach 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.

Hedging of net investments refers to hedges held to reduce the effect of changes in the value of a net investment in a foreign operation due to a change in foreign exchange rates. The foreign currency gains and losses on hedging instruments are recognised under other comprehensive income. In the event of a divestment, the accumulated result from the hedge is immediately transferred from equity to the income statement. For further information regarding accounting treatment related to foreign currency see section "Foreign currency" above.

Inventory

Inventories of raw material, consumables and supplies, semi-manufactured goods, work in progress, finished goods and goods for resale are reported in inventories and carried at the lower of actual cost and net realisable value. Costs 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 is established using the first-in, first-out method (FIFO) and is based on the standard cost method. The standard costs are updated annually and adjustments are made at the turn of the model year. 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 to verify the records (or more often where appropriate).

Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances as well as short-term liquid investments with a maturity of maximum 90 days, which are subject to an insignificant risk of fluctuations in value. Cash and cash equivalents are stated at nominal value.

Employee benefit obligations

Volvo Car Group has both defined contribution plans and defined benefit plans. Under a defined contribution plan, Volvo Car Group pays fixed contributions into a separate 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. The assets of the plans are held separately from those of Volvo Car Group in funds under the control of trustees.

A defined benefit plan is a pension plan that defines the amount of post-employee benefit an employee will receive upon retirement, usually dependent on one or more factors such as age, years of service and compensation. Volvo Car Group has the obligation for the future benefits. For the funded defined benefits plans, the assets have been separated, with the majority invested in pension foundations.

The 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, together with adjustments for unrecognised actuarial gains or losses and past service cost. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in future payments is available.

The calculation of the present value of defined benefit pension undertakings is performed according to the Projected Unit Credit method, which also considers future earnings. The calculation is performed annually 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 and 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 most important actuarial assumptions are stated in Note 24 – Post employment benefits.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of ten per cent of the value of plan assets or ten per cent of the defined benefit obligation are charged or credited to other comprehensive income distributed over the employees' expected average remaining working life. Interest costs and expected return on plan assets are classified as financial expense and financial income.

The accounting principle described above relates to the consolidated group. Swedish subsidiaries account for defined benefit plans according to FAR SRS RedR 4. Foreign subsidiaries calculate according to local accounting standards.

Provisions

Provisions are reported in the balance sheet when a legal or constructive obligation exist 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. Where the effect of the time value of money is material, the provisions for expected future cash flows are discounted to net present value using nominal pre-tax rates reflecting current market assessments. 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.

Warranty provisions include the Volvo Car Group's cost of satisfying the customers with specific contractual warranty obligations, as well as other costs not covered by 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 provisions for campaigns booked at point of sale are adjusted as campaign decisions for specific quality problems are made. On a quarterly basis the provisions are adjusted to actual spend in full. The provisions are reduced by virtually certain warranty reimbursements from suppliers.

Contingent liabilities

A contingent liability is recognised for a possible obligation that arises from past events for which it is not yet confirmed that a present obligation exists that could lead to an outflow of resources. A contingent liability could also exist for a present obligation that does not meet the definitions of a provision or a liability as it is not probable that an outflow of resources will be required to settle the obligation or when the amount of the obligation cannot be measured with sufficient reliability.

New or amended accounting standards after 2012

When preparing the consolidated financial statements as of December 31, 2012, a number of standards, interpretations and amendments have been published, but have not yet become effective. The following is a preliminary assessment of the effect that the implementation of these standards and statements could have on Volvo Car Group's financial statements.

IAS 1 – Financial statement presentation (amendments)

The amendments prescribe how to group items presented in other com-

prehensive income on the basis of whether they are potentially reclassifiable to the income statement or not. The standard will have no impact on Volvo Car Group's financial results or position and will be applied in 2013.

IFRS 13 – Fair value measurement

The new standard gives a precise definition of fair value and standardises disclosures on fair value measurements. The standard provides guidance on fair value valuations of all assets and liabilities, financial and non-financial. The standard is expected to contain only minor clarifications regarding how fair value is calculated. Volvo Car Group is currently conducting a full analysis of this standard and what effect this will have on Volvo Car Group's financial statements. Our initial estimate is that the standard will not have any significant effect on Volvo Car Group's financial results or position. Volvo Car Group intends to adopt IFRS 13 for the year beginning January 1, 2013.

IAS 19 – Employee benefits

The amendments to IAS 19 change the accounting for defined benefit plans. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined obligations and in fair value of plan assets when they occur, and hence eliminate the "corridor approach" permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated balance sheet to reflect the full value of the plan deficit or surplus. The amendments to IAS 19 are effective for annual periods beginning on or after January 1, 2013 and require retrospective application with certain exceptions.

The impact of the new revised IAS 19 will be a change in the balance sheet liability due to removal of the corridor where the unrecognised net actuarial loss and the unrecognised past service cost will disappear with an increase to the pension liability as a consequence. For the income statement, an adoption of the new IAS 19 would increase pension and interest expenses as the expected return on assets will now be set equal to the discount rate assumption, without any additional deductions. For Sweden, the yield tax for funded plans was previously accounted for through a reduction in the expected return on assets assumption. The yield tax will now be accounted for as a reduction in the actual return on plan assets in the year, and as such as an actuarial loss accounted for in other comprehensive income.

Adoption of new IAS 19 would increase the balance sheet liability of Volvo Car Group by SEK 1,734 million; tax implications are not considered. First figures published under the new standard will be the first interim reporting for 2013. Comparative figures for 2012 will be revised to the new standard in year 2013 accounts. The expanded disclosure information will only be needed for year-end 2013 figures and hence will not be prepared for the comparative year figures.

IFRS 10 – Consolidated financial statements

IFRS 10 is based on existing principles where control is identified as the determining factor for assessment of whether a company should be included in consolidated financial statements. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. Volvo Car Group intends to adopt IFRS 10 for the year beginning January 1, 2014. An initial assessment shows that there are no significant effects for Volvo Car Group.

IFRS 11 – Joint arrangements

IFRS 11 provides guidance for the accounting of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. Volvo Car Group intends to adopt IFRS 11 for the year beginning January 1, 2014. An initial assessment shows that there are no significant effects for Volvo Car Group.

IFRS 12 – Disclosure of interests in other entities

IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates and structured entities. Volvo Car Group intends to adopt IFRS 12 for the year beginning January 1, 2014. Volvo Car Group will be affected by extended disclosure requirements.

IFRS 9 – Financial instruments – first in 2015

IFRS 9 is published in three parts: classification and measurement, impairment and hedge accounting, which will replace the current IAS 39 with application not earlier than January 1, 2015. Prior application is voluntary, subject to EU approval. The main change relates to liabilities that are measured at fair value for which the portion of the fair value change that is attributable to own credit risk will be recorded in other comprehensive income rather than in the income statement, unless this causes inconsistency in accounting (accounting mismatch). A position will be taken once the final version of all three components of the project has been published.

NOTE 2 – KEY SOURCES OF ESTIMATION UNCERTAINTY

Preparation of the financial statements in accordance with IFRS requires the company's executive management and Board of Directors to make estimations and assessments as well as to make assumptions that affect application of the accounting policies and the reported assets, liabilities, income and expenses. The estimates are based on historical experience and assumptions that are deemed reasonable and realistic in the circumstances. The results of these estimations and assessments are then used to establish the reported values of assets and liabilities that are not otherwise clearly documented from other sources. The actual outcome may differ from these estimates and assessments. The estimates and underlying assumptions are reviewed on a regular basis. Changes are recognised in the period of the change and future periods if the change affects both. The estimations and assessments described below are those that are deemed to be the most important for an under-

standing of Volvo Car Group's financial reports, taking into account the degree of materiality and uncertainty. Changes in estimates used in these and other items could have a material impact on Volvo Car Group's financial statements.

IMPAIRMENT OF NON-CURRENT ASSETS

The Volvo Car Group has substantial values reported in the balance sheet regarding non-current assets. Property, plant and equipment and intangible assets are depreciated on a straightline basis over their estimated useful lives; refer to Note 1 – Accounting principles. Management regularly reassesses the useful life of all significant assets. The carrying amounts of non-current assets are tested for impairment in accordance with the accounting policies described in Note 1 to the consolidated accounts, Accounting principles. An impairment is recognised if the carrying value of the asset exceeds the recoverable amount. The recoverable amount is the higher of the asset's net selling price and its value in use. For these calculations, certain estimations must be made regarding future cash flows 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.

REVENUE RECOGNITION

When Volvo Car Group has entered into a residual value guarantee in relation to a vehicle sale, there may be a question of judgement regarding whether or not significant risks and rewards of ownership have been transferred to the customer. If the previous assessment of retained risk by Volvo Car Group is proven to be incorrect and it is instead determined that significant risks are retained by Volvo Car Group, revenue in the coming period will decline and instead be distributed over several reporting periods. Refer to Note 1 – Accounting principles for a description of Volvo Car Group's revenue recognition policy relating to operating lease contracts.

RESIDUAL VALUE RISK

In the course of its operations, Volvo Car Group is exposed to residual value risks through sales combined with repurchase agreements and a sale to an external rental company subject to a residual value guarantee. Residual value risks are reflected in different ways in the consolidated financial statements depending on the extent to which the risk remains with Volvo Car Group. In cases where significant risks pertaining to vehicles remain with Volvo Car Group, the vehicles are generally recognised in the balance sheet as assets under operating leases. Accumulated depreciation on these vehicles reduces the value of the vehicles from their original acquisition value to their expected residual value, being the estimated net realisable value, at the end of the lease term. The depreciations are charged on a straight-line basis over the term of the commitment. Vehicles sold to an external party, subject to a subsequent issuance of a residual value guarantee to an independent financing provider, are derecognised from the balance sheet. A provision is made for the residual value risk related to the guarantee based upon estimations of the used products' future net realisable values. The estimated net realisable value of the products at the end of the commitment is monitored

individually on a continuing basis and is estimated by evaluating recent auction values, future price deterioration due to expected change of market conditions, marketing incentive plans, vehicle quality data and repair and reconditioning costs etc. High inventories in the vehicle industry and low demand may have a negative impact on the prices of new and used vehicles. A decline in prices of our vehicles may negatively affect the consolidated income.

WARRANTY

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, while this was previously only included in contractual warranty provisions (i.e. not in campaign provisions). Refunds from suppliers that decrease Volvo Car Group's warranty costs are recognised to the extent these are considered to be virtually certain.

EMPLOYEE BENEFIT OBLIGATIONS

The value of pension obligations for defined benefit obligations is determined through actuarial calculations based on assumptions about the discount rate, the anticipated return on plan assets, future salary increases, inflation and demographic conditions. Every change in these assumptions affects 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 and government bonds with maturities corresponding to the related pension liability. A lower discount rate increases the present value of post-employee benefits obligations and their cost while a higher discount rate has the reverse effect. Due to changing market and economic conditions, the underlying key assumptions may differ from actual developments and may lead to significant changes in pension and other post-employment benefit obligations. For further information on pension provisions, see Note 24 – Post employment benefits.

DEFERRED TAX ASSETS

The calculation 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 account of forecast operating results and the impact on earnings of the reversal of taxable temporary differences. The measurement of deferred tax assets is subject to uncertainty and the actual result may diverge from these judgements due for example to future changes in business climate and altered tax laws. 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 negatively and positively. Further information is provided in Note 15 – Taxes.

NOTE 3 – EFFECTS OF THE TRANSITION TO IFRS

This is the first financial statement for Volvo Car Group prepared under IFRS as adopted by EU. Volvo Car Group's date of transition is January 1, 2011. For periods up to and including December 31, 2011, Volvo Car Group's financial statements were prepared in accordance with Swedish GAAP. The transition to IFRS has been accounted for in accordance with IFRS 1 – First-time adoption of IFRS. In accordance with IFRS 1, Volvo Car Group's accounting principles as set out in Note 1 – Accounting principles, have been applied consistently through all periods presented in these financial statements, except when explicitly stated below or in compliance with the exceptions set out in IFRS 1 to retrospective application.

The parent company, Geely Sweden AB, was established on January 11, 2010. Volvo Car Group was formed on August 2, 2010 when the parent company acquired 100 per cent of the voting rights in Volvo Car Corporation and Volvo Cars of North America LLC. The business combination has been restated and accounted for in accordance with IFRS 3. The business combination resulted in a gain on bargain purchase of SEK 12,604 million, as the fair value of the consideration transferred was lower than the fair value of the net assets acquired. In order to provide further information about the restated business combination carried out before the date of transition to IFRS, certain additional information explaining key data about the transaction is set out below:

Acquired assets and liabilities:

	Aug 2, 2010
Total purchase consideration	18,119
Purchase consideration settled in cash	8,987
Cash and cash equivalents in acquired subsidiaries	-3,718
Cash outflow on acquisition	5,268

Assets and liabilities as of August 2, 2010 arising from the acquisition are as follows:

	Fair value
Fair value of net assets	30,723
Bargain purchase gain	-12,604
Total purchase consideration	18,119

Volvo Car Group has applied IFRS 1 – First-time Adoption of IFRS in preparing the first IFRS consolidated financial statements. The effects of the transition to IFRS equity and income statement is set out in the following tables and explanatory notes below.

RECONCILIATION OF EQUITY AT JANUARY 1, 2011 (DATE OF TRANSITION TO IFRS)

SEK million	Note	According to previous standard	Effects of transition to IFRS	According to IFRS
ASSETS				
Non-current assets				
Intangible assets	a, b, c	12,366	1,533	13,899
Property, plant and equipment	b	27,510	187	27,697
Assets held under operating leases		2,427	-	2,427
Investments in associates		622	-	622
Other long-term securities holdings		12	-	12
Deferred tax assets		1,284	-	1,284
Other non-current assets		545	-	545
Total non-current assets		44,766	1,720	46,486
Current assets				
Inventories		10,310	-	10,310
Accounts receivable		3,937	-	3,937
Current tax assets		68	-	68
Other current assets	d	1,542	202	1,744
Cash and cash equivalents		9,443	-	9,443
Total current assets		25,300	202	25,502
TOTAL ASSETS		70,066	1,922	71,988
EQUITY & LIABILITIES				
Equity				
Equity attributable to owners of the parent company		8,349	12,024	20,373
Non-controlling interest	e	-	190	190
Total equity		8,349	12,214	20,563
Non-controlling interest	e	190	-190	-
Non-current liabilities				
Provisions for post-employee benefits		2,867	-	2,867
Deferred tax liabilities	f	2,666	538	3,204
Other non-current provisions	g, h	15,140	-10,735	4,405
Liabilities to credit institutions		3,444	-	3,444
Liabilities to parent company		3,045	-	3,045
Other long-term liabilities		1,113	-	1,113
Total non-current liabilities		28,275	-10,197	18,078
Current liabilities				
Current provisions		7,640	-	7,640
Liabilities to credit institutions		755	-	755
Advance payments from customers		227	-	227
Trade payables		12,947	-	12,947
Current tax liabilities		367	-	367
Other current liabilities	d	11,316	94	11,410
Total current liabilities		33,252	94	33,346
TOTAL EQUITY & LIABILITIES		70,066	1,922	71,988

RECONCILIATION OF EQUITY AT DECEMBER 31, 2011

SEK million	Note	According to previous standard	Effects of transition to IFRS	According to IFRS
ASSETS				
Non-current assets				
Intangible assets	a, b, c	11,204	3,636	14,840
Property, plant and equipment	b	25,372	174	25,546
Assets held under operating leases		3,032	-	3,032
Investments in associates		340	-	340
Other long-term securities holdings		9	-	9
Deferred tax assets		1,636	-	1,636
Other non-current assets		815	-	815
Total non-current assets		42,408	3,810	46,218
Current assets				
Inventories		13,219	-	13,219
Accounts receivable		3,808	-	3,808
Current tax assets		42	-	42
Other current assets	d	2,463	77	2,540
Cash and cash equivalents		14,634	-	14,634
Total current assets		34,165	77	34,242
TOTAL ASSETS		76,573	3,887	80,460
EQUITY & LIABILITIES				
Equity				
Equity attributable to owners of the parent company		9,660	12,700	22,360
Non-controlling interests	e	-	288	288
Total equity		9,660	12,988	22,648
Non-controlling interest	e	288	-288	-
Non-current liabilities				
Provisions for post-employee benefits		2,846	-	2,846
Deferred tax liabilities	f	1,801	989	2,790
Other non-current provisions	g, h	15,854	-10,106	5,748
Liabilities to credit institutions		4,950	-	4,950
Liabilities to parent company		3,186	-	3,186
Other long-term liabilities		1,549	-	1,549
Total non-current liabilities		30,187	-9,118	21,069
Current liabilities				
Current provisions		8,208	-	8,208
Liabilities to credit institutions		564	-	564
Advance payments from customers		266	-	266
Trade payables		15,464	-	15,464
Current tax liabilities		630	-	630
Other current liabilities	d	11,306	306	11,611
Total current liabilities		36,438	306	36,743
TOTAL EQUITY & LIABILITIES		76,573	3,887	80,460

RECONCILIATION OF INCOME STATEMENT FOR YEAR 2011

SEK million	Note	According to previous standard	Effects of transition to IFRS	According to IFRS
Net revenue		125,678	-	125,678
Cost of sales	a, b, g	-104,984	73	-104,911
Gross income		20,694	73	20,767
Research and development expenses	a, b	-7,461	2,114	-5,347
Selling expenses		-8,314	-	-8,314
Administrative expenses		-4,704	5	-4,699
Other operating income	h	2,265	-1,330	935
Other operating expenses	c, d	-1,153	-354	-1,506
Share of income in associates		181	-	181
Operating income		1,508	509	2,017
Financial income	d	409	-	409
Financial expense	b, d, g	-1,071	-145	-1,216
Income before tax		846	364	1,210
Income tax	f	264	-449	-185
Net Income		1,110	-86	1,024

Notes to the reconciliations of equity and income statement

The transition to IFRS has resulted in the following changes in accounting principles:

- According to IAS 38 – Intangible assets, development costs are capitalised as intangible assets. Capitalised development costs are amortised on a straight-line basis. Under the previous GAAP, development costs were recognised as an expense when incurred. The effect of the change is increased intangible assets as per January 1, 2011 of SEK 871 million and as per December 31, 2011 of SEK 2,989 million. Income before tax is increased by SEK 2,117 million for 2011.
- Borrowing costs are, according to IAS 23 – Borrowing costs, capitalised when directly attributable to acquisition, construction or production of a qualifying asset. Under the previous GAAP, related costs were expensed directly. The effect of the change per January 1, 2011 is increased intangible assets of SEK 12 million and increased property, plant and equipment of SEK 187 million. The effect as at December 31, 2011 is increased intangible assets of SEK 20 million and increased property, plant and equipment of SEK 174 million. Income before tax is decreased by SEK 4 million for 2011.
- On Geely Sweden AB's acquisition of the shares in Volvo Car Corporation and Volvo Cars of North America LLC, a valuation of assets acquired and liabilities assumed was executed at their acquisition date fair values. GAAP differences between the previously used GAAP and IFRS for dealer network exist. The effect of the difference is increased intangible assets at January 1, 2011 of SEK 650 million and as per December 31, 2011 of SEK 628 million. Income before tax is decreased by SEK 22 million for 2011.
- Volvo Car Group is exposed to various financial risks such as currency risk, interest rate risk and commodity price risk. In order to reduce the risk exposure, certain derivative financial instruments are used for hedging purposes. The derivatives used for hedging purposes are mainly currency forwards, foreign exchange swaps, currency options, interest swaps and electricity derivatives. Under IFRS, derivative financial instruments are measured and recognised in the balance sheet at fair value, while under the previous GAAP such instruments have not been recognised in the balance sheet when held for hedging. If Volvo Car Group holds derivative instruments that are neither used to hedge future cash flows nor assets and liabilities denominated in foreign currencies, the derivatives are reported at the lower of cost or market value. The effect from the difference between IFRS and the previous GAAP resulted in an increase of Other current assets as at January 1, 2011 of SEK 202 million and as per December 31, 2011 of SEK 77 million. Other current liabilities increased as per January 1, 2011 by SEK 94 million and as per December 31, 2011 by SEK 306 million. Income before tax for 2011 was effected negatively by SEK 336 million.
- In accordance with IAS 1 – Non-controlling interest is classified separately within equity in the balance sheet. Under the previous GAAP non-controlling interest was classified separately between equity and liabilities.
- Change in deferred tax liabilities represents the impact of deferred taxes on the adjustments necessary for the transition to IFRS. The impact of the change is increased provisions for deferred taxes as per January 1, 2011 of SEK 538 million and as per December 31, 2011 of SEK 989 million. Income tax is decreased by SEK 449 million for 2011.
- According to IAS 37 – Provisions, contingent liabilities and contingent assets and provisions should be calculated to net present value. Warranty provisions and provisions for extended service programmes have been identified as provisions with material discounting effects and are therefore discounted to net present value. The effect of the change is decreased non-current provisions as per January 1 2011 of SEK 235 million and as per December 31, 2011 of SEK 179 million. Income before tax is decreased by SEK 56 million for 2011.
- On Geely Sweden AB's acquisition of the shares in Volvo Car Corporation and Volvo Cars of North America LLC, an acquisition analysis was carried out, resulting in a gain on bargain purchase. According to IFRS 3 – Business combinations, the gain on bargain purchase was immediately released in the income statement in 2010. According to the previous GAAP the gain on bargain purchase was accounted for in the balance sheet and released over a period of 9.1 years. Additionally, GAAP differences exist in the calculation of gain on bargain purchase, primarily due to different valuations of fair value of net assets. The gain on bargain purchase accounted for as provisions under the previous GAAP amounted to SEK 10,500 million at January 1, 2011 and SEK 9,927 million as at December 31, 2011. Income before tax is decreased by SEK 1,330 million for 2011. Upon the finalisation of the preliminary acquisition analysis the acquisition value for the gain on bargain purchase increased by SEK 757 million under the previous GAAP, during the year 2011.

NOTE 4 – NET REVENUE

The Net revenue allocated to geographical regions:	2012	2011
China	13,830	12,855
USA	20,168	16,083
EU 20 ¹⁾	64,567	72,238
of which Sweden	15,951	15,718
of which Germany	9,924	11,041
of which UK	7,134	7,404
Rest of the world	25,982	24,502
of which Russia	6,436	5,735
of which Japan	5,009	3,939
Total	124,547	125,678

¹⁾ Sweden, Norway, Denmark, Finland, The Netherlands, Belgium, Luxembourg, France, Spain, Italy, Greece, Portugal, United Kingdom, Ireland, Germany, Switzerland, Austria, Poland, Hungary and Czech Republic.

For each significant category of revenue, see additional information in the Board of Directors report.

NOTE 5 – RELATED PARTY TRANSACTIONS

During the year, Group companies entered into the following trading transactions with related parties that are not consolidated in Volvo Car Group:

	Sales of goods, services and other		Purchases of goods, services and other	
	2012	2011	2012	2011
Related companies ¹⁾	908	140	152	12
Associated companies	3,053	2,610	1,169	925

	Receivables from		Payables to	
	2012	2011	2012	2011
Related companies ¹⁾	965	140	164	12
Associated companies	58	40	21	57

¹⁾ Related companies are other companies outside Volvo Car Group, but within the Geely sphere of companies. For associated companies see Note 14 – Investments in associates.

In 2012 Volvo Car Group entered into an agreement with a subsidiary within the Shanghai Geely Zhaoyuan International Investment Co. Ltd. Group for licensing intangible property rights from Volvo Car Group, to enable production of cars in the Chengdu plant.

A Memorandum of Understanding was signed in March between Volvo Car Corporation and Zhejiang Geely Holding Group to evaluate the transfer of certain existing vehicle technologies. In December 2012, the intended co-operation materialised into a sale of the technology of a Volvo platform owned by Volvo Car Corporation to Geely Group Ltd Co. The platform technology has formed the basis for large Volvo cars such as older versions of V70/XC70/S60/S80 and is to a limited extent still used in the XC90.

Business transactions between Volvo Car Group companies and related parties or associated companies all arise in the normal course of business and are conducted on the basis of arm's length principles.

During 2012 a loan from Geely Sweden Automotive AB (ultimately from Shanghai Geely Zhaoyuan International Investment Co. Ltd.), was transformed in an unconditional shareholder's contribution. The loan balance transformed to equity, including accrued interest, amounted to SEK 1,767 million, the loan balance at December 31, 2011 was SEK 1,808 million. The interest on the loan amounted to SEK 61 million (56). An additional shareholder's contribution of SEK 12 million from Shanghai Geely Zhaoyuan International Investment Co. Ltd. was made during the year.

Volvo Car Group does not engage in any transactions with Board members or senior executives except ordinary remunerations for services. For further information about remunerations, see Note 9 – Employees and remuneration.

NOTE 6 – AUDIT FEES

	2012	2011
Deloitte		
Audit fees	-24	-22
Audit-related fees	-3	-1
Tax services	-2	-2
Other services	-11	-12
Total	-40	-37

Audit fees involve audit of the Annual Report, financial accounts and the administration by the Board of Directors and the Managing Director. 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 consultancy.

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

NOTE 7 – OTHER OPERATING INCOME AND EXPENSES

	2012	2011
Other operating income		
Licences	73	476
Foreign exchange gain	804	73
Technology transfer	590	-
Other	265	386
Total	1,732	935

	2012	2011
Other operating expenses		
Amortisation and depreciation of intangible and tangible assets	-191	-184
Foreign exchange loss	-700	-228
Restructuring costs	-49	-221
Cost relating to acquired licences	-	-80
Property tax	-67	-70
Other	-507	-723
Total	-1,514	-1,506

NOTE 8 – LEASING

VOLVO CAR GROUP AS LESSOR

Operational lease contracts are recognised as non-current assets in assets held under operating leases in the balance sheet and mainly relate to vehicles sold with repurchase agreements. 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. The remaining lease revenue yet to be recognised in income is presented as part of current and non-current liabilities in the balance sheet, see Note 26 – Other long-term liabilities and Note 27 – Other current liabilities. The repurchase obligation is considered to be a financial liability and is presented as part of current and non-current liabilities. Volvo Car Group does currently not have any finance lease engagements as a lessor.

Future lease revenue of operating lease contracts per Dec 31, 2012	Rental income
No later than 1 year	493
Later than 1 year and no later than 5 years	393
Later than 5 years	-
Total	886

VOLVO CAR GROUP AS LESSEE

Operating lease contracts

The operating lease contracts Volvo Car Group holds are mainly contracts for premises and office equipment around the world. Also some production equipment such as forklifts for the factories are under operating lease contracts.

Operating lease expenses	2012	2011
Minimum lease payments	-819	-762
Contingent rents	-46	-42
Less subleases	27	29
Total	-838	-775

Operating lease commitments per Dec 31, 2012	Minimum lease payments	Less subleases	Total	Present value of operating lease commitments less subleases
- No later than 1 year	877	26	851	833
- Later than 1 year and no later than 5 years	1,826	88	1,738	1,541
- Later than 5 years	2,183	148	2,035	1,405
Total	4,886	262	4,624	3,779

Finance lease contracts

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

	Buildings and land	Machinery and equipment
Finance lease assets		
Acquisition cost		
Balance at January 1, 2011	73	1,676
Additions	-	6
Divestments and disposals	-	-
Effect of foreign currency exchange differences	-1	-
Balance at December 31, 2011	72	1,682
Additions	23	-
Divestments and disposals	-	-6
Effect of foreign currency exchange differences	-3	-
Balance at December 31, 2012	92	1,676
Accumulated depreciation		
Balance at January 1, 2011	-32	-881
Depreciation expense	-5	-396
Divestments and disposals	-	-
Effect of foreign currency exchange differences	-	-
Balance at December 31, 2011	-37	-1,277
Depreciation expense	-4	-180
Divestments and disposals	-	6
Effect of foreign currency exchange differences	-	-
Balance at December 31, 2012	-41	-1,451
Net balance at December 31, 2011	35	405
Net balance at December 31, 2012	51	225

Gross finance lease liabilities - minimum lease payments	Dec 31, 2012	Dec 31, 2011
- No later than 1 year	34	172
- Later than 1 year and no later than 5 years	134	118
- Later than 5 years	30	61
Total	198	351
Future finance charges on finance leases	-34	-44
Present value of finance lease liabilities	164	307

The present value of finance lease liabilities is as follows:

Gross finance lease liabilities - minimum lease payments	Dec 31, 2012	Dec 31, 2011
- No later than 1 year	24	160
- Later than 1 year and no later than 5 years	112	92
- Later than 5 years	28	55
Total	164	307

The finance lease liabilities are included in the financial statement as:	Dec 31, 2012	Dec 31, 2011
Other current liabilities (Note 27)	24	160
Other long-term liabilities (Note 26)	140	147
Total	164	307

NOTE 9 – EMPLOYEES AND REMUNERATION

Average number of employees by region:	2012	Of whom women	2011	Of whom women
Sweden	15,565	22%	14,991	22%
Nordic countries other than Sweden	373	17%	362	17%
Belgium	4,178	11%	3,881	10%
Europe other than the Nordic countries and Belgium	1,069	40%	1,009	31%
North and South America	257	23%	251	24%
Asia	986	53%	899	19%
Other countries	124	37%	119	36%
Total for Volvo Car Group	22,552		21,512	

Of the average number of employees 22% (21%) are women.

Number of Board members and senior executives ¹⁾	Dec 31, 2012	Of whom women	Dec 31, 2011	Of whom women
Parent company	4	0%	4	0%
Subsidiaries	105 (209)	12% (22%)	98 (193)	17% (18%)
Total for Volvo Car Group	109 (209)		102 (193)	

Salaries and other remunerations, total for Volvo Car Group	2012		2011	
	Wages and salaries, other remunerations	Social security expenses (of which pension expenses)	Wages and salaries, other remunerations	Social security expenses (of which pension expenses)
Parent company	10	3 (-)	11	3 (-)
Subsidiaries	9,989	4,319 (2,021)	9,346	4,081 (1,906)
Total for Volvo Car Group	9,999	4,322 (2,021)	9,357	4,084 (1,906)

Salaries and other remuneration to the Board ²⁾ , CEO, Executive management team (EMT) ³⁾ and other employees.	2012		2011	
	Wages and salaries, other remunerations (of which variable salaries)	Social security expenses (of which pension expenses)	Wages and salaries, other remunerations (of which variable salaries)	Social security expenses (of which pension expenses)
Board, Chief Executive Officer and EMT	145 (7)	103 (32)	166 (16)	101 (37)
Other employees	9,854	4,219 (1,989)	9,191	3,983 (1,869)
Total for Volvo Car Group	9,999 (7)	4,322 (2,021)	9,357 (16)	4,084 (1,906)

¹⁾ Senior executives are defined as key personnel within the subsidiaries.

²⁾ The Board includes all board members in the subsidiaries within Volvo Car Group.

³⁾ The Executive management team (EMT) consists of the CEO and key management personnel other than board members. For further information regarding EMT, see Board of Directors' report.

Volvo Car Group's outstanding post-employee benefits obligations to the Board members, Chief Executive Officer and EMT amount to SEK 101 million (113).

The notice period for a member of EMT is maximum 12 months in case of termination by Volvo Car Corporation. Furthermore the employee is, in that case, entitled to severance pay calculated based on the fixed salary, during a period of maximum 12 months. During 2012, 4 (2) members of EMT, including the CEO, left the Volvo Car Group. Remunerations during the notice period and severance pay amounted to SEK 38 million (11), excluding social expenses.

INCENTIVE PROGRAMMES

Volvo Car Group has two global incentive programmes; a short term incentive programme (STI) including all employees and a long term incentive programme for Executives and Senior Managers (LTI). The design and payout of the programmes are subject to the Board of Directors' annual approval.

The purpose of the STI-programme is to strengthen global alignment among employees around Volvo Car Group's vision, objectives and strategies and to encourage all employees to achieve and exceed the business plan targets in order to reach the long term targets. The STI-programme for 2012 did not generate any payout since the financial threshold target was not reached.

The purpose of the LTI-programme is to attract, motivate and retain key competence within Volvo Car Group. The LTI-programme is based on calculated market value of Volvo Car Group.

NOTE 10 – DEPRECIATION AND AMORTISATION

Operating income includes depreciation and amortisation as specified below:	2012	2011
Software	-275	-287
Capitalised product development cost	-711	-258
Other intangible assets	-1,273	-1,350
Buildings and land	-465	-361
Machinery & equipment	-4,102	-4,462
Assets under operating leases	-1,191	-1,395
Total	-8,016	-8,113

Depreciation and amortisation according to plan by function:	2012	2011
Cost of sales ¹⁾	-5,358	-5,975
Research and development expenses	-2,078	-1,668
Selling expenses	-78	-72
Administrative expenses	-312	-203
Other income and expense	-190	-195
Total	-8,016	-8,113

¹⁾ Of which impairment loss SEK 50 million (45).

NOTE 11 – GOVERNMENT GRANTS

Volvo Car Group receives grants mainly from the Swedish Government. Grants are also received in Belgium and from the EU. In 2012, the government grants received amounted to SEK 65 million (124) and the government grants realised in the income statement amounted to SEK 116 million (138).

NOTE 12 – FINANCIAL INCOME

	2012	2011
Net foreign exchange gain on financing activities	498	223
Interest income on bank deposits	120	186
Total	618	409

NOTE 13 – FINANCIAL EXPENSES

	2012	2011
Net foreign exchange loss on financing activities	-649	-164
Interest effect from the measurement of repurchase obligations	-172	-153
Interest on loans from related companies	-218	-56
Other interest expenses	-179	-478
Other financial expenses	-333	-365
Total	-1,551	-1,216

NOTE 14 – INVESTMENTS IN ASSOCIATES

	2012	2011
Share of income in associates	24	-83
Capital gain on divestment of Getrag All Wheel Drive AB	-	262
Capital gain on divestment of VKR-Kiinteistöt Oy AB	-	2
Total	24	181

Share of income in associates is specified below:	2012	2011
V2 Plug-In Hybrid Vehicle Partnership HB ¹⁾	-4	-38
Volvofinans Bank AB	15	8
Getrag All Wheel Drive AB	-	-49
Other companies	13	-4
Total	24	-83

	Dec 31, 2012	Dec 31, 2011
At beginning of the year/acquired acquisition value	340	622
Share of net income ¹⁾	24	-45
Capital contribution V2 Plug-In Hybrid Vehicle Partnership HB	263	-
Divestment of Getrag All Wheel Drive AB	-	-234
Divestment of VKR-Kiinteistöt Oy AB	-	-3
Dividends	-14	-
Reclassification from previous year negative participation ¹⁾	-63	-
Total	550	340

Volvo Car Group's carrying amount on investments in associates:	Corp. ID no.	Country of incorporation	% interest held	Dec 31, 2012	Dec 31, 2011
Volvo Trademark Holding AB	556567-0428	Sweden	50	6	6
Volvohandeln PV-Försäljnings AB	556430-4748	Sweden	36	8	8
Volvohandeln PV-Försäljnings KB	916839-7009	Sweden	37	7	6
VCC Tjänstebilar KB	969673-1950	Sweden	37	2	2
VCC Försäljnings KB	969712-0153	Sweden	37	1	1
Göteborgs Tekniska College AB	556570-6768	Sweden	26	2	3
V2 Plug-In Hybrid Vehicle Partnership HB ¹⁾	969741-9175	Sweden	50	196	0
Volvofinans Bank AB ²⁾	556069-0967	Sweden	10	303	302
IUC i Olofström AB	556263-1217	Sweden	18	0	0
First Rent a Car AB	556434-7820	Sweden	45	24	11
Volvo Event Management Corporation	444517742	Belgium	33	1	1
Carrying amount, participation in associates				550	340

The share of voting power corresponds to holdings in per cent as per above.

For practical reasons, some of the 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, however reported in accordance with the equity method since none of the holding companies, Volvo Cars PHEV Holding AB and Vattenfall PHEV Holding AB, has the decision-making power over the operation. Due to negative participation in this company in 2011 the amount was specified in Note 26 – Other long-term liabilities. During 2012, V2 Plug-In Hybrid Vehicle Partnership HB received a shareholders' contribution of SEK 263 million (280) from Volvo Cars PHEV Holding AB. As per December 31, 2012 the total equity of V2 Plug-In Hybrid Vehicle Partnership HB amounted to SEK 403 million.

²⁾ Volvo Car Group holds 10 per cent of the equity shares of Volvofinans Bank AB and due to significant volume transactions and board representation, Volvo Car Group exercises significant influence on the operations which qualifies for the use of the equity method. Volvofinans Bank AB's effect on the operating income of Volvo Car Group during 2012 amounted to SEK 37 million (24). As per December 31, 2012 the adjusted total equity, including the equity part of untaxed reserves, of Volvofinans Bank AB amounted to SEK 3,065 million.

NOTE 15 – TAXES

Income tax recognised in income statement	2012	2011
Current income tax for the period	-610	-852
Current income tax for previous years	20	-20
Deferred taxes	1,025	687
Total	435	-185

Information regarding current year tax expense compared to tax expense based on the applicable Swedish tax rate	2012	2011
Income before tax for the year	-915	1,210
Tax according to applicable Swedish tax rate, 26.3%	241	-318
Capital gains or losses, non-taxable	4	57
Effect of different tax rates	-1	6
Tax effect on deferred tax due to change of tax rate	156	-9
Utilisation of previously unrecognised tax losses	17	27
Other	18	52
Total	435	-185

As from January 1, 2013 the Swedish tax rate has changed from 26.3% to 22.0%, affecting deferred tax items.

Income tax recognised directly in equity	2012	2011
Deferred tax		
Tax effects on cash flow hedge reserve	39	-
Tax effects on translation difference, hedge instruments of net investments in foreign operations	13	-
Total	52	-

Specification of deferred tax assets	Dec 31, 2012	Dec 31, 2011
Goodwill arising from the purchase of the net assets of a business	360	411
Provision for employee benefits	680	748
Unutilised tax loss carry-forwards	3,175	2,987
Reserve for unrealised income in inventory	363	299
Provision for warranty	160	145
Other temporary differences	588	520
Total deferred tax assets	5,326	5,110
Netting of assets/liabilities	-3,625	-3,474
Total deferred tax assets, net	1,701	1,636

Specification of deferred tax liabilities	Dec 31, 2012	Dec 31, 2011
Fixed assets	5,511	6,192
Other temporary differences	16	72
Total deferred tax liabilities	5,527	6,264
Netting of assets/liabilities	-3,625	-3,474
Total deferred tax liabilities, net	1,902	2,790

Deferred tax assets and deferred tax liabilities 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 accounted for to the extent there are taxable temporary differences or other factors that convincingly indicate there will be sufficient future taxable profit. The main part of losses carried forward is related to jurisdictions where temporary differences exceed losses carried forward and where periods of utilisation are indefinite.

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 Volvo Car Group may consider them permanently reinvested in the subsidiaries.

Changes in deferred tax assets and liabilities during the reporting period	Dec 31, 2012	Dec 31, 2011
Net book value of deferred taxes at January 1	-1,154	-1,920
Deferred tax income/expense recognised through income statement	1,025	687
Change in deferred taxes recognised directly in equity	-52	-
Exchange rate impact	-20	79
Net book value of deferred taxes at December 31	-201	-1,154

Unutilised tax-loss carryforwards expire as follows	Dec 31, 2012	Dec 31, 2011
Due date		
2015	-	47
2016	14	287
2017	14	-
2018-	14,525	11,302
Total	14,553	11,636

Significant tax loss carryforwards are related to countries with long or indefinite periods of utilisation. Of the total unused tax-loss carryforwards, SEK 99 million, relates to unused tax losses for which no deferred tax asset is recognised in the statement of financial position and it expires 2018.

NOTE 16 – INTANGIBLE ASSETS

	Software	Capitalised product development cost ¹⁾	Trademark	Other intangible assets ²⁾	Total
Acquisition cost					
Balance at January 1, 2011	3,257	904	3,598	9,033	16,792
Additions	371	2,383	-	-	2,754
Divestments and disposals	-1	-	-	-	-1
Effect of foreign currency exchange differences	-12	-	-	12	-
Balance at December 31, 2011	3,615	3,287	3,598	9,045	19,545
Additions	504	2,591	-	1	3,096
Divestments and disposals	-446	-	-	-	-446
Effect of foreign currency exchange differences	-3	-	-	-4	-7
Balance at December 31, 2012	3,670	5,878	3,598	9,042	22,188
Accumulated amortisation and impairment					
Balance at January 1, 2011	-2,121	-21	-	-751	-2,893
Amortisation expense	-287	-258	-	-1,350	-1,895
Divestments and disposals	1	-	-	-	1
Effect of foreign currency exchange differences	8	-	-	74	82
Balance at December 31, 2011	-2,399	-279	-	-2,027	-4,705
Amortisation expense	-275	-711	-	-1,273	-2,259
Divestments and disposals	440	-	-	-	440
Effect of foreign currency exchange differences	2	-	-	-	2
Balance at December 31, 2012	-2,232	-990	-	-3,300	-6,522
Net balance at December 31, 2011	1,216	3,008	3,598	7,018	14,840
Net balance at December 31, 2012	1,438	4,888	3,598	5,742	15,666

¹⁾ Capitalised product development cost includes capitalised borrowing costs of SEK 53 million (20).

²⁾ Other intangible assets refers to licences, dealer network, patents and similar rights.

Intangible assets with indefinite useful lives, ie Trademark, and other intangible assets not yet ready for use, are tested for impairment annually as well as if there are any indications of need for impairment. Assets with definite useful lives are tested if there are any indications of need for impairment. An impairment test is made by calculating the recoverable value. If the recoverable value is less than the carrying value, the asset's recovery value is impaired. The recoverable amounts are based on a discounted cash-flow model, with Volvo Car Group as one single

Cash Generating Unit. Management's business plans and volume programmes for 2013–2021 are used as a basis for the calculation. The years beyond 2021 are assumed to be flat. The discount rate used is 11 (12) per cent before tax. In 2012 the operation exceeded the carrying amount, and no impairment loss was recognised. Management believes that any reasonable negative change in the key assumptions would not reduce the recoverable amount below its carrying value.

NOTE 17 – TANGIBLE ASSETS

	Buildings and land ^(1), 2), 3)	Machinery and equipment ^(1), 3), 4)	Construction in progress	Assets under operating leases	Total
Acquisition cost					
Balance at January 1, 2011	12,899	59,060	368	3,183	75,510
Additions	326	1,694	1,020	4,395	7,435
Divestments and disposals	-166	-890	-	-2,697	-3,753
Reclassification	12	208	-220	-	-
Effect of foreign currency exchange differences	-17	166	-83	-59	7
Balance at December 31, 2011	13,054	60,238	1,085	4,822	79,199
Additions	279	3,180	1,599	5,256	10,314
Divestments and disposals	-104	-1,113	-	-3,825	-5,042
Reclassification	32	917	-949	-	-
Effect of foreign currency exchange differences	-189	-375	-7	-87	-658
Balance at December 31, 2012	13,072	62,847	1,728	6,166	83,813
Accumulated depreciation and impairment					
Balance at January 1, 2011	-5,976	-38,654	-	-756	-45,386
Depreciation expense	-361	-4,462	-	-1,395	-6,218
Divestments and disposals	155	757	-	232	1,144
Effect of foreign currency exchange differences	-245	-46	-	130	-161
Balance at December 31, 2011	-6,427	-42,405	-	-1,789	-50,621
Depreciation expense	-465	-4,102	-	-1,191	-5,758
Divestments and disposals	87	993	-	346	1,426
Effect of foreign currency exchange differences	90	236	-	10	336
Balance at December 31, 2012	-6,715	-45,278	-	-2,624	-54,617
Net balance at December 31, 2011	6,627	17,833	1,085	3,033	28,578
Net balance at December 31, 2012	6,357	17,569	1,728	3,542	29,196

¹⁾ Buildings and land includes finance leases of SEK 51 million (35) and Machinery and equipment includes finance leases of SEK 225 million (405). For further information regarding finance leases, see Note 8 – Leasing.

²⁾ Depreciation expense include impairment loss of SEK 50 million (45). For further information regarding depreciations, see Note 10 – Depreciation and amortisation.

³⁾ Mortgages in Property, plant and equipment amounted to SEK 0 million (3 300). For further information regarding pledged assets, see Note 28 – Pledged assets.

⁴⁾ Machinery and equipment includes capitalised borrowing costs of SEK 148 million (173).

NOTE 18 – OTHER NON-CURRENT ASSETS

	Dec 31, 2012	Dec 31, 2011
Restricted cash	506	469
Rental deposition	35	79
Receivable against Ford Motor Company	7	111
Other non-current assets	186	156
Total	734	815

For further information see Note 21 – Financial risks and financial instruments.

NOTE 19 – INVENTORIES

	Dec 31, 2012	Dec 31, 2011
Raw materials and consumables	151	142
Products in progress	2,046	2,174
Finished goods and goods in resale	9,615	10,903
Total	11,812	13,219
Of which value adjustment reserve:	-247	-217

The cost of inventories recognised as an expense and included in cost of sales amounted to SEK 102,380 million (99,983).

The cost of inventories recognised as an expense includes SEK 28 million (27) in respect of write-downs of inventory to net realisable value.

NOTE 20 – ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

	Dec 31, 2012	Dec 31, 2011
Accounts receivable including receivables from related companies	4,735	3,808
VAT receivables	821	1,061
Prepaid expenses and accrued income	1,011	1,059
Other financial receivables	353	79
Other receivables	402	341
Total	7,322	6,348

Aging analysis of accounts receivable and receivables from related companies

	Not due	1-30 days overdue	30-90 days overdue	>90 days overdue	Total
2012					
Accounts receivable gross	4,245	131	166	334	4,876
Provision doubtful accounts receivable	-	-	-5	-136	-141
Accounts receivable net	4,245	131	161	198	4,735
2011					
Accounts receivable gross	3,334	167	195	243	3,939
Provision doubtful accounts receivable	-	-	-5	-126	-131
Accounts receivable net	3,334	167	190	117	3,808

Accounts receivable amounting to SEK 4,735 million (3,808) includes provision for doubtful accounts receivable of SEK 141 million (131).

Change in provision for doubtful accounts receivable is as follows:	2012	2011
Balance at January 1	131	130
Additions	58	111
Reversals	-44	-107
Write-offs	-3	-2
Translation difference	-1	-1
Balance at December 31	141	131

NOTE 21 – FINANCIAL RISKS AND FINANCIAL INSTRUMENTS

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

Volvo Car Group treasury function is responsible for the management, policy and control of the financial risks. The management of financial risks is governed by Volvo Car Group treasury policy, which is focused on minimising the negative effects from fluctuating financial markets on Volvo Car Group's financial earnings. The policy was approved by the Board during 2012 and is under implementation.

FINANCIAL INSTRUMENTS – CLASSIFICATION

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

Level 1: Financial instruments belong to level 1 if there are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Instruments that do not belong to level 1 belong to level 2 if there are quoted prices in active markets or if the value can be estimated using quoted prices.

Level 3: If a financial instrument cannot be included in level 1 or 2, the instrument belongs to level 3. In these cases observable market inputs can be used for valuation.

All derivative financial instruments that Volvo Car Group holds as at December 31, 2012 belong to level 2. Financial assets and liabilities are measured at amortised cost or fair value depending on their initial classification. Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. 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. Fair value is generally determined by reference to official market quotes. When market quotes are not available the fair value is determined using generally accepted valuation methods such as discounted future cash flows.

Financial assets and liabilities by category

December 31, 2012	Financial assets and liabilities at fair value through the income statement	Derivatives used in hedge accounting	Loans and receivables	Financial liabilities at amortised cost	TOTAL	Fair Value
Other non-current assets ¹⁾	-	-	658	-	658	658
Accounts receivable	-	-	4,735	-	4,735	4,735
Other current assets ¹⁾	55	287	297	-	639	639
Cash and cash equivalents	-	-	9,607	-	9,607	9,607
Total assets	55	287	15,297	-	15,639	15,639
Other long-term liabilities ¹⁾	-	-	-	676	676	676
Liabilities to credit institutions	-	-	-	7,367	7,367	7,367
Trade payables	-	-	-	12,626	12,626	12,626
Other current liabilities ¹⁾	140	109	-	2,896	3,145	3,145
Total liabilities	140	109	-	23,565	23,814	23,814
December 31, 2011						
Other non-current assets ¹⁾	-	-	765	-	765	765
Accounts receivable	-	-	3,808	-	3,808	3,808
Other current assets ¹⁾	76	-	266	-	342	342
Cash and cash equivalents	-	-	14,634	-	14,634	14,634
Total assets	76	-	19,473	-	19,549	19,549
Liabilities to parent company	-	-	-	3,186	3,186	3,186
Other long-term liabilities ¹⁾	63	-	-	594	657	657
Liabilities to credit institutions	-	-	-	5,514	5,514	5,514
Trade payables	-	-	-	15,464	15,464	15,464
Other current liabilities ¹⁾	326	-	-	2,947	3,273	3,273
Total liabilities	389	-	-	27,705	28,094	28,094

¹⁾ Pre-payments, accruals, statutory receivables and liabilities are excluded, as this analysis is required only for financial instruments.

The carrying amount essentially equals the fair value for all current items. For liabilities to credit institutions, the carrying amount is a good estimate of the fair value since this item mainly consists of a loan that was drawn at the end of the year and that has a short interest fixing term.

For aging analysis regarding accounts receivable refer to Note 20 – Accounts receivable and other current assets. For aging analysis regarding liabilities to credit institutions refer to Note 26 – Other long term liabilities. Trade payables are for the most part due within 60 days.

Carrying amounts and fair values of derivative instruments

Derivative instruments for hedging of currency risk and interest rate risk related to financial assets and liabilities	Dec 31, 2012		Dec 31, 2011	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Foreign exchange swaps				
- receivable position ¹⁾	-	-	-	-
- payable position ²⁾	-18	-18	-28	-28
Forward contracts				
- receivable position ¹⁾	-	-	-	-
- payable position ²⁾	-21	-21	-	-
Interest-rate swaps²⁾	-	-	-6	-6
Subtotal	-39	-39	-34	-34
Derivative instruments for hedging of currency risk in future commercial cash flows				
Foreign exchange swaps				
- receivable position ¹⁾	84	84	-	-
- payable position ²⁾	-6	-6	-	-
Forward contracts				
- receivable position ¹⁾	178	178	2	2
- payable position ²⁾	-103	-103	-80	-80
Currency options				
- receivable position ¹⁾	64	64	-	-
- payable position ²⁾	-10	-10	-74	-74
Subtotal	207	207	-152	-152
Electricity hedges				
- receivable position ¹⁾	16	16	74	74
- payable position ²⁾	-91	-91	-144	-144
Subtotal	-75	-75	-70	-70
Total	93	93	-256	-256

¹⁾ Financial instruments included in the balance sheet under other current assets.

²⁾ Financial instruments included in the balance sheet under other current liabilities.

CURRENCY RISK MANAGEMENT

The currency exposure arises from the production in various countries, procurement and the mix of sales currencies and has a direct impact on the Volvo Car Group's operating income, balance sheet and cash flow as well as the long-term competitiveness.

The currency risk is related to:

- expected future cash flows from sales and purchase in foreign currencies (transaction risk)
- changes in value of loans and investments (translation risk)
- net assets and liabilities of foreign subsidiaries (translation risk)

Transaction risk

The sales to different markets in combination with purchases in different currencies determine the transaction exposure.

Sales to markets other than Sweden generate transaction exposure. The parent company's invoices to national sales companies are in local currencies. The total currency inflow was distributed between EUR 23%, USD 18%, SEK 18%, CNY 11%, GBP 5%, RUB 5% and other currencies 20%. The major part of the production is in the plants in Sweden

and Belgium at cost in EUR and SEK. The currency outflow was split into EUR 50%, SEK 9%, GBP 5%, USD 5% and other currencies 11%.

Based on revenue and cost in foreign currencies during 2012, a one per cent change in SEK against major currencies, excluding currency hedges, has a net impact on operating income of approximately SEK 125 million. The policy for transaction risk management states that up to 80 per cent of the future expected cash flows in the coming 15 months should be hedged with adequate financial instruments: options, forwards or combined instruments with maturities matching expected timing of cash flows. Hedging of cash flows with maturity more than 15 months requires a Board of Directors' decision.

Forward contracts and options are used to reduce the currency risk in expected future cash flows from sales and purchase in foreign currencies. At year end 38 (24) per cent of the forecasted cash flows in foreign currencies the coming 15 months was hedged.

The average duration of the portfolio was 5 months (4 months). The fair value of the outstanding derivatives as at December 31, 2012 amounted to SEK 207 million (-152).

Hedge accounting

Hedge accounting was implemented in Volvo Car Group from April 1, 2012. Gains and losses on the effective portions of derivatives designated under cash flow hedge accounting and net investment of foreign operations are recognised in other comprehensive income.

The highly probable forecast transactions in foreign currencies that are hedged are expected to occur at various dates during the next 15 months. Gains and losses recognised in the hedge reserve in equity on forward foreign exchange contracts as at December 31, 2012 are recognised in the income statement in the periods when the hedged forecast transaction affects the income statement.

Based on cash flow currency hedges during 2012, a one per cent change in the Swedish krona (SEK) against major currencies has a net impact of SEK 17 million on other comprehensive income.

The cash flow hedge reserve in shareholders equity as at December 31, 2012 amounts to SEK 177 million (0) before tax. The ineffectiveness in the cash flow hedges that has effected net income amounts to SEK -4 million (0).

Fair value of derivatives for cash flow hedging	2012	2011
Hedge reserve	177	-
Recognised in other comprehensive income	177	-
Time value in options	29	-
Ineffective contracts	-8	-
Non hedge accounting	9	-152
Recognised in income statement	30	-152
Total fair value	207	-152

Net gains/losses on derivative financial instruments recognised in the income statement	2012	2011
Net gains/losses recognised in other operating income		
Gains losses on commercial currency hedges	-287	-217
Total	-287	-217

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

Maturity	EUR	USD	GBP	NOK	RUB	AUD	CHF	CAD	PLN	CZK	HUF
0-6 months	1,500	-1,306	-109	-627	-6,848	-81	-85	-137	-140	-320	-3,300
6-12 months	343	-221	-33	-291	-3,206	-8	-60	-36	-47	-125	-955
>12 months	-	-	-	-	-	-	-	-	-	-	-
Total	1,843	-1,528	-142	-918	-10,054	-89	-145	-172	-187	-445	-4,255

Translation risk

Translation risk in Volvo Car Group relates to the net assets in foreign subsidiaries. This exposure can generate a positive or negative impact on Group earnings or change the value of equity.

	EUR	CNY	GBP	NOK	USD	Other	Total
Investments in Foreign Operations	4,370	992	499	115	-79	561	
Translation exposure	4,370	992	499	115	-79	561	6,458

A one per cent change in the Swedish krona against major currencies has a net impact of approximately SEK 65 million. The translation risk is primarily covered by matching the currency composition of debt with the composition of assets. Part of the investments in operations in the Euro zone are used for hedge accounting. The residual translation risk is part of the strategic risk management and is not hedged with financial instruments, the translation effect is recognised in equity.

Total translation effect of net investments in foreign operations was SEK -324 million (-17). This effect does not impact result but is recognised in equity.

During 2012, a new loan agreement in EUR was signed, see further in section "long term funding" and Note 26 – Other long term liabilities. The currency risk arising from the external loan of EUR 815 million is managed as shown below.

	EUR million
EUR external debt	-815
Net investments in operations in the Euro zone, amount used for hedge accounting	420
Currency swaps	400
Net exposure	5

The currency gains or losses from the translation of the net investments in operations in EUR used for hedge accounting are recognised under other comprehensive income. Currency gains or losses from the currency swaps are recognised in the income statement and offset the currency gains or losses from the residual part of the loan.

The fair value of the currency swaps at December 31, 2012 amounted to SEK -36 million, which is offset by the revaluation of the external loan.

Net gains/losses on derivative financial instruments recognised in the income statement	2012	2011
Net gains/ losses reported in financial items		
Gains/ losses on foreign exchange swaps	-213	-154
Gains/ losses on interest-rate swaps	6	7
Total	-207	-147

CAPITAL STRUCTURE

Volvo Car Group treasury policy stipulates that the medium term objective is to have a capital structure that enables the company to deliver according to the requirements in the business plan. The longer term objective is to have a capital structure that enables investment grade rating; currently Volvo Car Group has no external rating. The equity ratio as per December 31, 2012 is 31 (28) per cent.

FUNDING AND LIQUIDITY RISK MANAGEMENT

Long term funding

All draw down on new loans is evaluated against future liquidity needs and investment plans. Volvo Car Group should for the coming 12 months at any given time have available committed financing for investments and maturing loans. To limit the risk of refinancing, debt maturing over the next 12 months should not exceed 25 per cent of total debt. Less than 50 per cent of the long term debt should be re-finaceable within 3 years.

During 2012 a refinancing of the all the external loans was made. The refinancing included the external loans in Geely Sweden Automotive AB of SEK 1,356 million, Geely Sweden AB of SEK 1,356 million, Volvo Car Corporation of SEK 2,625 million and Volvo Car Belgium of SEK 1,712 million.

A new loan from China Development Bank (CDB) of EUR 922 million to Volvo Car Corporation replaced all previous loans. During 2012, EUR 815 million (SEK 7,001 million and the equivalent EUR amount to previously existing loans) was drawn. An additional EUR 107 million was drawn during the first quarter of 2013.

In relation to the new loan with CDB, all previously pledges regarding tangible assets SEK 4,075 millions were released at the time of the refinancing of the loan. CDB holds the shares in Geely Sweden AB and Volvo Car Corporation as security for the new loan; for further information, see Note 28 – Pledged assets.

The refinancing of the debt changed the average duration from approximately three years at December 31, 2011 to approximately five years as at December 31, 2012. For further information, see Note 26 – Other long-term liabilities.

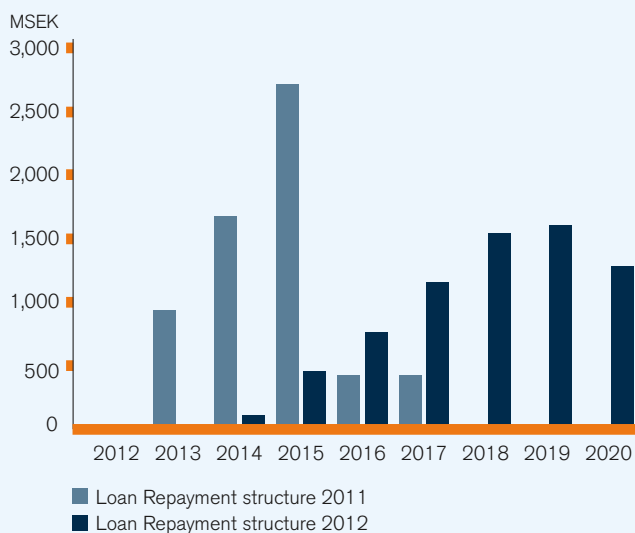
During February 2013, Volvo Car Group signed a new loan with Svensk Exportkredit of SEK 1,000 million, with maturity in 2016.

In relation to all external loans there are information undertakings and covenants. These are monitored and calculated quarterly to fulfil the terms and conditions stated in the financial agreements. Covenants are based on standard ratios such as EBITDA and Net debt.

Liquidity risk management

Liquidity risk is the risk that Volvo Car Group is unable to meet ongoing financial obligations on time. In order to meet seasonal volatility in cash

MATURITY PROFILE OF EXTERNAL LOANS



requirements, Volvo Car Group shall always have committed back up facilities or free cash available corresponding to five per cent or more of net revenue. The rolling 12 months cash flow forecasts are the basis for the risk assessment of the liquidity risk management.

As at December 31, 2012, Volvo Car Group had cash and cash equivalents of SEK 9,607 million (14,634), approximately 8 (12) per cent of net revenue.

In February 2013, Volvo Car Corporation signed a revolving credit facility of EUR 240 million with four banks with maturity in 2016. The purpose of the arrangement is to serve as a back-up facility.

INTEREST RATE RISK MANAGEMENT

Changes in the interest rate levels will impact Volvo Car Group's net financial income/expense or 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.

As at December 31, 2012, Volvo Car Group's interest-bearing assets consisted of cash in the form of cash at bank and short term deposits. The average interest fixing term on these assets was less than one month. The average interest fixing term on outstanding loans was less than 6 months. The average cost of borrowing was 5.4 (5.2) per cent. A 100 basis points change in market interests would have an impact of SEK 27 million (32) on interest expenses.

According to the policy, currently under implementation, the interest rate risk in Volvo Car Group's net cash position has a benchmark duration of 6 months. The policy allows a deviation of -6/+3 months from the benchmark. At year end the duration was 2 (5) month.

Interest rate swaps

As per December 31, 2012, Volvo Car Group holds no interest rate swaps. As per December 31, 2011, the fixed interest rate was 7.8 per cent, and the main floating rate was LIBOR.

COMMODITY PRICE RISK MANAGEMENT

Changes in commodity prices impact Volvo Car Group's cash flow and earnings. Volvo Car Group has large procurement volumes in steel, aluminum, resin and rubber. Commodity price risk is managed both in strategic (medium to long-term) and operating (short to medium-term) levels of transaction risk. The strategic commodity price risk arises from procurement mix of commodities and the impact on our long term competitiveness. The management of the strategic commodity price risk means primarily price management in the procurement contract using price contract clauses or similar constructions and fixed prices with suppliers. A one per cent change in the prices of commodities has an impact on operating income of SEK 100 million.

Volvo Car Group manage the changes in prices for electricity by using forward contracts at Nordpool. The hedging is managed by Vattenfall Power Management AB on discretionary account with certain risk limits decided by Volvo Car Group.

Net gains/losses on derivative financial instruments recognised in the income statement	2012	2011
Net gains/losses recognised in operating income		
Gains/losses on electricity hedges	-5	-178
Total	-5	-178

CREDIT RISK MANAGEMENT

Volvo Car Group's credit risk focus mainly in counterparty risk in financial market transactions, investments of cash surplus and counterparty risk in connection with customer and dealer financing.

Financial counterparties

The maximum amount exposed to financial credit risk is the total of bank accounts, deposits with banks and market value of outstanding derivatives.

Investments of cash surplus are made in the money and capital markets. All investments must meet the requirements of low credit risk and high liquidity.

Volvo Car Group treasury policy states that counterparties for investments and derivative transactions should have credit rating A or better from one of the well-established credit rating institutions and that ISDA agreements should be in place. Limits are set and limit usage is followed up for the Volvo Car Group treasury counterparties and deposits are diversified between relationship banks. Subsidiaries' bank balances are diversified in order to limit credit risk.

Dealers, importers and other counterparties

For the credit risk in 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 used. The maximum amount exposed to credit risk is the carrying amount of accounts receivable.

NOTE 22 – CASH AND CASH EQUIVALENTS

	Dec 31, 2012	Dec 31, 2011
Cash in banks	8,482	8,386
Bank deposits	1,125	6,248
Total	9,607	14,634

Cash and Cash equivalents includes SEK 2,373 million (2,803) where limitations exist, mainly liquid funds where exchange controls or other legal restrictions apply. It is not possible to immediately use the liquid funds in other parts of Volvo Car Group, however there is normally no limitation for use in the Group's operation in the respective country.

NOTE 23 – EQUITY

The Share Capital of Geely Sweden AB consists of 1,000,000,000 shares fully paid with a par value of 1 SEK and with voting rights of one vote per share.

The Share premium relates to the business combination, through contribution in kind.

Other Contributed Capital consists of unconditional shareholders' contribution from Shanghai Geely Zhaoyuan International Investment Co. Ltd.

The hedge reserve consists of the change in fair value of commercial cash flow hedging instruments in cases where hedge accounting is applied according to IAS 39, Financial Instruments: Recognition and Measurement.

The currency translation reserve comprises all exchange rate differences resulting from the translation of financial reports of foreign operations that have prepared their financial reports in a currency other than Volvo Car Group's reporting currency. The parent company and Volvo Car Group present their financial reports in Swedish kronor (SEK).

Retained earnings comprises net income for the year and preceding years.

Non-controlling interest refers to the share of equity that belongs to external interests without a controlling influence. As per end of 2011, Volvo Car Group had one joint venture arrangement in Pininfarina Sverige AB (40 %) and the joint venture was consolidated in Volvo Car Group accounts in accordance with IAS 27 – Consolidated and separate financial statements, due to the fact that Volvo Car Corporation could control the operations and was the only customer of the car model C70. On December 27, 2012, Volvo Car Corporation acquired the remaining 60 per cent of PFS making PFS a fully owned subsidiary per December 31, 2012. In connection with the acquisition of the remaining shares, Pininfarina Sverige AB was renamed Volvo Car Center Uddevalla AB.

Total equity consists of the sum of equity attributable to the Owners of the parent company and equity attributable to non-controlling interests. At year end 2012, the Volvo Car Group's total equity amounted to SEK 23,544 million (22,648).

Change in other reserves	2012	2011
Balance at January 1	-	-
Change in fair value of currency risk derivatives during the year	-160	-
Currency risk contracts recognised in the income statement ¹⁾	337	-
Tax attributable to items recognised in other comprehensive income	-39	-
Balance at December 31	138	-

¹⁾ Included in the income statement under other operating income/expenses.

Financial year ending on	Total	of which Sweden	of which Belgium	Total	of which Sweden	of which Belgium
	Dec 31, 2012	Dec 31, 2012	Dec 31, 2012	Dec 31, 2011	Dec 31, 2011	Dec 31, 2011
A. Principal actuarial assumptions						
<i>Weighted-average assumptions to determine benefit obligations</i>						
1. Discount rate	3.52%	3.50%	3.05%	3.80%	3.50%	4.42%
2. Rate of salary increase	3.10%	3.00%	3.17%	3.52%	3.50%	3.17%
3. Rate of price inflation	2.08%	2.00%	2.00%	2.09%	2.00%	2.00%
4. Rate of pension increases	2.11%	2.00%	N/A	2.12%	2.00%	N/A
<i>Weighted-average assumptions to determine net pension cost</i>						
1. Discount rate	3.80%	3.50%	4.42%	4.75%	4.50%	5.30%
2. Expected long-term rate of return on plan assets	4.99%	4.75%	5.00%	5.28%	5.00%	5.00%
3. Rate of salary increase	3.52%	3.50%	3.17%	3.57%	3.50%	3.25%
4. Rate of price inflation	2.09%	2.00%	2.00%	2.14%	2.00%	2.00%
5. Rate of pension increases	2.12%	2.00%	N/A	2.02%	2.00%	N/A

Mortality:

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience in each territory. Mortality assumptions for Sweden are based on the same assumption recommended by the Financial Supervisory Authority (FFFS 2007:31), a generational-based table but with one year "age set-back" i.e. a 65-year-old would have the life expectancy of a 64-year-old.

Policy for amortising actuarial (gains) / losses: Mainly 10% corridor.

NOTE 24 – POST EMPLOYMENT BENEFITS

Volvo Car 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 or defined benefit plans. Volvo Car Group has both defined contribution and defined benefit plans.

DEFINED CONTRIBUTION PLANS

Under a defined contribution plan, Volvo Car Group pays fixed contributions into a separate entity outside Volvo Car Group and will have no future financial obligations. The contributions are recognised as employee benefit expense in the income statement.

DEFINED BENEFIT PLANS

Defined benefit plans are all plans that are not classified as defined contribution plans. A defined benefit plan is a pension plan where the employee will receive a defined pension benefit upon retirement, usually dependent on factors such as age, years of service and compensation. Volvo Car Group has defined benefit plans for qualifying employees in some subsidiaries and the largest plans are in Sweden and Belgium. The largest plan overall is the Swedish ITP2 plan.

For the defined benefit plans operated, Volvo Car Group has the obligation for the future benefits. Volvo Car Group's defined benefit plans are secured in three ways: as a liability 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. These plans in Sweden are secured with the mutual insurance company Alecta.

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

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 3. For 2012, Volvo Car Group did not have access to the information that would make it possible to report this plan as a defined benefit plan. The pension plan, which is secured through insurance with Alecta, is therefore reported as a defined contribution plan.

Financial year ending on	Total	of which Sweden	of which Belgium	Total	of which Sweden	of which Belgium
	Dec 31, 2012	Dec 31, 2012	Dec 31, 2012	Dec 31, 2011	Dec 31, 2011	Dec 31, 2011
B. Change in benefit obligation						
1. Benefit obligation at beginning of year	12,727	8,615	1,492	10,426	6,756	1,370
2. Current service cost	465	292	100	351	212	74
3. Interest cost	474	298	64	488	300	72
4. Plan participants' contributions	10	-	-	10	-	-
5. Amendments	8	8	-	-3	-	-
6. Actuarial (gain)/loss	648	114	324	1,773	1,543	57
7. Benefits paid from plan/company	-364	-206	-77	-347	-191	-72
8. Expenses paid	-5	-	-	-6	-	-
9. Taxes paid	-1	-	-	-	-	-
10. Premiums paid	-1	-	-	-	-	-
11. Business combinations / divestitures / transfers	-	-	-	6	-	-
12. Plan combinations	-	-	-	-	-	-
13. Plan curtailments	-16	-	-	-	-	-
14. Plan settlements	-	-	-	-4	-4	-
15. Exchange rate changes	-155	-	-61	32	-	-10
Benefit obligation at end of year	13,791	9,121	1,841	12,727	8,615	1,492
C. Change in plan assets						
1. Fair value of plan assets at beginning of year	8,397	5,484	1,052	8,083	5,354	984
2. Expected return on plan assets	418	260	53	428	268	51
3. Actuarial gain/(loss) on plan assets	369	168	56	-263	-138	-47
4. Employer contributions (incl. employer direct benefit payments)	460	206	139	470	195	143
5. Plan participants' contributions	10	-	-	10	-	-
6. Benefits paid from plan/company	-364	-206	-77	-347	-191	-72
7. Expenses paid	-5	-	-	-6	-	-
8. Taxes paid	-1	-	-	-	-	-
9. Premiums paid	-1	-	-	-	-	-
10. Plan settlements	-	-	-	-4	-4	-
11. Business combinations / divestitures / transfers	-	-	-	-	-	-
12. Plan combinations	-	-	-	-	-	-
13. Adjustments	-	-	-	-	-	-
14. Exchange rate changes	-101	-	-41	27	-	-7
Fair value of plan assets at end of year	9,183	5,913	1,182	8,397	5,484	1,052
D. Amounts recognised in the balance sheet						
<i>Plans that are wholly unfunded and plans that are wholly or partly funded</i>						
1. Present value of wholly or partly funded obligations	12,962	8,965	1,685	11,945	8,458	1,336
2. Fair value of plan assets	-9,184	-5,913	-1,182	-8,397	-5,484	-1,052
Deficit (surplus) for funded plans	3,778	3,053	503	3,547	2,973	283
3. Present value of wholly unfunded obligations	830	156	155	783	158	156
4. Unrecognised net actuarial gain/(loss)	-1,732	-1,264	-268	-1,531	-1,361	-19
5. Unrecognised past service (cost) benefit	-2	-	-	-3	-	-
6. Effect of asset limit	-	-	-	-	-	-
Net liability (asset)	2,872	1,944	391	2,796	1,770	421
<i>Amounts in the statement of financial position</i>						
1. Liabilities	2,948	1,944	391	2,846	1,770	421
2. Assets	-76	-	-	-50	-	-
Net liability (asset)	2,872	1,944	391	2,796	1,770	421

Financial year ending on	Total	of which Sweden	of which Belgium	Total	of which Sweden	of which Belgium
	Dec 31, 2012	Dec 31, 2012	Dec 31, 2012	Dec 31, 2011	Dec 31, 2011	Dec 31, 2011
E. Components of pension cost						
<i>Amounts recognised in the consolidated income statement</i>						
1. Current service cost	465	292	100	351	212	74
2. Interest cost	474	298	64	488	300	72
3. Expected return on plan assets	-418	-260	-53	-428	-268	-51
4. Past service cost	8	8	-	-4	-	-
5. Amortisation of net (gain) loss	69	44	14	-1	-	3
6. Curtailment (gain) / loss recognised	-16	-	-	-	-	-
Total pension cost for defined benefit plans	582	381	125	405	244	98
7. Pension cost for defined contributions plans	1,324	1,187	116	1,329	1,138	159
Total pension cost recognised in the income statement	1,906	1,568	241	1,734	1,382	257
<i>Actual return on assets</i>						
Actual return on plan assets	787	428	109	165	130	4
F. Plan assets						
<i>per centage of plan assets by asset allocation</i>						
1. Equity securities	29.04%	30.25%	0.00%	35.21%	39.20%	0.00%
2. Debt securities	39.14%	48.56%	0.00%	37.84%	45.70%	0.00%
3. Property	0.09%	0.00%	0.00%	0.11%	0.00%	0.00%
4. Other	31.72%	21.19%	100.00%	26.84%	15.10%	100.00%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
<i>Expected return on assets by asset allocation</i>						
1. Equity securities	4.58%	3.50%	0.00%	6.20%	6.00%	0.00%
2. Debt securities	3.69%	3.50%	0.00%	3.72%	3.50%	0.00%
3. Property	0.00%	0.00%	0.00%	4.80%	0.00%	0.00%
4. Other	3.64%	3.50%	3.44%	4.99%	4.83%	5.00%
Total	3.93%	3.50%	3.44%	4.94%	4.68%	5.00%
G. Other						
Contributions expected to be paid to the plan during the annual period beginning after the reporting period	443	216	128	406	204	88

H. History of experience gains and losses	2012	2011	2010
1. Present value of defined benefit obligation	13,791	12,727	10,423
Fair value of plan assets	9,184	8,397	8,083
Deficit/(surplus)	4,607	4,330	2,341
2. Difference between the expected and actual return on plan assets			
a. Amount	-369	263	-52
b. per centage of plan assets	-4%	3%	-1%
3. Experience (gain)/loss on plan liabilities			
a. Amount	169	-201	-12
b. per centage of present value of plan liabilities	1%	-2%	0%

NOTE 25 – CURRENT AND OTHER NON-CURRENT PROVISIONS

	Warranties	Service contracts	Other sales generated obligations	Other provisions	Total
Dec 31, 2011	5,670	3,296	3,284	1,706	13,956
Provided for during year	2,623	1,035	3,739	1,452	8,849
Utilised during year	-2,353	-483	-3,340	-1,200	-7,376
Reversal of unutilised amounts	-905	-415	-242	-448	-2,010
Translational differences and other	-34	-120	-139	-33	-326
Dec 31, 2012	5,001	3,313	3,302	1,477	13,093
Of which current	2,093	830	3,202	957	7,182
Of which non-current	2,908	2,483	-	520	5,911

For additional information regarding accounting principles for provisions, see Note 1 – Accounting principles and Note 2 – Key sources of estimation uncertainty.

NOTE 26 – OTHER LONG-TERM LIABILITIES

	Dec 31, 2012	Dec 31, 2011
Liabilities to credit institutions and finance lease contracts		
Liabilities to credit institutions	6,917	4,803
Liabilities related to finance lease contracts	140	147
Total	7,057	4,950

LIABILITIES TO CREDIT INSTITUTIONS

Liabilities to credit institutions mature until 2020 (2017). The average cost of borrowing paid 2012 amounted to 5.4 % (5.2 %). In 2012 the shares of Geely Sweden AB and Volvo Car Corporation were pledged for the liabilities to credit institutions of SEK 6,917 million. (2011 share pledges and mortgages amounted to SEK 4,803 million).

	Dec 31, 2012	Dec 31, 2011
Other long-term liabilities		
Payroll taxes	426	390
Liabilities related to repurchase agreements	627	573
Deferred leasing revenue	393	502
Participation in associated companies ¹⁾	-	63
Other liabilities	49	21
Total	1,495	1,549

¹⁾ V2 Plug-In Hybrid Vehicle Partnership HB is a joint venture, however reported in accordance with the equity method since none of the holding companies, Volvo Cars PHEV Holding AB and Vattenfall PHEV Holding AB, has the decision-making power over the operation. Due to the nature of the participation the book value of the liability amounted to SEK 63 million. See also Note 14 – Investments in associates for further information.

	Dec 31, 2012	Dec 31, 2011
Repayment structure of liabilities to credit institutions		
1–5 years	2,480	4,376
Over 5 years	4,437	427
Total	6,917	4,803
Exposure of interest rate changes related to liabilities to credit institutions		
6 months or less	6,917	3,466
1–5 years	-	1,337
Total	6,917	4,803

The carrying amounts of Volvo Car Group's liabilities to credit institutions are denominated in the following currencies:	Dec 31, 2012	Dec 31, 2011
EUR	6,917	1,766
USD	-	1,337
SEK	-	1,700
Total	6,917	4,803

Volvo Car Group has the following undrawn borrowing facilities:

Floating rate	Dec 31, 2012	Dec 31, 2011
- Expiring within one year	919	3,384
Total	919	3,384

The facilities expiring within one year are annual facilities subject to review at various dates during 2012.

NOTE 27 – OTHER CURRENT LIABILITIES

	Dec 31, 2012	Dec 31, 2011
Accrued expenses and prepaid income	5,306	4,367
Liabilities related to repurchase agreements	2,896	2,692
Personnel related liabilities	2,592	2,444
VAT liabilities	934	984
Hedging instruments	249	326
Deferred leasing revenue	493	69
Other liabilities	690	729
Total	13,160	11,611

NOTE 28 – PLEDGED ASSETS

	Dec 31, 2012	Dec 31, 2011
Shares in subsidiaries	16,662	22,052
Loan receivables	-	7,536
Mortgages in property, plant and equipment	-	3,300
Restricted cash	506	469
Other pledged assets	1	28
Total	17,170	33,385

NOTE 29 – CONTINGENT LIABILITIES

	Dec 31, 2012	Dec 31, 2011
Investment commitments in contractual manufacturer	349	308
Share of packaging supply in logistic company	208	175
Guarantees to insurance company FPG	112	108
Other contingent liabilities	38	107
Total	708	698

Apart from the above contingent liabilities, there are other commitments and guarantees that are not recognised since the likelihood of an out-flow of resources is very low.

LEGAL PROCEEDINGS

Companies within Volvo Car Group are involved in legal proceedings covering a range of different matters, which are pending 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 Volvo Car Group work closely with legal counsel and other experts in the various matters in each jurisdiction. A provision is made when it is determined that an adverse outcome is probable and the amount of the loss can be reasonably estimated. In instances where these criteria are not met, a contingent liability may be disclosed.

TAX PROCESSES

Volvo Car Group is also, 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 according to the accounting principles, i.e., when it is more likely than not that additional taxes 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 shown as contingent liabilities.

NOTE 30 – CASH FLOW STATEMENT

	2012	2011
Adjustments for items not affecting cash flow consist of:		
Capital gains/losses on sale of tangible and intangible assets	36	86
Capital gains/losses on sale of shares and participations	-	-264
Shareholders' contribution to associates offset against invoiced services	-263	-281
Other non-cash items	-135	-228
Total	-362	-687

Acquisition of the remaining shares in Pininfarina Sverige AB is classified as an investing activity and is included in "Investments in shares and participations".

INCOME STATEMENTS AND OTHER COMPREHENSIVE INCOME – PARENT COMPANY

SEK million	Note	2012	2011
Other income		51	18
Gross income		51	18
Administrative expenses	3	-13	-15
Other operating expenses		-142	-23
Operating income	4	-104	-20
Share of income in group companies	5	-	-182
Financial income	6	500	410
Financial expenses	6	-742	-816
Income before tax		-347	-608
Appropriation to tax allocation reserve		12	-
Income tax	7	43	127
Net income		-292	-481

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

BALANCE SHEETS – PARENT COMPANY

SEK million	Note	Dec 31, 2012	Dec 31, 2011
ASSETS			
Non-current assets			
Participation in subsidiary	8	10,987	10,974
Deferred tax assets	7	161	118
Receivables from group companies	2	543	7,521
Other non-current assets		7	112
Total non current assets		11,698	18,725
Current assets			
Receivables from group companies	2	13	31
Other current assets		51	97
Cash and cash equivalents		110	47
Total current assets		174	175
TOTAL ASSETS		11,871	18,900
EQUITY AND LIABILITIES			
Equity			
<i>Restricted equity</i>			
Share capital (1,000,000,000 shares with par value of 1 SEK)		1,000	1,000
		1,000	1,000
<i>Non-restricted equity</i>			
Share premium reserve		5,509	5,509
Retained earnings		2,384	1,084
Net income for the year		-292	-481
		7,601	6,112
Total equity		8,601	7,112
Untaxed reserves			
Tax allocation reserve, taxation 2011		-	12
Long-term liabilities			
Liabilities to group companies	2,9	3,245	10,401
Other long-term liabilities		-	1,340
Total long-term liabilities		3,245	11,741
Current liabilities			
Liabilities to credit institutes		-	1
Trade payables		1	28
Liabilities to group companies	2	1	3
Other current liabilities		23	2
Total current liabilities		25	34
TOTAL EQUITY AND LIABILITIES		11,871	18,900

CHANGES IN EQUITY – PARENT COMPANY

SEK million	Restricted equity		Non-restricted equity			Total	Total equity
	Share Capital	Share premium reserve	Other contributed capital	Retained earnings			
Balance at January 1, 2011	1,000	5,509	51	-42	5,518	6,518	
Net income	-	-	-	-481	-481	-481	
<i>Transactions with owners</i>							
Unconditional shareholder's contribution	-	-	1,076	-	1,076	1,076	
Balance at December 31, 2011	1,000	5,509	1,127	-523	6,113	7,113	
Net income	-	-	-	-291	-291	-291	
<i>Transactions with owners</i>							
Unconditional shareholder's contribution	-	-	1,779	-	1,779	1,779	
Balance at December 31, 2012	1,000	5,509	2,906	-814	7,601	8,601	

STATEMENT OF CASH FLOW – PARENT COMPANY

No transactions affecting cash flow have occurred during the current and previous year.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

All amounts are in SEK million unless otherwise stated.

Amounts in brackets refer to the preceding year.

NOTE 1 – ACCOUNTING PRINCIPLES

The parent company previously applied recommendations and principles issued by the Financial Accounting Standards Council. As from 2012 the Annual Report has been prepared in compliance with Swedish Annual Accounts Act and Recommendation RFR 2, Accounting for Legal Entities of the Swedish Financial Reporting Board. There are no effects of the transition. RFR 2 implies that the parent company in the Annual Report of a legal entity shall apply all International Financial Reporting Standards and interpretations approved by the EU as far as this is possible within the framework of the Annual Accounts Act and taking into account the connection between reporting and taxation.

The operation of the parent company consist for the most part of share ownership in Group companies and financing. Volvo Car Group's accounting principles apply except for the following areas:

INCOME TAXES

Due to the relationship between accounting and taxation, the deferred tax liability on untaxed reserves are included in the untaxed reserves.

SHARES IN SUBSIDIARIES

The shares in subsidiaries are accounted for according to the acquisition cost method. Acquisition-related costs directly attributable to the acquisition are capitalised as part of the participation in Geely Sweden AB. Investments are carried at cost and only dividends are accounted for in the income statement. An impairment test is performed annually and write-downs are made when permanent decline in value is established.

FINANCIAL ASSETS

Financial assets that are intended as a long-term investment are carried at cost. Impairment tests are conducted annually and impairment losses are recognised if it is likely that a decline in value is permanent.

Transaction costs directly attributable to the acquisition of Volvo Car Corporation in 2010 have been accounted for as an increase in the carrying amount of the shares.

HEDGING

The parent company hedged future interest flows related to assets and liabilities. When hedging future interest flows, hedging instruments are not revalued at the exchange rate fluctuations. Instead the entire effect of changes in exchange rates is recognised in the income statement when the hedging instrument matures.

In cases where the parent company holds derivative financial instruments not used for hedging receivables and liabilities in foreign currency or interest flows associated with these, they are reported at the lower of cost and net realisable value.

EQUITY

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

SHAREHOLDERS' CONTRIBUTION

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

NOTE 2 – RELATED PARTIES

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

	Part of sales to related parties		Part of purchases from related parties	
	2012	2011	2012	2011
Companies within the Volvo Car Group	100%	100%	43%	23%

	Receivables from		Liabilities to	
	2012	2011	2012	2011
Companies within the Volvo Car Group	556	7,552	3,246	7,218
Geely Sweden Automotive AB	–	0	0	3,186
– whereof short-term	13	31	1	3
	556	7,552	3,246	10,404

Of the total receivables from related parties, SEK 556 million (7,552) is due within five years. Of the total liabilities to related parties SEK 3,246 million (10,404) is due within five years.

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 2012 the company has received an unconditional shareholders' contribution from Geely Sweden Automotive AB amounting to SEK 1,779

million. The contribution was initially received by Geely Sweden Holding AB from Shanghai Geely Zhaoyuan International Investment Co Ltd and was transformed from a loan into an unconditional shareholders' contribution.

Volvo Car Group does not engage in any transactions with Board members or senior executives except ordinary remunerations for services. For further information regarding remunerations, see Note 9 – Employees and remuneration in the consolidated statements.

NOTE 3 – AUDIT FEES

SEK thousand	2012	2011
Deloitte		
Audit fees	44	163
Audit-related fees	145	-
Other services	3	1,371
Total	192	1,534

Audit fees involve audit of the Annual report, financial accounts and the administration by the Board of Directors and the Managing Director. 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 4 – REMUNERATION TO THE BOARD OF DIRECTORS

Information on remuneration to Board members by gender is shown in Note 9 – Employees and remuneration, in the consolidated statements.

NOTE 5 – SHARE OF INCOME IN GROUP COMPANIES

	Dec 31, 2012	Dec 31, 2011
Write-down of shares in Volvo Cars of North America LLC	-	-182

NOTE 6 – FINANCIAL INCOME AND EXPENSES

	2012	2011
Financial income		
Interest income from subsidiaries	340	337
Net foreign exchange gain on financing activities	160	73
Total	500	410
Financial expenses		
Interest expenses to parent company	-598	-568
Other interest expenses	-105	-114
Net foreign exchange loss on financing activities	-39	-134
Total	-742	-816

NOTE 7 – TAXES

Income tax recognised in income statement	2012	2011
Current income tax for the period	-	9
Deferred taxes	43	118
Total	43	127
Information regarding current year tax expense compared to tax expense based on the applicable Swedish tax rate		
Income before tax for the year	-335	-608
Tax according to applicable Swedish tax rate, 26.3%	88	160
Tax effect on deferred tax due to change of tax rate	-32	-
Other	-13	-33
Total	43	127

As from January 1, 2013, the Swedish tax rate has changed from 26.3% to 22.0%, affecting deferred tax items.

Total deferred tax asset SEK 161 million (118) 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 SUBSIDIARY

	Dec 31, 2012	Dec 31, 2011
At beginning of the year/acquired acquisition value	10,974	10,945
Adjusted purchase consideration/acquisition	-	-17
Shareholders' contribution	13	228
Write-down of shares in Volvo Cars of North America LLC	-	-182
Total	10,987	10,974

Geely Sweden AB's investments in subsidiaries:	Corp. ID no.	Registered office	No. of shares	% interest held	Book value Dec 31, 2012	Book value Dec 31, 2011
Volvo Car Corporation	556074-3089	Göteborg	1,000,000,000	100	10,987	10,974

The share of voting power corresponds to holdings in per cent as per above.

NOTE 9 – LIABILITIES TO PARENT COMPANY

Information on loans from parent company is shown in Note 2.

As per December 31, 2012, the parent company holds no interest rate swaps. As per December 31, 2011, the fixed interest rate was 7.8 per cent, and the main floating rate was LIBOR. As per December 31, 2011, the nominal amount of the interest rate swap was SEK 1,379 million and the fair value SEK -6 million.

NOTE 10 – PLEDGED ASSETS

	Dec 31, 2012	Dec 31, 2011
Shares in Volvo Car Corporation	10,987	10,974
Loan receivable pledge in Geely Sweden AB	-	7,536
Other pledged assets	-	28
Total	10,987	18,538

Pledged assets per December 31, 2011 were withdrawn during 2012 due to repayment of loans. Pledged shares in subsidiaries per December 31, 2012 refer to a new loan in Volvo Car Corporation.

SUBSIDIARIES

Legal Entity	Corp. ID No.	Registered office	Holding in per cent
Volvo Personvagnar AB	556074-3089	Gothenburg / Sweden	100
Volvo Car Austria GmbH		Austria	100
Volvo Car do Brasil Automoveis Ltda		Brazil	100
Volvo Cars Brasil Importacao e Comercia de Veiculos		Brazil	100
Volvo Cars of Canada Ltd		Canada	100
Volvo Automobile (Schweiz) AG		Switzerland	100
Volvo (China)Investment Co Ltd		China	100
Volvo Cars China		China	100
Technology Shanghai Co		China	100
Volvo Auto Czech Sro		Czech Republic	100
Volvo Cars Germany		Germany	100
Volvo PV Danmark AS		Denmark	100
Volvo Cars Espana		Spain	100
Volvo Auto Oy		Finland	100
Volvo Automobile France		France	100
Volvo Car Uk Ltd		United Kingdom	100
Volvo Car Hellas		Greece	100
Volvo Auto Hungaria Kft		Hungary	100
Volvo Car Ireland Ltd		Ireland	100
Volvo Auto India Pvt. Ltd		India	100
Volvo Auto Italia Spa		Italy	100
Volvo Cars Japan		Japan	100
Volvo Car Korea Co., Ltd		Korea	100
Volvo Cars Mexico		Mexico	99.9
Swedish Motor Assemblies Sdn Bhd		Malaysia	50
SNAVA Holding BV		The Netherlands	100
SNITA Holding BV		The Netherlands	100
Swene Holding BV		The Netherlands	100
SNEBE Holding BV		The Netherlands	100
Volvo Personbiler Norge AS		Norway	100
Volvo Autos Peru SA		Peru	100
Volvo Auto Polska Sp Z.o.o		Poland	100
Volvo Car Portugal SA		Portugal	100
Volvo Personbilar Sverige AB	556034-3484	Gothenburg / Sweden	100
Volvo Cars Overseas Corp AB	556223-0440	Gothenburg / Sweden	100
Volvo Personvagnar Norden AB	556413-4848	Gothenburg / Sweden	100
Volvo Personbilar Australia Holding AB	556152-2680	Gothenburg / Sweden	100
Volvo Bil i Göteborg AB	556056-6266	Gothenburg / Sweden	100
Volvo Cars Uddevalla AB	556232-0142	Uddevalla / Sweden	100
Volvo Cars NSC Holding AB	556754-8283	Gothenburg / Sweden	100
Volvo Cars PHEV Holding AB	556785-9375	Gothenburg / Sweden	100
Volvo Cars Real Estate and Assets 1 AB	556205-7298	Gothenburg / Sweden	100
Volvo Cars Investment and Borrowing AB	556130-4246	Gothenburg / Sweden	100
Volvo Car Center Uddevalla AB	556651-0193	Uddevalla / Sweden	100
Volvo Cars Services 1 AB	556877-5778	Gothenburg / Sweden	100
Volvo Cars Services 2 AB	556877-5760	Gothenburg / Sweden	100
Volvo Car Asia Pacific Ltd		Singapore	100
Volvo Otomobil Ticaret Ltd		Turkey	100
Volvo Cars Taiwan		Taiwan	100
Volvo Cars South Africa		South Africa	100
Volvo Cars Financial Services US LLC		USA	100
Volvo Cars North America LLC		USA	100

SIGNATURES

Stockholm, April 18th 2013

Li Shufu
Chairman of the Board

Hans-Olov Olsson
Board member

Zhang Ran
Board member

Li Donghui
Board member

Our audit report was submitted, April 18th 2013

Deloitte AB
Jan Nilsson
Authorized Public Accountant

AUDITOR'S REPORT

To the annual meeting of the shareholders of Geely Sweden AB
Corporate identity number 556798-9966

This is a direct translation of the Swedish Audit Report.

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

We have audited the annual accounts and consolidated accounts of Geely Sweden AB for the financial year 2012-01-01 – 2012-12-31.

Responsibilities of the Board of Directors for the annual accounts and consolidated accounts

The Board of Directors are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors 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.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

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

Opinions

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 2012 and of its financial performance and its cash flows 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 2012 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, 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 annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors of Geely Sweden AB for the financial year 2012-01-01 – 2012-12-31.

Responsibilities of the Board of Directors

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors are responsible for administration under the Companies Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

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.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors is liable to the company. We also examined whether any member of the Board of Directors has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

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

Opinions

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

Gothenburg, 18 April 2013
Deloitte AB

Jan Nilsson
Authorized Public Accountant