AB Volvo

Press Information

Volvo - report on 2000 operations

	2000	1999
Net sales, SEK M	130 070	125 019
Operating income, excluding items affecting comparability, SEK M	6 154	6 726
Items affecting comparability, SEK M*	-	26 695
Operating income, SEK M	6 154	33 421
Income after financial items, SEK M	6 246	34 596
Net income, SEK M	4 709	32 222
Income per share excluding items affecting comparability , SEK	11.20	12.40
Return on shareholders' equity, excluding items affecting comparability , %	5.0	8.0

**Items affecting comparability for 1999 concerns gain on sale of Volvo Cars to Ford Motor Company.*

- Volvo’s acquisition of Renault’s truck business accomplished.
- Net sales of the Volvo Group increased by 4%, to SEK 130,070 M in 2000. A continuing weak trend of business in North America was offset by a positive trend in Europe, Asia and South America.
- Volvo Trucks’ profit improvement program develops well and contributed to a strong improvement in results in the fourth quarter.
- Volvo Penta’s and Volvo Aero’s operating income was the best ever.
- Operating income in 2000 amounted to SEK 6,154 M, compared with SEK 6,726 M a year earlier (excluding the sale of Volvo Cars).
- The Board of Directors proposes that a dividend of SEK 8.00 per share be paid for 2000. Furthermore, the Board of Directors has today decided to repurchase a maximum of 10 percent of the Company shares.

Comments by the Chief Executive Officer

Effective January 2, 2001, as a result of the acquisition of Mack Trucks and Renault V.I., the Volvo Group has been substantially strengthened. The volumes of our truck business have been nearly doubled, and we are the largest manufacturer in the heavy-truck segment in Europe and the second largest in the world, with significantly improved volumes in the medium-heavy segments as well. In the heavy diesel engine sector we are among the four very largest producers in the world.

The new organization that was established in connection with the acquisition is designed to develop and strengthen the three truck brand names, based on a common industrial platform. Accordingly, Mack, Renault and Volvo are competing brands in the market, as they were before, while purchasing, product planning and product development is being coordinated in a common structure. The development and production of engines has been transferred to a separate business unit, with the task of supplying the entire Volvo Group with engines and other driveline components.

The operations in Mack, Renault and Volvo complement each other well in terms of both markets and products. This factor, combined with the new industrial structure, is expected to result in larger volumes and significantly lower costs. The savings will increase as the number of common components increases and we change over to a common basic engine program.

The purchase price for Mack Trucks and Renault V.I. amounts to approximately SEK 10.7 billion (see also page 19). As earlier announced, the goodwill amount and the structural costs in connection with the acquisition will be published when the opening balance is complete, however, not later than in connection to the report on the first quarter of 2001.

During 2000, the business areas introduced a number of new products that were very well received in the markets. They included new vocational trucks for the North American market, a new medium-heavy truck in Europe, a new series of articulated haulers, new diesel engines for marine and industrial use, and a new tourist bus built on the new platform for our large buses.

In terms of earnings, Marine and Industrial Power Systems, Finance, Construction Equipment and Aero were successful, despite the downturn in North America.

Marine and Industrial Power Systems had its best earnings ever, with a very strong fourth quarter. During the last year, the business area began the most comprehensive renewal and broadening of its product program in its history. Finance, which has the main part of its operations within the truck business, was successful in limiting credit losses in North America and is today our fastest-growing business area. Construction Equipment continues to show good earnings capacity despite a weaker demand in North America, which had an impact in the fourth quarter. Aero, which continues to be stable, signed several important contracts with leading manufacturers during the year.

In North America the entire truck industry is facing problems in the form of large inventories of used trucks and price pressures that have also affected Volvo's North American operations, whose earnings were unsatisfactory. Since midyear Volvo Trucks has been conducting a comprehensive turn-around program to restore profitability. The program had substantial effects in the autumn, including improved profitability in Europe. This, combined with the strong growth in Asia, Eastern Europe and South America, contributed to Trucks' improvement in the fourth quarter. The business climate in North America was also difficult for buses, which is reflected in earnings. We cannot expect any major improvements in 2001, but there is a favorable trend within Buses that is based on an increasing volume of business and coordination between the units within Buses.

We have a very exciting time ahead of us, with new and strong brand names and an organization that has a global presence and expertise. The integration of Mack Trucks and Renault V.I. has begun in a positive atmosphere, which is very important for the future development. With the acquired units we are approaching the sales volume that the Volvo Group had before the sale of Volvo Cars, but with the significant difference that the Volvo Group is now homogeneous. This gives us benefits of scale that were not possible earlier and the Volvo Group is now better equipped to develop competitive products and services in all business areas.

We look forward to continuing to develop the Volvo Group, based on the new platform that we have created. Our distinct ambition is to create profitable growth in all of the Volvo Group's business areas.

Leif Johansson

Significant events and structural transactions in the fourth quarter

Competition authorities approve Volvo’s acquisition of Mack Trucks and Renault V.I.
Volvo’s acquisition of Renault’s truck business became effective January 2, 2001. The acquisition implies that AB Volvo acquires all the shares of Renault’s truck operations – Mack Trucks and Renault V.I. – in exchange for 15 percent of AB Volvo’s shares.

The competition authorities in the European Union and the United States completed their examination of AB Volvo’s proposed acquisition of Renault’s truck operations during the second half of 2000 and decided to approve the transaction after Volvo and Renault had agreed to make certain concessions. The concessions mean that; AB Volvo will divest the LCOE business (special trucks with the cab directly over the engine and with a low entrance), conducted by Volvo Trucks in the US, within three months following the approval from the American competition authorities, AB Volvo will divest its shareholding in Scania within a period of three years following the same date, and Renault V.I. will divest its 50% holding in RS Hansa Oy, a Finnish truck distributor, and Renault’s and Iveco’s cooperation in the jointly owned Irisbus bus company will cease.

During 2000 AB Volvo repurchased 10 percent of the Company’s outstanding shares. On January 2, 2001 these shares were transferred to Renault S.A. as partial payment for the shares of Mack Trucks and Renault V.I. Volvo plans to repurchase additional shares in order to be able to transfer the remaining five percent of the Company’s shares to Renault S.A. as final payment.

Significant events and structural transactions earlier in 2000
Effective in 2000, all financing operations within the Volvo Group were brought together in Finance, a new Groupwide business area. The new business area includes all of Volvo’s customer-financing operations; Volvo Treasury, the internal bank; Volvo’s insurance operations and Danafjord, the Volvo Group’s real estate company.

In February Volvo Aero sold its operation that produced truck components to the Finnveden engineering group. The sale was part of Volvo Aero’s program to concentrate on core operations.

On March 14 the European Union Commission rejected AB Volvo’s application for approval of its proposed acquisition of Scania. As a result of the Commission’s decision, AB Volvo was not able to fulfill its agreement to acquire Investor’s holding of Scania’s shares, or to implement its public offer to Scania’s shareholders. Volvo’s present holding in Scania amounts 30.6 percent of the voting rights in the company and 45.5 percent of the company’s share capital.

During 2000 AB Volvo repurchased 10 percent of its outstanding shares – 13,860,494 Series A shares and 30,291,594 Series B shares. The transaction was carried out through an offer to repurchase shares held by Volvo shareholders and, to a minor extent, through additional purchases in the open market. Following the repurchase transactions, 397,368.797 Volvo shares are outstanding; the average number of shares outstanding in 2000 was 421,683,857. On January 2, 2001, the repurchased shares were transferred to Renault S.A. as partial payment for the shares of Mack Trucks and Renault V.I., whereby the number of outstanding Volvo shares amounts to 441,520,885. Following delivery of these shares to Renault S.A., AB Volvo does not own any of its own shares. Volvo’s repurchase of its own shares transferred a total of SEK 11.8 billion to AB Volvo’s shareholders.

In June, Tryggve Sthen, formerly president of Volvo Construction Equipment, was named the new president of Volvo Trucks. He succeeded Karl-Erling Trogen, who continues to serve on Volvo’s Group Executive Committee with responsibility for synergy and integration matters, as well as Group responsibility for certain developing markets. Tony Helsham, formerly president of Volvo Construction Equipment Korea, has been named the new president of Volvo Construction Equipment and a member of the Group Executive Committee.

In June Volvo Bus Corporation and Shanghai Automotive Industry Corporation (SAIC) signed an agreement covering the establishment of a joint-venture company to manufacture and sell city and commuter buses.

During the third quarter Volvo and Mitsubishi signed an agreement specifying the terms for Volvo’s acquisition of 19.9 percent of the shares of Mitsubishi Fuso Truck & Bus Company. In connection with the conversion of its truck and bus divison into a subsidiary of Mitsubishi Motors in June 2001, a special issue of new shares will be implemented. Volvo will then make a capital contribution to Mitsubishi Fuso Truck & Bus Company totaling approximately SEK 3.2 billion and will receive newly issued shares equal to 19.9 percent of the voting rights and capital in the new company. In accordance with the original timetable, this transaction is scheduled to take place July 1, 2001. In addition to the above fixed portion of the purchase price, Volvo may also make a supplementary payment, depending on the development of earnings in Mitsubishi Fuso Truck & Bus Company in the years 2002 to 2005. After the agreement was reached, DaimlerChrysler renegotiated its agreement with Mitsubishi, resulting in ongoing discussions with respect to the future cooperation between Volvo and Mitsubishi.

The Volvo Group - 2000

Net sales
Net sales of the Volvo Group for the full-year 2000 amounted to SEK 130.070 M, compared with SEK 125,019 M in 1999, an increase of 4%. Adjusted for the effects of foreign exchange movements, the increase was 2%.

All business areas with the exception of Trucks reported increases in net sales. The growth rates for Buses and Marine and Industrial Power Systems weakened slightly in the fourth quarter but were substantial – 17% and 15% respectively – for the full year. Trucks' net sales for the full year amounted to SEK 62,196 M, slightly lower than in the preceding year. The North American market continued to weaken, with a resulting negative impact on Trucks' sales. Deliveries declined by 31%, but the company was able to maintain its share of the market. The rate of growth for Construction Equipment rose in the fourth quarter and the increase for the full year amounted to 6%. In contrast, growth in Aero was weaker in the fourth quarter but there was a stable 8% increase in sales for the full year. Net sales for the Volvo Group as a whole amounted to SEK 35,932 M (35,213) in the fourth quarter, an increase of 2%.

Except in North America, Volvo Group net sales developed well in all markets, also in the fourth quarter. Sales in Western Europe, which constitute more than 50% of the Group total, increased by 3%. Sales in the North American market declined by 5% for the full year and by 11% in the fourth quarter. The decrease was mainly attributable to Trucks. The favorable trend of business continued in Asia, where Group sales rose by 45% for the full year, but from a low level. Trucks, in particular, is benefited from the economic recovery in Asia, where its deliveries more than doubled. Eastern Europe and South America also reported strong growth during the year and the increases relative to 1999 amounted to 36% and 31%, respectively. Eastern Europe showed an especially strong increase, 59%, in the fourth quarter. The increases for the other markets were attributable mainly to South Africa, where sales nearly tripled during the year.

The percentage of net sales attributable to Volvo's growth markets – Asia, Eastern Europe and South America – continued to increase and amounted to 14% of Group sales. The comparable figure in 1999 was 10%.

Operating income
Reported operating income for the Volvo Group in 2000 amounted to SEK 6,154 M (1999: SEK 6,726 M, excluding the sale of Volvo Cars). Operating income in the fourth quarter was strengthened as a result of a recovery in Trucks and amounted to SEK 1,689 M (2,125).

Trucks' operating income for the full year amounted to SEK 1,414 M (3,247). Operating income in the fourth quarter, Trucks' strongest quarter during the year, amounted to SEK 685 M (1,116). The problems in North America are continuing, with declining deliveries and a severe competitive situation. This was offset in part by continuing strong demand in Western Europe in the fourth quarter, with larger volumes and gradually improved margins. The turn-around program that was initiated in June also helped to strengthen operating income mainly through lower levels of cost in production and product development, and as a result of realized price increases.

All business areas except Trucks and Construction Equipment reported higher operating income in 2000, compared with 1999, as well as operating margins in line with, or exceeding, the preceding year's levels. Construction Equipment, with an operating margin of 8%, has the highest earnings capacity in the Volvo Group.

Operating income for 2000 includes SEK 610 M pertaining to realized gains on the remaining securities portfolio in Volvia (of which SEK 210 M in the first quarter and SEK 400 M in the second quarter). Furthermore, operating income includes surplus funds of SEK 683 M from SPP, booked in the second quarter, distributed as follows: Trucks, SEK 192 M; Buses, SEK 22 M; Construction Equipment, SEK 147 M; Marine and Industrial Power Systems, SEK 41 M; Aero, SEK 106 M; and Finance, SEK 38 M and other operations, SEK 137 M (see also page 19.) Income also includes
SEK 520 M resulting from a favorable adjustment of gain on the sale of Volvo Cars, of which SEK 375 pertains to the fourth quarter. The adjustment of income was due to a supplement to the purchase price and to the fact that part of a reserve for restructuring costs proved to be unnecessary. Operating income in the second quarter was charged with provisions within Volvo Trucks in the amount of approximately SEK 160 M. Operating income in 1999 included a capital gain of SEK 180 M in connection with the

sale of a company in Construction Equipment, as well as the reversals of reserves of approximately SEK 240 M for customer-financing operations.

The Volvo Group’s operating margin for the year amounted to 4.7%, compared with 5.4% in 1999; the margin in the fourth quarter was 4.7% (6.0).

Income from investments in associated companies

Income from investments in associated companies – primarily Scania, Bilia and Volvofinans – amounted to SEK 444 M (567). On March 14, 2000 the European Union Commission rejected Volvo’s application for approval of Volvo’s proposed acquisition of Scania. As a result, effective in the second quarter of 2000, Volvo’s holding in Scania is no longer reported in accordance with the equity method. The dividend of SEK 637 M received from Scania in the second quarter reduced the book value of the holding.

Net interest income/expense

Net interest expense for the full-year 2000 amounted to SEK 257 M (income 307). The decrease was due largely to lower net financial assets. Furthermore, net interest expense was charged with increased borrowings in Poland. A higher return on financial assets and lower costs of borrowing in Brazil and South Korea had a positive impact on net interest expense, compared with last year. Net interest expense in the fourth quarter amounted to SEK 237 M, compared with SEK 133 M in the third quarter. The decrease was in part attributable to lower net financial assets compared with the third quarter.

Taxes

Tax expenses for full-year 2000 amounted to SEK 1,510 M (2,270), corresponding to an average tax rate of 24% (29% excluding the sale of Volvo Cars). The Volvo Group’s average tax rate during 2000 was affected favorably by the supplementary payment received for Volvo Cars of SEK 375 M, for which no income tax was incurred. In addition, the tax expenses reported during the year were reduced through revaluation of provisions in prior years for deferred tax receivables. The reported tax expenses pertain primarily to current taxes in Swedish and foreign Volvo Group companies.

Net sales by market area	**Fourth quarter**		**Year**		**Change**
SEK M	**2000**	**1999**	**2000**	**1999**	**in %**
Western Europe	19 401	19 116	68 182	66 158	+3
Eastern Europe	1 408	888	3 933	2 899	+36
North America	10 046	11 333	40 655	43 002	-5
South America	1 318	1 123	5 182	3 942	+31
Asia	2 930	1 976	8 765	6 028	+45
Other countries	829	777	3 353	2 990	+12
Total	**35 932**	**35 213**	**130 070**	**125 019**	**+4**

Consolidated income statements	Fourth quarter		Year	
SEK M	2000	1999	2000	1999
Net sales	**35 932**	**35 213**	**130 070**	**125 019**
Cost of sales	(28 610)	(27 967)	(104 548)	(99 501)
Gross income	**7 322**	**7 246**	**25 522**	**25 518**
Research and development expenses	(1 291)	(1 142)	(4 876)	(4 525)
Selling expenses	(2 892)	(2 379)	(10 140)	(8 865)
Administrative expenses	(1 303)	(1 062)	(4 974)	(4 791)
Other operating income and expenses	(147)	(538)	622	(611)
Items affecting comparability *	-	-	-	26 695
Operating income	**1 689**	**2 125**	**6 154**	**33 421**
Income from investments in associated companies	14	89	444	567
Income from other investments	(33)	(28)	70	170
Interest income and similar credits	312	418	1 588	1 812
Interest expenses and similar charges	(549)	(280)	(1 845)	(1 505)
Other financial income and expenses	(46)	92	(165)	131
Income after financial items	**1 387**	**2 416**	**6 246**	**34 596**
Taxes	(194)	(715)	(1 510)	(2 270)
Minority interests in net (income) loss	(6)	(44)	(27)	(104)
Net income	**1 187**	**1 657**	**4 709**	**32 222**

**Items affecting comparability for 1999 concerns gain on the sale of Volvo Cars to Ford Motor Company.*

Condensed income statement - Finance	Fourth quarter		Year	
SEK M	2000	1999	2000	1999
Net sales	**2 695**	**2 293**	**9 678**	**8 637**
Operating income	**127**	**335**	**1 396**	**977**
Income from associated companies	24	38	103	89
Income (loss) after financial items	**151**	**373**	**1 499**	**1 066**
Taxes	(41)	(104)	(471)	(316)
Net income	**110**	**269**	**1 028**	**750**

Gross and operating margins	Fourth quarter		Year	
%	2000	1999	2000	1999
Gross margin	20.4	20.6	19.6	20.4
Research and development expenses in % of net sales	3.6	3.2	3.7	3.6
Selling expenses in % of net sales	8.0	6.8	7.8	7.1
Administrative expenses in % of net sales	3.6	3.0	3.8	3.8
Operating margin, excluding items affecting comparability	4.7	6.0	4.7	5.4
Operating margin	4.7	6.0	4.7	26.7

Consolidated balance sheets	Volvo Group excl Finance 1)		Finance		Volvo Group total	
SEK M	001231	991231	001231	991231	001231	991231
Assets						
Intangible assets	6 781	6 518	144	100	6 925	6 618
Property, plant and equipment	19 652	17 318	2 579	2 470	22 231	19 788
Assets under operating leases	4 245	1 611	11 883	10 726	14 216	12 337
Shares and participations	37 366	35 296	778	744	30 481	29 213
Long-term customer finance receivables	10	0	23 026	17 817	22 909	17 817
Long-term interest-bearing receivables	5 091	17 605	23	0	5 032	17 605
Other long-term receivables	2 186	2 337	90	147	2 232	2 484
Inventories	22 998	21 053	553	385	23 551	21 438
Short-term customer finance receivables	5	9	19 168	16 487	18 882	16 496
Short-term interest bearing receivables	14 195	1 012	1	-	14 196	1 012
Other short-term receivables	22 696	18 738	2 627	2 797	24 120	21 535
Marketable securities	5 682	17 990	3 886	2 966	9 568	20 956
Cash and bank	5 276	6 475	1 764	1 838	6 400	8 313
Total assets	**146 183**	**145 962**	**66 522**	**56 477**	**200 743**	**195 612**
Shareholders' equity and liabilities						
Shareholders' equity	88 338	97 692	7 663	6 827	88 338	97 692
Minority interests	593	544	0	0	593	544
Provision for post-employment benefits	2 619	2 118	13	12	2 632	2 130
Other provisions	8 277	9 861	6 620	4 971	14 941	14 832
Loans	18 233	12 206	49 048	41 139	66 233	53 345
Other liabilities	28 123	23 541	3 178	3 528	28 006	27 069
Shareholders' equity and liabilities	**146 183**	**145 962**	**66 522**	**56 477**	**200 743**	**195 612**

1) *The business area Finance is reported in accordance with the equity method.*

The Volvo Group's total assets amounted at year-end to SEK 200.7 billion, corresponding to an increase of SEK 5.1 billion compared with year-end 1999. Translation effects of foreign exchange movements increased the Volvo Group’s total assets by SEK 7.2 billion. In addition, the continued growth within the Finance business area resulted in an increase of SEK 6.6 billion (excluding exchange rate effects). Investments in fixed assets and shares and increased capital tied-up in inventories and receivables also contributed to the increase in total assets. Liquid funds declined by SEK 13.3 billion during the year, due mainly to dividends paid and payments in conjunction with the repurchase of own shares (see consolidated cash-flow statement).

Shareholders’ equity declined during 2000 by SEK 9.4 billion and amounted at year-end to SEK 88.3 billion. The Volvo Group’s net income during the year contributed SEK 4.7 billion, while dividends paid and repurchase of own shares reduced equity by SEK 3.1 billion and SEK 11.8 billion, respectively. The remaining increase of SEK 0.8 billion pertains primarily to translation effects due to changes in currency rates.

Net financial assets amounted at year-end to SEK 9.4 billion. The change during the year and during the fourth quarter is specified in the accompanying table.

Change of Net financial assets*	Fourth quarter		Year	
Beginning of period		**9.0**		**28.8**
Cash flow from operating activities	1.9		3.6	
Investments in fixed assets and leasing assets, net	(1.7)		(5.0)	
Operating cash flow, excluding Finance		**0.2**		**(1.4)**
Acquisition of shares in Scania		-		(1.3)
Dividend paid		-		(3.1)
Repurchase of own shares		-		(11.8)
Other, including changes in exchange rates		0.2		(1.8)
Total change		**0.4**		**(19.4)**
December 31, 2000		**9.4**		**9.4**

**Effective in 2000, the Volvo Group's net financial assets are calculated excluding the Finance business area, since interest income and interest expense in Volvo Group operations are reported in consolidated operating income. The change resulted in a decrease of SEK 2.2 billion in net financial assets as of January 1, 2000.*

Key ratios	Jan - Dec 2000	Jan - Dec 1999
Income per share, SEK	11.20	73.00
Income per share, excluding items affecting comparability, SEK	11.20	12.40
Return on shareholders' equity, %	5.0	34.9
Return on shareholders' equity excluding items affecting comparability, %	5.0	8.0
Net financial assets at end of period, SEK billion	9.4	28.8
Net financial assets at end of period as percentage of shareholders' equity and minority interests	10.6	29.3
Shareholder' equity and minority interests as percentage of total assets	44.3	50.2
Shareholders' equity and minority interests excluding Finance, as percentage of total assets	60.8	67.3

Cash flow statement	Volvo Group excl Finance		Finance		Volvo Group total	
SEK billions	2000	1999	2000	1999	2000	1999
Operating activities						
Operating income 1)	4.8	5.7	1.4	1.0	6.2	6.7
Depreciation and amortization	3.8	3.1	2.5	2.1	6.3	5.2
Other non-cash items	(1.2)	0.2	0.4	0.3	(0.8)	0.5
Change in working capital	(3.0)	(1.7)	(0.3)	0.7	(3.3)	(1.0)
Financial items and income taxes	(0.8)	(1.7)	0.4	0.0	(0.4)	(1.7)
Cash flow from operating activities	**3.6**	**5.6**	**4.4**	**4.1**	**8.0**	**9.7**
Investing activities						
Investments in fixed assets	(5.1)	(4.7)	(0.3)	(0.2)	(5.4)	(4.9)
Investments in leasing assets	(0.6)	(0.5)	(5.1)	(5.1)	(5.7)	(5.6)
Disposals of fixed assets and leasing assets	0.7	0.8	1.4	0.8	2.1	1.6
Customer Finance receivables, net	0.0	0.1	(4.5)	(7.2)	(4.5)	(7.1)
Operating cash-flow	**(1.4)**	**1.3**				
Investments in shares, net	(1.6)	(25.9)	-	-	(1.6)	(25.9)
Loans to external parties, net	0.3	(3.2)	-	-	0.3	(3.2)
Acquired and divested operations	0.0	31.0	-	-	0.0	31.0
Cash flow after net investments	**(2.7)**	**3.2**	**(4.1)**	**(7.6)**	**(6.8)**	**(4.4)**
Financing activities						
Increase in bond loans and other loans					8.1	16.3
Repurchase of own shares					(11.8)	-
Dividends paid to AB Volvo's shareholders					(3.1)	(2.6)
Other					0.0	(0.1)
Change in liquid funds excl translation differences					**(13.6)**	**9.2**
Translation difference on liquid funds					0.3	(0.2)
Change in liquid funds					**(13.3)**	**9.0**

1) For 1999, excluding the gain on sale of Volvo Cars.

In the cash flow statements, the effects of major acquisitions and divestments of subsidiaries are excluded from other changes in the balance sheet. The effects of foreign exchange movements in connection with the translation of the accounts of foreign subsidiaries to Swedish kronor have been excluded since they do not affect cash flow.

The Volvo Group's cash flow

Excluding Finance, the Volvo Group’s operating cash flow during the year was negative in the amount of SEK 1.4 billion (positive 1.3). The weaker result, compared with the preceding year, was due mainly to lower operating income, an increase in the amount of capital tied-up in inventories and receivables and increased investments. However, the operating cash flow was improved during the last six months of the year, amounting to SEK 0.3 billion (of which SEK 0.2 billion during the fourth quarter). The improvement is partly explained by an action program to improve the Volvo Group’s cash flow, initiated during the third quarter. The action program includes a review of the Volvo Group’s operating capital tied up and reconsideration of earlier plans for production and investments, among other measures. The Group’s cash flow after net investments was negative in the amount of SEK 6.8 billion (4.4). Apart from the operating cash flow, this item included investments in shares of SEK 1.6 billion and a negative cash flow of SEK 4.1 billion within the business area Finance, due to a continued expansion within this area.

Financial review by business area

Net sales	Fourth quarter		Year		Change
SEK M	2000	1999	2000	1999	in %
Trucks	17 651	18 040	62 196	63 010	(1)
Buses	4 910	4 390	17 187	14 713	+17
Construction Equipment	5 102	4 788	19 993	18 882	+6
Marine and Industrial Power Systems	1 679	1 591	6 599	5 761	+15
Aero	2 882	2 842	10 713	9 953	+8
Finance	2 695	2 293	9 678	8 637	+12
Other	3 465	3 429	12 669	11 934	+6
Eliminations	(2 452)	(2 160)	(8 965)	(7 871)	-
Volvo Group	**35 932**	**35 213**	**130 070**	**125 019**	**+4**

Operating income	Fourth quarter		Year	
SEK M	2000	1999	2000	1999
Trucks	685	1 116	1 414	3 247
Buses	162	156	440	224
Construction Equipment	261	353	1 594	1 709
Marine and Industrial Power Systems	63	49	484	314
Aero	161	190	621	584
Finance	127	335	1 396	977
Other	230	(74)	205	(329)
Operating income*	**1 689**	**2 125**	**6 154**	**6 726**
Items affecting comparability	-	-	-	26 695
Operating income	**1 689**	**2 125**	**6 154**	**33 421**

**) excluding items affecting comparability 1999*

Operating margin	Fourth quarter		Year	
%	2000	1999	2000	1999
Trucks	3.9	6.2	2.3	5.2
Buses	3.3	3.6	2.6	1.5
Construction Equipment	5.1	7.4	8.0	9.1
Marine and Industrial Power Systems	3.8	3.1	7.3	5.5
Aero	5.6	6.7	5.8	5.9
Finance	4.7	14.6	14.4	11.3
Operating margin*	**4.7**	**6.0**	**4.7**	**5.4**
Operating margin	**4.7**	**6.0**	**4.7**	**26.7**

**) excluding items affecting comparability 1999*

Trucks

Net sales by market area	Fourth quarter		Year		Change
SEK M	**2000**	**1999**	**2000**	**1999**	**in %**
Europe	10 810	10 192	36 541	35 015	+4
North America	4 325	5 866	17 201	22 303	(23)
South America	915	673	3 111	2 190	+42
Asia	1 053	933	3 432	2 010	+71
Other countries	548	376	1 911	1 492	+28
Total	**17 651**	**18 040**	**62 196**	**63 010**	**(1)**

During 2000 the total market for heavy trucks in Western Europe increased to a record level of 245,000 (237,000) vehicles, according to preliminary figures. The total market also increased – from relatively low levels – in Southeast Asia, Eastern Asia and Brazil. The total market for heavy (Class 8) trucks in the United States declined by 19%, to 212,000 vehicles, compared with 1999 figures. The market in the U.S. declined by 40% in the fourth quarter compared with the year-earlier quarter. As a result of the decline in the market combined with large inventories of new and used trucks, the competition continued to stiffen, causing cutbacks in production and personnel reductions by most manufacturers.

Volvo delivered 81,830 (85,087) medium-heavy and heavy trucks during the year, including 23,139 (23,981) in the fourth quarter. Deliveries in Europe rose by 9%, to 46,143 (42,527) units in 2000, with 13,852 (12,656), an increase of 9%, being delivered in the fourth quarter.

Volvo's deliveries in North America declined by 31%, to 23,610 (34,303) in 2000. Deliveries in North America in the fourth quarter amounted to 5,936 (8,663) trucks. Deliveries in South America during the year increased by 16%, to 4,534 (3,901) trucks, and deliveries in Asia, which amounted to 5,554 (2,723) trucks, more than doubled.

Volvo Trucks' total order bookings during 2000 declined by 6%, to 74,067 units, compared with orders in 1999. Orders booked in North America in the fourth quarter were 15% lower than a year earlier. Volvo Trucks' total order backlog at year-end amounted to 24,476 trucks, 19% less than on the same date a year earlier. The decrease was largely related to the decline of the market in North America.

Volvo's share of the market for heavy trucks in Western Europe at year-end amounted to 14.9% (15.0). Its share of the market for Class 8 trucks in the U.S. as of December 31 amounted to 10.7% (10.7), and its share of the market in Brazil at year-end was 27.4% (27.3).

Volvo Trucks' net sales in 2000 amounted to SEK 62,196 M (63,010), of which SEK 17,651 M (18,040) was booked in the fourth quarter. Operating income for the full year declined to SEK 1,414 M compared with SEK 3,247 M in the preceding year. The decrease in income was attributable to the continuing sharp reduction in the volume of business and the price pressure in North America.

The profit improvement program that was begun in June to strengthen Volvo Trucks' earnings capacity is developing well. Among other measures, improvements in efficiency have been made in production, product-development costs have been normalized and product costs have been reduced. Price increases have also been implemented in Western Europe, among other markets. Operating income in the fourth quarter amounted to SEK 685 M and was the highest during the year.

Volvo Trucks' operating margin declined to 2.3% (5.2). The operating margin in the fourth quarter was 3.9% (6.2).

During the year Volvo Trucks introduced two new models, the medium-heavy Volvo FL in Europe and the Volvo VHD in the heavy-truck segment in North America. The Volvo VHD, which is built on Volvo's global-module platform, has been developed initially for vocational use but is also suitable for many other applications. The Volvo VHD, which was well received when introduced on the market, strengthens Volvo's position in the important vocational segment in the North American market. This segment has not experienced the same decline in the market that has affected the demand for long-haul trucks.

Volvo's deliveries of trucks in the medium-heavy class (less than 16 tons total weight) increased by 39% in 2000. The new Volvo FL model, which was well received in the market and which has many technical features in common with the heavy-truck program, contributed substantially to the increase.

Buses

Net sales by market area	Fourth quarter		Year		Change
SEK M	**2000**	**1999**	**2000**	**1999**	**in %**
Europe	2 119	1 816	6 949	5 961	+17
North America	2 051	2 089	7 723	6 871	+12
South America	164	160	732	469	+56
Asia	425	174	1 269	943	+35
Other countries	151	151	514	469	+10
Total	**4 910**	**4 390**	**17 187**	**14 713**	**+17**

The total market for heavy buses increased in 2000, compared with 1999. The primary increases were noted in Mexico and South America. Volvo delivered 11,015 (9,504) buses and bus chassis in 2000, 16% more than in 1999. During the fourth quarter 2,975 (2,905) buses and bus chassis were delivered. The percentage of deliveries of complete buses produced by Volvo amounted to 47% (51) of total sales during the year.

Volvo's share of the market for heavy buses in Europe was 18%, compared with 15% a year earlier. There was a notably favorable trend in Great Britain, where Volvo introduced new products successfully. The Nordic markets are also showing strong growth.

The order backlog at December 31, 2000 was 25% smaller than on the same date a year earlier. There is a negative trend of order bookings in North America, the Middle East and Europe, due mainly to a change in product-generations.

Net sales increased to SEK 17,187 M (14,713), due to larger volumes of business in Europe and to the favorable effects of foreign exchange movements. Net sales in the fourth quarter amounted to SEK 4,910 M (4,390). Operating income, which amounted to SEK 440 M (224), nearly doubled, due to increased sales and the positive effects of an improved level of costs. Of the total operating income, SEK 162 M (156) was attributable to the fourth quarter. Strong sales, high utilization of capacity and the continuing favorable trend in Mexico were offset to a certain extent by smaller sales of tourist buses in North America.

The operating margin for the year was 2.6% (1.5) and the margin in the fourth quarter was 3.3% (3.6).

The Volvo 8500, the first bus built on the new TX product platform, was introduced during the year. The common TX platform constitutes a modernization of Volvo Buses' product program that will result in the replacement of many of the company's present models in the years ahead. In June, Volvo Buses signed a joint-venture agreement with Shanghai Automotive Industry Corporation (SAIC) covering the production and sale of city and commuter buses in China. The first jointly produced bus was manufactured in September. An expansion of production facilities in Mexico was inaugurated parallel with the successful market introduction of Volvo's 7550 model.

Construction Equipment

Net sales by market area	Fourth quarter		Year		Change
SEK M	**2000**	**1999**	**2000**	**1999**	**in %**
Europe	2 609	2 714	10 284	10 094	+2
North America	1 396	1 268	5 823	5 725	+2
South America	224	116	776	498	+56
Asia	778	539	2 484	1 903	+31
Other countries	95	151	626	662	(5)
Total	**5 102**	**4 788**	**19 993**	**18 882**	**+6**

The total market for heavy construction equipment increased by 3% in 2000, compared with 1999. The market in Western Europe grew by 6%, while the market in North America declined by 12%. The total increase in the other markets amounted to 12%.

The world market in the segment for compact machines increased by 4% in 2000. The market in North America increased by 28% and the growth in Europe amounted to 12%, while the market in the rest of the world declined by about 7%.

The total world market declined by 3% in the fourth quarter, with the market for heavy equipment decreasing by 4% and the segment for the compact machines decreasing by 3%.

Volvo Construction Equipment's net sales rose by 6%, to SEK 19,993 M (18,882), of which SEK 5,102 M (4,788), an increase of 7%, was booked in the fourth quarter.

Operating income amounted to SEK 1,594 M (1,709), including SEK 261 M (353) in the fourth quarter. Income in the fourth quarter was affected negatively by increased pressure on prices in North America and by costs related to cutbacks in personnel, SEK 46 M.

The operating margin for the year was 8.0% (9.1%), one of the highest in the industry. The operating margin in the fourth quarter was 5.1% (7.4%).

The value of the order backlog at year-end was 3% higher than on the year-earlier date. However, the order backlog decreased by 5%, compared with the figure at the end of the third quarter.

For the first time in the company's history Volvo CE sold more than 21,000 machines in a single year. This represented an increase of approximately 8%, compared with sales in 1999. The number of heavy excavators sold rose by 25%.

In the beginning of the year Volvo CE introduced a new, broad generation of excavators that were developed and manufactured in its plant in South Korea. The new "D" generation of wheel-loaders was also launched and the completely new A35D and A40D articulated haulers were presented during the autumn. New products were also presented in both the compact-machine and motor-grader segments. The new products were received very favorably by dealers, customers and the trade press.

During the autumn Volvo CE decided to begin producing construction equipment in Volvo's bus plant in Poland. In addition to the industrial advantages, the venture strengthens the company's presence in the increasingly important markets in Eastern Europe.

As of January 1, 2001, the final phase of the name change of the company and products from Champion – one of the world leaders in the motor-grader sector – was completed. As a result, all of Volvo CE's products are now being marketed under the Volvo brand name.

Marine and Industrial Power Systems

Net sales by market area	Fourth quarter		Year		Change
SEK M	2000	1999	2000	1999	in %
Europe	792	837	3 234	3 012	+7
North America	524	482	2 257	1 770	+28
South America	50	45	160	134	+19
Asia	264	203	794	692	+15
Other countries	49	24	154	153	+1
Total	**1 679**	**1 591**	**6 599**	**5 761**	**+15**

The total market in North America and Europe continued to be strong in 2000. The order books of builders of leisure craft in Europe are well filled. The total market for industrial engines in both Europe and the rest of the world continues to be stable.

Volvo Penta continued to increase its share of the market in the segment for marine engines and strengthened its position in the industrial-engine sector in Europe. Sales of industrial engines in Asia were marginally higher, while sales in North America showed a sharp increase. Net sales amounted to SEK 6,599 M (5,761), of which SEK 1,679 M (1,591) was booked in the fourth quarter. The increase was attributable to the successful product introductions during the year.

Operating income – the best ever for Volvo Penta – which was affected favorably by the continuing larger volumes of sales and by cost-savings, increased 54%, to SEK 484 M (314), of which SEK 63 M (49) in the fourth quarter.

The operating margin amounted to 7.3% (5.5%), with a margin of 3.8% (3.1%) in the fourth quarter.

During the year Volvo Penta invested heavily in a new product program that resulted in the introduction of a new 12-liter diesel engine for industrial applications and a new series of V8 gasoline-powered engines. A new 5- and 7-liter diesel-engine program for generators was introduced in June.

In the beginning of August, AB Volvo Penta and Mitsubishi Heavy Industries Ltd. (MHI) concluded a global agreement covering the distribution of diesel engines in the 25- to 65-liter range. The new Volvo Penta branded product program, substantially expands the engine program for use in marine commercial applications.

Aero

Net sales by market area	Fourth quarter		Year		Change
SEK M	2000	1999	2000	1999	in %
Europe	1 645	1 357	4 693	4 576	+3
North America	808	1 305	5 040	4 557	+11
South America	42	42	134	193	(31)
Asia	335	108	701	491	+43
Other countries	52	30	145	136	+7
Total	**2 882**	**2 842**	**10 713**	**9 953**	**+8**

Air traffic continued to increase throughout the world during the latter part of 2000. The increase in November amounted to 4.6% and the cumulative growth at the end of the year’s first eleven months amounted to 7.2%. As expected, the level of deliveries of large commercial aircraft was slightly lower than the record-high 1999 level. In contrast, order bookings continued to be higher than a year earlier.

Volvo Aero’s net sales rose by 7.6%, to SEK 10,713 M (9,953), in 2000, of this amount, SEK 2,882 M (2,842) in the fourth quarter.

Operating income, the best in Volvo Aero’s history, amounted to SEK 621 M (584). The Aerospace Components and the Military Engines business areas, in particular, reported increases in both sales and profitability. Operating income in the fourth quarter amounted to SEK 161 M (190). The decrease was due mainly to weaker earnings in after-sales market operations.

The operating margin amounted to 5.8% (5.9), including 5.6% (6.7) in the fourth quarter.

AGES was affected by the downturn in the after-sales market. An aggressive action program was carried out during the year; among other measures, the number of employees was reduced by more than 15% and several warehouses in North America were closed. At the same time, a leasing company was formed jointly with the Finance business area and new customer services were developed. These combined measures resulted in an improvement of AGES' profitability.

A number of important contracts were signed during the year. Under the terms of one, with General Electric Aircraft Engines, Volvo Aero will supply components for the F414 engine in the American F18 E/F Super Hornet fighter aircraft. In December it also became clear that Volvo Aero would participate in the program for the GE90 engine in Boeing's 777-200LR/300ER jumbo aircraft.

During the year the Swedish Defense Materiel Administration and Volvo Aero concluded an agreement whereby Volvo Aero will be responsible for maintenance of RM engines for the Swedish Air Forces' JAS 39 Gripen aircraft for the next five years, and for maintenance of the Viggen RM8 engine until the end of 2004.

Volvo Aero also signed an important agreement with Dresser-Rand whereby the Land & Marine Gas Turbines business area will assume all after-sales market responsibility for the DR 990 gas turbine. The agreement is strategically important because it creates new opportunities for sales of Volvo Aero's gas turbines.

Finance

The operations that were included in the Finance business area in 2000 were Volvo's customer-financing operations, Volvo's insurance operations, Volvo Treasury (the Volvo Group's internal bank), Danafjord (the Volvo Group's real estate company), and the associated company, Volvofinans.

Operating income for the year 2000 amounted to SEK 1,396 M (977), of which SEK 610 M pertained to gain on the sale of Volvia's securities portfolio. Effective in the second quarter of 2000, Volvo Treasury's income has been included in Finance's operating income. (see also page 20.)

Operating income in the fourth quarter amounted to SEK 127 M (335). Income in the fourth quarter of 1999 included approximately SEK 185 M that pertain to the reversal of reserves that had been established earlier for operations in Eastern Europe, among other purposes. The decline in earnings compared with the preceding year was due primarily to larger credit losses from truck financing in operations in North America during the second half of the year.

Adjusted for the sale of securities, including the lower yield from Volvia's portfolio compared with the preceding year, the surplus fund from SPP, Volvo Treasury's income and the reversal of reserves in 1999, Finance's operating income declined by 8%, compared with year-earlier income.

The total volume of new financing in 2000 amounted to SEK 20.6 billion, of which SEK 15.5 billion (75%) pertained to financing of Volvo trucks. The degree of penetration, in the markets where the Finance business area is offering financing on sales of new trucks, amounted to 31% in 2000, compared with a 26% degree of penetration in 1999.

Volvo Finance's total assets as of December 31, 2000 amounted to SEK 66.5 billion, of which SEK 53.6 billion was in the credit portfolio. Adjusted for the effects of foreign exchange movements, the credit portfolio increased by 14% in 2000. Approximately 73% of the credit portfolio were related to truck financing, 11% to the financing of construction equipment and 13% to bus financing. The remaining 3% were related mainly to the remaining financing of passenger cars.

Total reserves amounted to 2.7% of the credit portfolio, of which the reserve for residual-value risk amounted to 0.4%. Realized credit losses in 2000 amounted to SEK 411 M, compared with SEK 277 M in 1999. The negative effect on income for the year of changes in reserves and realized credit losses amounted to SEK 397 M.

Number of employees
As of December 31, 2000, the Volvo Group had 54,266 employees, compared with 53,470 at the end of 1999. The increase is attributable primarily to employees in acquired companies.

Parent Company
Operating income includes a surplus fund of SEK 89 M from SPP. Income from investments in Volvo Group companies includes dividends in the amount of SEK 589 M (996) and net Group contributions received totaling SEK 928 M (1,416). This also includes a capital gain of SEK 382 M (17,784) related to the 1999 sale of Volvo Personvagnar Holding AB to Ford Motor Company. Income from other shares and participations includes a dividend of SEK 637 M (180) from Scania AB.

Parent Company income statement

SEK M	2000	1999
Net sales	**377**	**459**
Operating income	**(300)**	**(588)**
Income from investments in Volvo Group companies	1 558	18 728
Income from investments in associated companies	(166)	(11)
Income from other shares and participations	663	195
Interest income and expenses	(87)	(6)
Other financial income and expenses	(44)	72
Income after financial items	**1 624**	**18 390**
Allocations	(133)	(227)
Taxes	(117)	384
Net income	**1 374**	**18 547**

Proposed dividend and repurchase of Company shares

The Board of Directors proposes that the Annual General Meeting approve payment of a dividend of SEK 8,00 per share for 2000, or a total of SEK 3,532 M. The dividend paid in the preceding year was SEK 7,00 per share.

Furthermore, the Board of Directors of AB Volvo voted today, in accordance with the authorization given by the Annual General Meeting on April 26, 2000, to acquire a maximum of 10 percent of the Company's shares on the OM Stockholm Exchange, not later than the next Annual General Meeting. Of the repurchased shares, 5 percent shall be transferred to Renault S.A. as final payment for the shares in Mack Trucks and Renault V.I. Any repurchase in addition to the 5 percent to be delivered to Renault S.A. shall be made to optimize the capital structure of the Volvo Group. The acquisitions are to be effected not later than the next Annual General Meeting. The shares are to be acquired at a price per share within the range of prices recorded on each date. 10 percent of the Company's shares corresponds to 44,152,088 shares, whereof 13.860.494 Series A shares and 30.291.594 Series B shares.

In addition, the Board of Directors has today resolved to propose to the Annual General Meeting that the Board be authorized to make further decisions regarding the acquisition and transfer of Volvo’s own shares. The proposal is on the same terms as in last year’s proposal, which was approved by the Annual General Meeting. The terms are essentially the following: Acquisition may be made of a maximum number of Series A and/or Series B shares so that Volvo, after each purchase, holds not more than 10 percent of the total number of shares. Purchases may be made through trading on a stock exchange, authorized marketplace or another regulated marketplace on which the Company’s shares are traded at a price per share corresponding to the prevailing market price. Acquisitions may also be made through an offer directed to all shareholders at a price that is a maximum of 30 percent higher than the prevailing market price at the time of the Board’s decision regarding such an offer. The main purpose for purchases is to optimize the capital structure of the Group. For the purpose of financing company acquisitions, transfer may be effected through an offer to all shareholders. Transfer may also be made to another party than a shareholder as payment in conjunction with company acquisitions.

The Annual General Meeting of AB Volvo will be held on April 25, 2001.

Göteborg, February 1, 2001

AB Volvo (publ)
The Board of Directors

Volvo’s annual report 2000 is to be published on March 26, 2001 and will be available at www.volvo.com. The annual report can also be ordered from Celero Support AB, DDC, Dep 64620 ARUN, SE-405 08 Göteborg, Sweden. Telephone: +46 31-66 10 47. Fax: +46 31-66 20 20. E-mail: cs1.volvoinf@memo.volvo.se.

Quarterly figures

Volvo Group SEK M unless otherwise specified	4/1999	1/2000	2/2000	3/2000	4/2000
Net sales	**35 213**	**30 546**	**33 450**	**30 142**	**35 932**
Cost of sales	(27 967)	(24 561)	(26 844)	(24 533)	(28 610)
Gross income	**7 246**	**5 985**	**6 606**	**5 609**	**7 322**
Research and development expenses	(1 142)	(1 182)	(1 281)	(1 122)	(1 291)
Selling expenses	(2 379)	(2 297)	(2 454)	(2 497)	(2 892)
Administrative expenses	(1 062)	(1 229)	(1 173)	(1 269)	(1 303)
Other operating income and expenses	(538)	148	688	(67)	(147)
Operating income	**2 125**	**1 425**	**2 386**	**654**	**1 689**
Income from investments in associated companies	89	365	40	25	14
Income from other investments	(28)	10	81	12	(33)
Interest income and similar credits	418	500	443	333	312
Interest expenses and similar charges	(280)	(389)	(441)	(466)	(549)
Other financial income and expenses	92	(23)	(79)	(17)	(46)
Income after financial items	**2 416**	**1 888**	**2 430**	**541**	**1 387**
Taxes	(715)	(629)	(521)	(166)	(194)
Minority interests	(44)	8	(23)	(6)	(6)
Net income	**1 657**	**1 267**	**1 886**	**369**	**1 187**

Depreciation and amortization included above					
Volvo Group excl Finance	770	922	893	908	1 075
Finance	507	612	704	468	669
Total	**1 277**	**1 534**	**1 597**	**1 376**	**1 744**

Income per share, SEK	**3.80**	**2.90**	**4.20**	**1.10**	**3.00**
Average number of shares, million	441.5	441.5	441.5	406.3	397.4

Income per share is calculated as net income divided by the weighted average number of shares outstanding during the period.

Gross and operating margin %	4/1999	1/2000	2/2000	3/2000	4/2000
Gross margin	20.6	19.6	19.7	18.6	20.4
Research and development expenses in % of net sales	3.2	3.9	3.8	3.7	3.6
Selling expenses in % of net sales	6.8	7.5	7.3	8.3	8.0
Administrative expenses in % of net sales	3.0	4.0	3.5	4.2	3.6
Operating margin	**6.0**	**4.7**	**7.1**	**2.2**	**4.7**

Net sales **SEK M**	**4/1999**	**1/2000**	**2/2000**	**3/2000**	**4/2000**
Trucks	18 040	15 129	15 781	13 635	17 651
Buses	4 390	3 838	4 556	3 883	4 910
Construction Equipment	4 788	4 649	5 438	4 804	5 102
Marine and Industrial Power Systems	1 591	1 585	1 725	1 610	1 679
Aero	2 842	2 286	2 731	2 814	2 882
Finance	2 293	2 206	2 546	2 231	2 695
Other	3 429	3 087	3 158	2 959	3 465
Eliminations	(2 160)	(2 234)	(2 485)	(1 794)	(2 452)
Net sales	**35 213**	**30 546**	**33 450**	**30 142**	**35 932**

Operating income **SEK M**	**4/1999**	**1/2000**	**2/2000**	**3/2000**	**4/2000**
Trucks	1 116	645	31	53	685
Buses	156	33	180	65	162
Construction Equipment	353	311	740	282	261
Marine and Industrial Power Systems	49	103	197	121	63
Aero	190	110	278	72	161
Finance	335	398	698	173	127
Other	(74)	(175)	262	(112)	230
Operating income	**2 125**	**1 425**	**2 386**	**654**	**1 689**

Operating margins **%**	**4/1999**	**1/2000**	**2/2000**	**3/2000**	**4/2000**
Trucks	6.2	4.3	0.2	0.4	3.9
Buses	3.6	0.9	4.0	1.7	3.3
Construction Equipment	7.4	6.7	13.6	5.9	5.1
Marine and Industrial Power Systems	3.1	6.5	11.4	7.5	3.8
Aero	6.7	4.8	10.2	2.6	5.6
Finance	14.6	18.0	27.4	7.8	4.7
Other	(2.2)	(5.7)	8.3	(3.8)	6.6
Operating margin	**6.0**	**4.7**	**7.1**	**2.2**	**4.7**

Financial effects of the repurchase

When calculating the effect on the income as a result of the repurchase resolved by the Board of Directors, no consideration has been given to that Mack Trucks and Renault V.I. are consolidated in the Volvo Group as of January 2, 2001. As a consequence, the calculation is only aimed at illustrating the effect on income of the resolved repurchase as an isolated transaction. The calculation has been made on the basis of the reported performance for 2000, adjusted on the assumption that the repurchase was made on January 1, 2000 at a hypothetical price, based on the closing rate on January 31, 2000 of SEK 173 per Series A share and SEK 178.50 per Series B share. The Volvo Group's net income for 2000 would, based on this assumption, be reduced from SEK 4,709 M to SEK 4,456 M (proforma) and the income per share would increase from SEK 11,20 to SEK 11,80 (proforma).

The number of outstanding shares in AB Volvo as of December 31, 2000 were 397,368,797. Considering the effect of the now resolved repurchase, as well as the effect of the transfer of 15 percent of the outstanding shares to Renault S.A. as payment for the acquisition of Mack Trucks and Renault V.I., the number of outstanding shares would increase to 419,444,842. The shareholder's equity of the Volvo Group as of December 31, 2000 amounted to SEK 88,338 M, corresponding to SEK 222 per share. Based on the assumption stated above, the Volvo Group's shareholder's equity would increase to SEK 90.889 M (proforma), corresponding to SEK 217 per share.

Estimated purchase price for Mack Trucks and Renault V.I.

As of 2001, Volvo intends to apply recommendation RR1:00 of the Swedish Financial Accounting Standards Council, which was issued in August 2000. In accordance with this recommendation, the purchase price is determined when subsidiaries are acquired through the issue of own shares at the market price for these shares on the date of the transaction. Accordingly, the purchase price for Mack Trucks and Renault V.I., including fees directly related to the acquisition, is estimated to amount to about SEK 10.7 billion. In accordance with the previous rules (RR1:96), such a purchase prices was determined based on the average market price of the shares ten days prior to the public announcement of the transaction. In applying this rule, the purchase price for Mack Trucks and Renault V.I., as announced previously should have been set at about SEK 14 billion.

Accounting for refunds from SPP

In the mid-1990s and later years surpluses arose in the SPP insurance company since the return on the management of ITP (pension fund) policies exceeded the growth in pension obligations. As a result of decisions in December 1998, SPP distributed, company by company, the surpluses that had arisen up to and including 1998.

In accordance with a statement issued by a special committee of the Swedish Financial Accounting Standards Council, surplus funds that were accumulated in SPP should be reported in companies when their present value can be calculated in a reliable manner.

The rules governing how the refund was to be made were established in the spring of 2000 and refund was stated in Volvo's accounts effective in the interim report for the first six months of 2000.

The discounted value of the surplus funds has been shown as Other operating revenue in the income statement. In the balance sheet, the claim is shown as a long-term interest bearing receivable; however, the portion that is expected to be received within one year is stated as a current interest-bearing receivable.

Changes in the Volvo Group's financial reporting as a result of the new business area, Finance

Effective January 1, 2000, Volvo's operations in customer-financing, insurance, Treasury and real estate were brought together in a separate business area, Finance. When presenting the Volvo Group's sales and operating income per segment, the results of Finance's operations are reported separately from those of the five business areas. Comparable figures for 1999 have been adjusted to conform to the new organization.

Income statements shown for Finance include total customer-financing operations including the Volvofinans associated company, Volvo's insurance operations including the Volvia, Danafjord, the Volvo Group's real estate company, and Volvo Treasury's income based on the definition below.

Balance sheets and cash flow statements for Finance include Volvo's total customer-financing operations including the Volvofinans associated company, Volvo's insurance operations including Volvia, and Danafjord, the Volvo Group's real estate company.

In connection with the formation of the Finance business area, there has been a modification of the principles used to classify financial income and expense in Volvo's insurance and real estate businesses. Effective January 1, 2000, financial income and expense in these operations are reported in the Volvo Group's operating income. Earlier, these items were included in the Volvo Group's next interest income/expense. Comparable figures for 1999 have been adjusted to conform to the classification principle. As a result of the above, the definition of the Volvo Group's net financial assets has also been modified. Effective January 1, 2000, the Volvo Group's net financial assets have been calculated excluding the Finance business area since financial income and expense in Finance is reported in consolidated operating income. As of January 1, 2000, as a result of the new definition, Volvo's net financial assets were reduced by SEK 2.2 billion.

Effective in the second quarter of 2000, Volvo Treasury's income is reported as part of the operating income in the Finance business area. Volvo Treasury's income includes interest income and similar income, interest expense and similar expenses, as well as overhead costs of Volvo Treasury's operations. However, income excludes the effects of the equity-capital base in Volvo Treasury. Based on the above definition, Volvo Treasury's income for 2000 amounted to SEK 151 M. Of this amount, SEK 183 M was formerly included in interest income in accordance with the earlier principle, and a deficit of SEK 32 M was included in Other financial income.

Change in identification of overhead costs in Volvo's spare-parts operations

Effective January 1, 2000, the method of calculating Volvo's product costs related to spare parts has been revised. Beginning in 2000, overhead costs of the Volvo Group's spare-parts business, which earlier were included among administrative costs, are being included among costs of products sold. Comparable figures for 1999 have been adjusted to conform to the changed classification.

Trucks, units invoiced	**Fourth quarter 2000**	**Fourth quarter 1999**	**Jan-Dec 2000**	**Jan-Dec 1999**	**Change in %**
Europe	13,852	12,656	46,143	42,527	+9
Western Europe	12,406	11,663	42,054	39,625	+6
Eastern Europe	1,446	993	4,089	2,902	+41
North America	5,938	8,663	23,610	34,303	(31)
South America	1,084	1,227	4,534	3,901	+16
Asia	1,619	1,072	5,556	2,723	+104
Other markets	646	363	1,987	1,633	+22
Total trucks	**23,139**	**23,981**	**81,830**	**85,087**	**(4)**

Volvo buses/bus chassis, units invoiced	**Fourth quarter 2000**	**Fourth quarter 1999**	**Jan-Dec 2000**	**Jan-Dec 1999**	**Change in %**
Europe	1,095	1,176	3,994	3,626	+10
Western Europe	1,064	1,131	3,870	3,427	+13
Eastern Europe	31	45	124	199	(38)
North America	969	1,081	3,869	3,638	+6
South America	235	250	980	714	+37
Asia	481	241	1,659	1,001	+66
Other markets	195	157	513	525	(2)
Total, buses/bus chassis	**2,975**	**2,905**	**11,015**	**9,504**	**+16**