VOLVO

Annual Report 2000

Contents

Product renewal

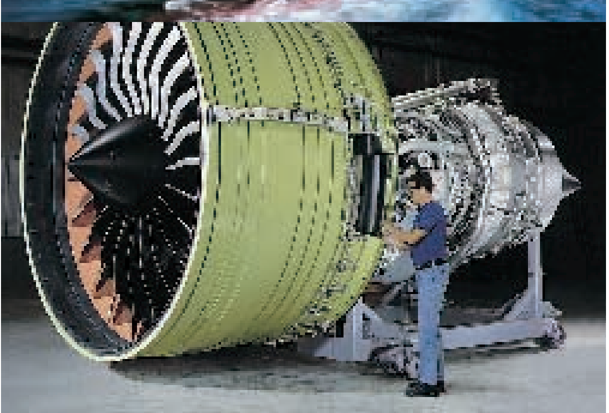
Trucks launched a new medium-heavy truck in Europe, the Volvo FL, and a new series of vocational trucks in the U.S., the Volvo VHD. An updated version of Dynafleet 2.0, transport planning software, was also introduced during the year.

Buses launched a new global product program for coaches and intercity buses based on a modular platform. The first bus based on the new platform is the Volvo 8500

Construction Equipment introduced two new articulated haulers, the A35D and the A40D, and a new generation of wheel loaders during the year. A new range of excavators and motor graders was launched, and the product range was expanded within compact equipment.

Marine and Industrial Power Systems broadened its customer range strongly during the year. Through cooperation with Mitsubishi the commercial marine product range was extended to include diesel engines in the 25-65 liter range. The year also included the introduction of two 5-liter and two 7-liter engines, as well as the 12-liter, D12 engine.

Aero made investments in engine alliance programs for commercial aero engines (GE90), military engines (F414) and components for space propulsion. Volvo Aero also signed an agreement for gas turbines.



2000 in brief

Key figures

	1998	1999	**2000**
Net sales, SEK M	212,936	125,019	**130,070**
Operating income, excluding items affecting comparability, SEK M	9,189	6,726	**6,154**
Items affecting comparability, SEK M [1]	(2,331)	26,695	**–**
Operating income, SEK M	6,858	33,421	**6,154**
Income after financial items, SEK M	11,619	34,596	**6,246**
Net income, SEK M	8,437	32,222	**4,709**
Income per share excluding items affecting comparability and gains on sales of shares, SEK	14.00	12.40	**11.20**
Operating margin, %	3.1	26.6	**4.7**
Return on shareholders' equity, excluding items affecting comparability and gains on sales of shares, %	9.7	8.0	**5.0**
Dividend per share, SEK	6.00	7.00	**8.00** [2]
Number of employees at year-end	79,820	53,470	**54,266**

1 Items affecting comparability in 1999 relate to gain on sale of Volvo Cars and in 1998 to provisions for restructuring costs.

2 Proposed by the Board of Directors.

The Volvo Group's mission statement

By creating value for our customers, we create value for our shareholders.

We use our expertise to create transport-related products and services of superior quality, safety and environmental care for demanding customers in selected segments.

We work with energy, passion and respect for the individual.

Business areas in 2000

Volvo Global Trucks

As of January 2, 2001, a new business area was formed that includes the truck operations of Mack, Renault and Volvo.

Volvo Global Trucks is the largest producer of heavy trucks in Europe and the second largest producer in North America and the rest of the world. See also page 8.

Trucks

Volvo offers a broad range of heavy-duty and medium-heavy trucks for all kinds of transport needs, from city distribution to construction work and long-distance transports. The customer offer also includes an extensive range of services such as financing and maintenance, as well as IT-based systems for fleet management. Volvo Trucks has a global industrial structure with sales and service worldwide.

Sales declined by 1%

Operating income amounted to SEK 1,414 M

Launch of a new medium-heavy truck in Europe, the Volvo FL, and a new series of vocational trucks in the U.S., the Volvo VHD.

Buses

Volvo is the world's second-largest bus manufacturer, with a variety of products to meet the customers' requirements on complex transport solutions. The product range includes complete buses, bus chassis and bodies as well as financing and service contracts. Volvo Buses also offers complete system solutions in cooperation with Volvo Mobility Services. Volvo Buses has grown rapidly through acquisitions and has production in Europe, North and South America and Asia.

Sales increased by 17%

Operating income amounted to SEK 440 M

Launch of a global product platform for coaches and intercity buses. New joint venture in Shanghai including production and sales of city and commuter buses.

Construction Equipment

Volvo provides construction equipment – excavators, wheel loaders, motor graders, articulated haulers and compact equipment – to customers all over the world. Production takes place on four continents and service is offered worldwide, including the global supply of spare parts. Volvo CE works in close cooperation with its customers, in order to understand and meet the customer's demands.

Sales increased by 6%

Operating income amounted to SEK 1,594 M

Launch of two new articulated haulers, the A35D and the A40D, and a new generation of wheel loaders, motor graders and an extension of the excavator range.

Net sales (SEK bn)

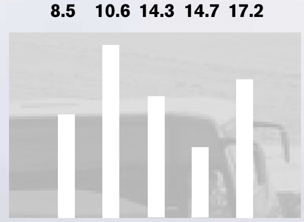
96 97 98 99 00
40.3 47.4 58.5 63.0 62.2

96 97 98 99 00
8.5 10.6 14.3 14.7 17.2

96 97 98 99 00
12.8 16.7 19.4 18.9 20.0

Operating income (SEK M)

96 97 98 99 00
783 1,707 2,815 3,247 1,414



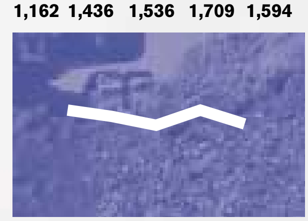
96 97 98 99 00
331 550 385 224 440

96 97 98 99 00
1,162 1,436 1,536 1,709 1,594

Operating margin (%)

96 97 98 99 00
1.9 3.6 4.8 5.2 2.3

96 97 98 99 00
3.9 5.2 2.7 1.5 2.6



96 97 98 99 00
9.1 8.6 7.9 9.1 8.0

Marine and Industrial Power Systems

Volvo Penta provides engines and complete power systems to customers who produce leisure boats, workboats, power generating equipment, forklifts, etc. Volvo Penta operates worldwide and has one of the industry's largest dealer networks. The product line comprises diesel and gasoline engines with power outputs of between 10 and 2,000 hp.

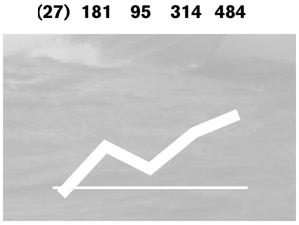
Sales increased by 15%

Operating income amounted to SEK 484 M, the best ever

Intensive product renewal and extension of the commercial marine product range.

96 97 98 99 00
3.9 4.5 4.9 5.8 6.6

96 97 98 99 00
(27) 181 95 314 484



96 97 98 99 00
(0.7) 4.1 1.9 5.5 7.3

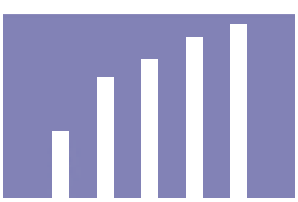
Aero

Volvo Aero is well established and specialized in several selected areas within the high-tech aerospace industry, and works in close cooperation with partners. Aero develops and manufactures components for commercial and military aircraft engines and space rockets, as well as marine and land-based gas turbines. Services, such as maintenance and leasing, constitute an increasingly greater part of operations.

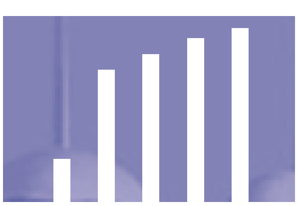
Sales increased by 8%

Operating income amounted to SEK 621 M, the best ever

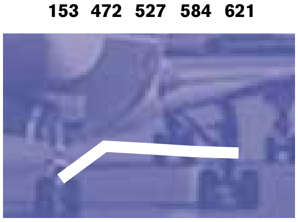
Several important contracts signed, divestment of truck engine components operations and outsourcing of services.



96 97 98 99 00
4.1 7.5 8.6 10.0 10.7



96 97 98 99 00
153 472 527 584 621



96 97 98 99 00
3.7 6.3 6.1 5.9 5.8

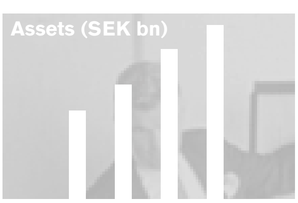
Financial Services

The Financial Services business area was established during the year to coordinate Group customer financing, insurance, treasury and real estate operations. The aim is to extend the customer offering by further developing various types of financial services related to Volvo's products. Financial Services has shown a strong and profitable growth during the past years.

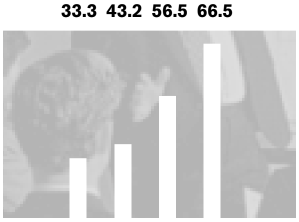
Total assets increased by 18%

Return on shareholders' equity reached 14.1%

31% of all new trucks sold were financed by Volvo Financial Services.



97 98 99 00
33.3 43.2 56.5 66.5



97 98 99 00
479 590 977 1,396

97 98 99 00
4.0 8.9 12.0 14.1

Mack and Renault V.I. in the Volvo Group

Effective January 2, 2001, the Volvo Group is Europe's largest and the world's second largest manufacturer of heavy trucks. Through the acquisition of Mack and Renault V.I., the volumes of our heavy-truck business have been nearly doubled, with significantly improved volumes in the medium-heavy segment as well. In the heavy diesel engine sector we are among the four largest producers in the world.

Volvo is Europe's largest and the world's second-largest manufacturer of heavy trucks

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 – will remain competing brands in the market, 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 of Mack, Renault and Volvo complement each other well in terms of both markets and products. This, combined with the new industrial structure and increased volumes, will generate significant cost savings, mainly within the purchasing area. In the long-term, the benefits of coordination will increase as we change over to a common basic engine program and the number of common components increases.

In the beginning of February 2001, AB Volvo repurchased 5 percent of the Company's shares, which on February 9 were transferred to Renault S.A. as final payment for the shares in Mack and Renault V.I. As a result a total of 15 percent of the shares in AB Volvo has been transferred to Renault S.A.

Successful product introductions

As before, we are working aggressively on product renewal and, during 2000, the business areas introduced a number of new products that were very well received in the markets. These introductions included a new series of 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 coach built on the new platform for our large buses.

In terms of earnings, Marine and Industrial Power Systems, Financial Services, Construction Equipment and Aero were successful.

Marine and Industrial Power Systems had its best earnings ever and began the most comprehensive renewal and broadening of its product program in its history. Financial Services,

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. 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, which also affected Volvo Truck's North American operations, whose earnings were unsatisfactory. Since midyear Volvo Trucks has been conducting a comprehensive profit improvement program to restore profitability, with substantial effects in the autumn, including improved profitability in Europe. Truck operations are achieving strong growth in Asia, Eastern Europe and South America. The business climate in North America was also difficult for buses, which is reflected in earnings.

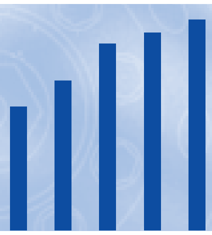
A global base for future challenges

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 and Renault V.I. has begun in a positive atmosphere, which is very important for 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.

Our overall goal is to create profitable growth in all our business areas

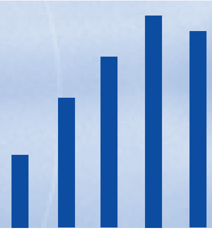
We look forward to continue to develop the Volvo Group, based on the new platform that we have created. Our distinct ambition is to create profitable growth in all of the Volvo Group's business areas.

Leif Johansson
March 12, 2001



96	97	98	99	00
76	92	115	125	130

Net sales*, SEK bn



96	97	98	99	00
2.3	4.1	5.4	6.7	6.2

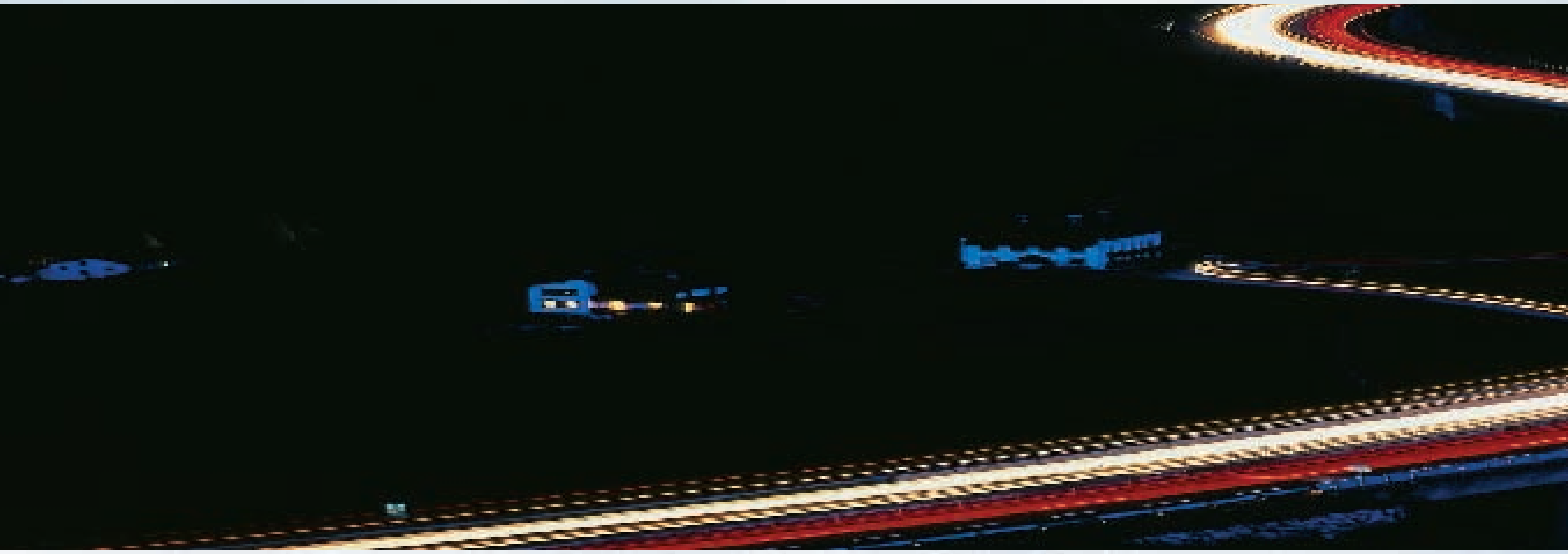
Operating income*, SEK bn

96	97	98	99	00
3.0	4.5	4.7	5.4	4.7

Operating margin*, %

* Excluding divested operations

Fundamental changes in transport industry



Volvo participates actively in transport industry consolidation

Industry development

The global trend towards deregulation of markets and international trade is the driving force behind a fundamental change in conditions for transport operators and providers of commercial vehicles and services. As a result, regional companies with substantially larger operations are developing through cross-border acquisitions. The deregulated market also enables the establishment of small entrepreneurial operations within the transport and construction business.

The global development of the Internet will further increase price and market transparency, thus fueling the competetive environment. Information technology can be used to extend and customize the customer offering.

The need for efficiency improvements and economies of scale is driving development in all parts of the value chain. Operators are increasingly outsourcing services in order to focus on their core business. Therefore the demand from customers will focus on extended services and more value-added products. Financing, insurance, leasing, contract service and maintenance are in increasing demand. Vehicle availability, maintenance and lower fuel consumption are essential elements in minimizing costs over the product life-cycle.

Efficiency is the key

The pace of technical development in areas such as materials, fuels, more efficient engines, electronic systems and information technology, is increasing. The urgent drive to meet new levels of efficiency and environmental compatibility increases costs and shortens product life cycles.

The demand for lower costs requires lean and efficient operations, as well as global and regional economies of scale for key components. To maintain and improve financial performance, manufacturers must be at the forefront of efficiency and scale. Process orientation, modularization for efficiency, the use of web-based solutions to reduce lead times and costs in the supply chain, and industry restructuring are key strategies in the emerging business environment. These are the driving forces behind the consolidation of the industry.

Volvo acquires Mack and Renault V.I.

Volvo takes an active part in the industry's consolidation, and as a result the truck operations of Renault, including Mack and Renault V.I., were added to the Group as of January 2, 2001. Through the acquisition, Volvo's truck volumes have doubled and we are now Europe's largest and the world's second-largest producer of heavy trucks. In the engine sector, the volume of heavy diesel engines (>8 liter) has virtually doubled, which makes us one of the world's four largest manufacturers of heavy diesel engines.

Added value for customers and shareholders

Volvo Global Trucks

Following the acquisition, the Volvo Group's truck operations are concentrated in one unit, Volvo Global Trucks, which incorporates the Mack, Renault and Volvo brands. Volvo Global Trucks plays a vital role in establishing the Volvo Group's vision to be valued as the world's leading provider of transport solutions.

The concentration of resources and competence enables a more aggressive and cost-effective approach to new technologies and market channels, such as telematics and e-business. The product lines will be broadened and at the same time offer enhanced customer value related to features, quality and customer support.

The new organization will enable us to benefit from the economies of scale, while at the same time increase our efforts in the areas of product development and product planning. The increased volumes will also generate cost savings, mainly attributable to purchasing. In order to fully utilize the synergies, purchasing, product planning and product development is organized in a separate unit, 3P, with total responsibility for coordinating these vital functions within Volvo Global Trucks.

The gradual integration of the companies and their product programs will involve a changeover to common product platforms. This means that duplication of investments will be avoided and production costs can be reduced.

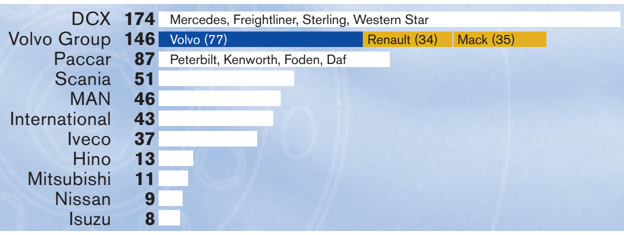
The company's product program and unique brand identity will be further developed and in the markets, accordingly, the three strong brand names, Mack, Renault and Volvo, will be preserved, and continue to act as three competing companies.

Volvo Global Trucks operates in 185 markets and has more than 3,000 service points all over the world. The industrial structure is also global, with manufacturing operations on five continents. The total number of employees was approximately 32,000 at December 31, 2000.

Renault V.I.

Renault V.I. (Renault Véhicules Industriel) is one of the largest European manufacturers of commercial vehicles, with its origins in the Renault automobile company that was founded in 1898, and also in Berliet, another manufacturer founded in the same year. Renault V.I. manufactures all types of commercial vehicles, ranging from light trucks for urban distribution services to special vehicles and heavy trucks for long-distance operations. Renault V.I.'s market share in Western Europe is more than 12% for heavy trucks (>16 ton), and nearly 9% in the 6-16 ton category.

The Midlum, which is a medium-heavy truck for multi-purpose duties in an urban environment, was introduced during 2000, following introduction in the previous year of the Mascott light truck, which is designed for a wide range of applications. The heavy truck program includes the Magnum, which has been developed for long-haul duties in the over-16 ton class, and the Premium, which is a higly competetive model for both regional and long-distance service. The Kerax, which is the third member of the Renault heavy-truck range, is a robust vehicle, mainly designed for service and construction-industry operations. Renault V.I. also develops and manufactures military vehicles.



World Heavy Truck Production 2000, Thousands

Merger benefits

Market complementarity

Through joint resources and competencies, the acquisition of Mack and Renault V.I. will enable a more competitive performance. The truck operations of Mack, Renault and Volvo complement each other well in both products and markets, with Renault and Mack providing a valuable supplement to Volvo's global presence. Renault is strong in Southern Europe and North Africa, while Volvo has its strongest presence in Northern and Central Europe. In North America, the combined operations of Volvo Trucks and Mack will double the Volvo Group's truck business, providing a strong base for the future.

Product complementarity

With the acquisition, Volvo has significantly broadened the customer offering. The three truck brands Mack, Renault and Volvo complement each other with their specific strengths in different transport segments. In Europe, Volvo's production of heavy trucks constitutes more than 90 percent of the total number of Volvo trucks, while Renault's light- and medium-heavy trucks represent more than 40 percent of Renault's production. In the U.S., half of Volvo's trucks are used for long-haulage, while Mack vehicles are primarily used in heavy construction and regional distribution, two segments with different characteristics and cyclicality.

Mack Trucks Inc.

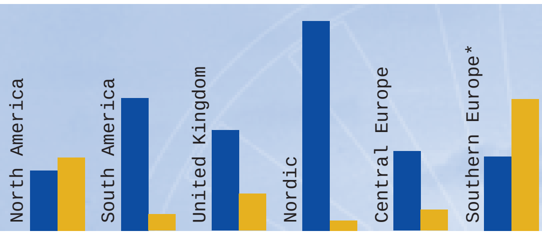
Mack is one of the largest manufacturers of heavy trucks in North America, with a market share of slightly more than 13% (2000) in the U.S. "Class 8" segment. Mack was founded in 1900, and focused on commercial vehicles from the start. Today, Mack is one of the strongest heavy-truck brands in North America. The product program includes heavy and medium-heavy trucks, military vehicles and special-purpose commercial vehicles.

The Vision model, launched in 1999, is designed for heavy and demanding long-range transportation assignments. The versatile CH series is intended for regional transport and long-distance haulage. A clear majority of Mack's heavy trucks employ drivelines manufactured in-house – a unique feature in the North American market. The Mack Mid-Liner in the medium-heavy class is designed for distribution services and other short-distance transports.

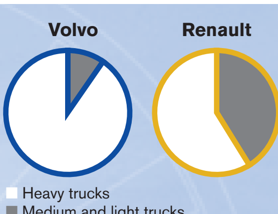
Powertrain supplies the entire Volvo Group

Volvo is now one of the world's four largest manufacturers in terms of heavy diesel engines (>8 liters volume). To fully exploit the economies of scale created through the virtually doubled volumes of engines, a new business unit has been formed – Volvo Powertrain. This unit will supply the entire Volvo Group with engines, transmissions and other driveline components and the coordinated development and production will be beneficial to all business areas. In the long term, coordination gains will increase as we change over to a common basic engine program. Volvo Powertrain operates in Sweden, France, North America and South America with a total of approximately 8,500 employees.

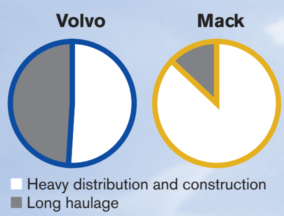
Powertrain will supply the entire Volvo Group with common solutions



Market complementarity
Market shares for heavy trucks, 2000
■ Volvo ■ Renault Mack
* France, Spain, Portugal, Italy



Europe product complementarity



U.S. product complementarity

Volvo's vision – to be valued as the world's leading provider of commercial transport solutions – is challenging, demanding continuous improvement to achieve all the inherent opportunities it entails. However, it is also profoundly reflected in the Volvo Group's activities over the years. It is a logical step for the Volvo Group to move from delivering vehicles and industrial engines towards delivering total transport solutions for the benefit of all Volvo Group stakeholders.

To be valued as the world's leading provider of commercial transport solutions

The Volvo Group has developed a number of value-added products and services building on the strength of the world-class products offered. All business areas have developed and offer transport-related services which enhance and support customer operations and vehicle productivity. Interesting examples include the transport management system Dynafleet, Volvo Action Service and the Petro Stopping service chain. Moreover, projects pertaining to infrastructure in suburban areas are in progress.

New market channels are being developed to add value for customers and business partners. Dealers play a key role in supporting customers locally. Key accounts and e-commerce are being developed and introduced to improve the customer dialogue and facilitate new business opportunities between Volvo and its partners.

Achieving the vision

In order to fulfill the vision, it is crucial to identify strategic objectives. This is done through an ongoing analysis of the business environment, key success factors and the current business situation. Volvo has stated three important strategic areas related to profitable growth, product-cycle management and operational excellence – all with the customer in focus. The objectives within these areas are continuously evaluated and measured in order to achieve the targeted strategic direction.

Profitable Growth – in order to obtain profitable growth, it is important to have long-term objectives on growth directions for the future. The set direction supports strategic decisions regarding both organic growth and growth through acquisitions.

Product Cycle Management – when the objectives for overall growth are set, it is important to evaluate and plan which products and services the company should offer the market, and how to plan the product cycle in the best possible way. Product cycle management is a medium-term planning area, which includes product development plans on a 3–8 year basis, new concepts and drivelines.

Operational Excellence – the daily and continuous improvement to further improve overall efficiency is included in this strategic area. Customer satisfaction and productivity; quality and process efficiency as well as leadership and competence development are all examples on important strategic objectives within the field of operational excellence.

Volvo Action Service

Volvo Action Service is a unique facility for owners of Volvo trucks, buses, construction equipment and Penta powered boats and equipment. It offers on-the-spot and round-the-clock response in Europe and the U.S. Volvo Action Service includes Breakdown Assistance for those in trouble as well as Uptime Assurance plans, helping owners get the most from their investments.

Competence and expertise

In today's business environment a key success factor is to develop and take full advantage of the competence in the company. The Operational Development Program (OD), launched in Volvo in 1996, is a method for change and improvement work within the Volvo Group. It enables the teams to set their own targets in line with the overall objectives and continuously improve the operations. OD has provided first class improvements in areas such as customer satisfaction, product quality, cost savings and process control. It is also a forum for continous team and leader development, leading to a more stimulating working environment and competitive operation.

Financial goals

Growth

In order to achieve the strategy for growth as well as the wanted position in 2005, Volvo's ambition is that net sales should increase by more than 10 percent per year. The objective should be reached both through organic growth and through acquisitions. During the period 1996 to 2000 the average growth rate was 11.4 percent per year.

Operating margin

The objective for the operating margin is that it should be between 5 and 7 percent over an economic cycle. The average operating margin for the Volvo Group during 1996 to 2000 was 4.4 percent per year.

Return on equity

Over time, the after-tax return on shareholders' equity should more than compensate for inflation as well as for industrial and financial risk. The objective is to achieve an after-tax return on shareholders' equity of between 12 and 15 percent over an economic cycle. Return on shareholders' equity during 1996 to 2000 averaged 18.8 percent per year.

Capital structure

The Group's objective is to have a capital structure that enables financial flexibility and long-term stability. At the same time, the aim is to conduct operations using capital in an efficient manner.

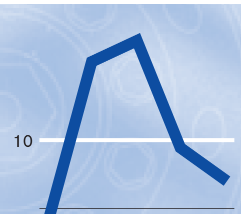
The equity ratio, including minority interests but excluding Financial Services, should not be lower than 40 percent. The equity ratio in Financial Services should not be lower than 10 percent.

The Group's objective is also to maintain a net financial assets/net debt ratio, excluding Financial Services, between a net financial assets position of 15 percent and a net debt position of 30 percent.

The average net financial asset ratio was 22.4 percent during 1996–2000.

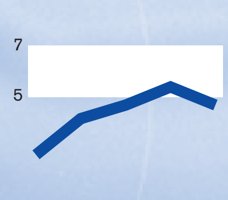
Wanted position in 2005

In each of our businesses:
- number one in image and customer satisfaction
- sustainable profitability above average
- number one or two in size, or superior growth rate



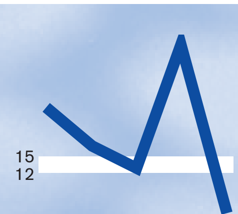
96	97	98	99	00
(1.8)	21.5	24.6	8.9	4.0

Net sales growth*, %



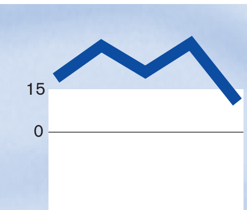
96	97	98	99	00
2.8	4.2	4.7	5.4	4.7

Operating margin*, %



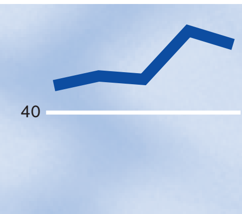
96	97	98	99	00
23.7	17.2	13.0	34.9	5.0

Return on shareholders equity, %



96	97	98	99	00
20.6	30.4	21.1	29.3	10.6

Net financial assets** as percentage of shareholders' equity, %



96	97	98	99	00
48	51	50	65	61

Equity ratio**, %

* Excluding divested operations   ** Excluding Financial Services

Volvo as a multi-brand company

Strengthening the brand portfolio

Multi-brand strategy

In adherence to our vision and mission statement, the Volvo Group is moving to actively market transport-related products and services under a number of different brand names – multi-branding.

The fundamental philosophy of the multi-brand strategy is that each brand has the responsibility and authority to further develop and nurture its established market position based on its own specific attributes and value offerings and with due consideration given to the role assigned by its parent company.

More brands give a new approach

The new structure of the Volvo Group comprises a variety of branded transport products, as well as competing and/or supplementary ones, with strong market positions and trademarks of their own. A brand incorporates additional and often emotional associations to which customers relate and it is therefore important to ensure that each brand remains distinct and differentiated.

The role of a brand is to distinctly identify and distinguish a company, its products/services and value offerings from its competition. It must also nurture established relations with targeted groups of customers based on trust and loyalty built on customer satisfaction.

The Volvo Group's core values in the new structure

The Volvo brand implicitly guarantees that quality, safety and environmental care form part of every business offer within the Volvo Group. Therefore, all companies within the Volvo Group should develop their operations to meet the high standards established by Volvo's core values.

With the multi-brand strategy, the respective brands are to achieve leadership and preference within their specific categories. This will strengthen the Volvo Group's business growth, overall profitability and strong market positions.

Strong market position

By adding new, recognized brands, such as the Mack and Renault truck brands, the Volvo Group gains both in economies of scale and capability to achieve larger market shares.

Moreover, Volvo gains a generally more powerful and competitive brand portfolio and presence around the world, resulting in a stronger market position for the Volvo Group's operations. This is an important step towards the fulfillment of the Volvo Group's vision and mission.

Volvo in sponsoring

Sponsorship has been an integral part of Volvo for almost 40 years. In order to communicate an identical message across a number of language and cultural barriers, sports sponsorship plays a vital and increasing role for Volvo. Sport transcend the language and cultural barriers, and it adds an emotional association and personal identification to the communication process. Volvo's philosophy is to create a long-term partnership with the sport, through involvement in various kinds of events.

In 1997, Volvo took over complete ownership of the Round the World Race from Whitbread. Volvo chose sailing to become the spearhead of its sports sponsorship program for the new millennium because it strongly embodies all the values that will become more important over the new decade – strength, endurance, teamwork, leading-edge technology, excitement and achievement.

The Volvo Group also supports golf, mountain biking, skiing and culture.

Volvo Ocean Race

The world's premier ocean race – The Volvo Ocean Race – starts in Southampton on September 23, 2001. During the race that lasts for ten months, the participants will sail approximately 33,000 miles, cross four oceans and visit ten ports. The race ends in Kiel, Germany, in June 2002.

The Round the World Race has been staged every fourth year since the start in 1973. In 1997, Volvo took over the complete ownership of the race from Whitbread.

To complement the Volvo Ocean Race, Volvo also invests in the future of the sport through sponsorship of the Volvo World Youth Sailing Championship.

In 2000, SEK 14.9 billion was transferred to Volvo's shareholders

The stock market in 2000

The year 2000 was characterized by declining share prices on stock markets worldwide. The leading U.S. Index, the Dow Jones Industrial Average, decreased about 5% and NASDAQ (Volvo listed since 1985), where high technology shares dominate, closed at nearly 40% down. In Sweden, the OM Stockholm Exchange's General Index decreased by 12%. Uncertainties about the macro economic development in the U.S., as well as the outlook for technology shares, affected the General Index.

The Volvo share in 2000

Volvo's market value amounted to SEK 69 billion and the Volvo Series B shares were down 29% at year-end 2000. The main reason for this development was the uncertainty regarding the market situation in North America.

The OM Stockholm Exchange accounts for the largest percentage of turnover, with an average of 1.7 million Volvo shares traded each day. During 2000, Volvo was the eighth most actively traded share in terms of volume, with a 1.6% share of the total market volume. Related to the market value, Volvo was number twelve with a 1.9% share of the total market value. Apart from the OM Stockholm Exchange, most trading occurs in London and on NASDAQ. Trading in Volvo shares in the U.S. is in the form of ADRs, American Depositary Receipts, representing Series B shares. Turnover on NASDAQ decreased by 71% during the year, and the number of outstanding ADRs at December 31, 2000 decreased by 8% to 9.4 million.

During 2000, the percentage of non-Swedish shareholders increased from 28% to 40% of the share capital (from 16% to 32% of the voting rights). Shares held by Swedish owners were distributed among institutions (55%), equities funds (18%) and private persons (27%). Of Volvo's 230,000 shareholders, the 50 largest accounted for approximately 84% of the voting rights and 77% of the share capital.

Share capital	Dec 31 2000
Registered number of shares[1]	441,520,885
of which, Series A shares[2]	138,604,945
of which, Series B shares[3]	302,915,940
Par value, SEK	6
Share capital, SEK M	2,649
Number of shareholders	230,000
with shares held in own name	132,000
with shares held by trustees	98,000

1 Following the repurchase of own shares, the number of outstanding shares were 397,368,797. On Jan 2, 2001, the repurchased shares were transferred to Renault.

2 Series A shares carry one vote each

3 Series B shares carry one tenth vote each

Exchange listings of Volvo shares, location and year	
Stockholm	1935
London	1972
Frankfurt am Main, Düsseldorf, Hamburg	1974
USA (NASDAQ)	1985
Brussels	1985
Tokyo	1986

Shareholders in focus

During 2000, AB Volvo repurchased own shares through an offer to the shareholders, which included a premium of approximately 30%. For the fiscal year 2000, the Board of Directors proposes that the shareholders at the Annual General Meeting approve a dividend of SEK 8.00 per share (7.00), an increase of 14%, or a total of approximately SEK 3,532 M, based on all registered shares.




Volvo's dividend policy is that the effective return (the dividend combined with the change in share price over the long term) should exceed the average for the industry. If the future capital level in the Group is determined to be too high and not necessary for the growth of operations, the annual dividend could also be supplemented by measures such as the repurchase of company shares.

The repurchase offer included a premium of approximately 30%

Repurchase of shares of AB Volvo

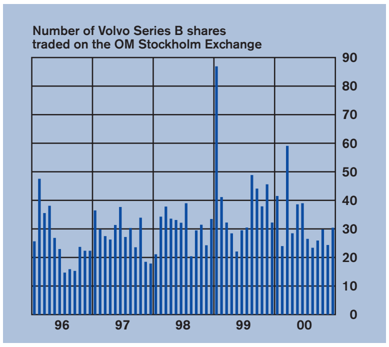
During 2000, the Board of Directors of AB Volvo voted to repurchase a maximum of 10% of the total number of the Company's shares through an offer to the shareholders, which included a premium of approximately 30%. The repurchase offer expired on June 30, 2000 and a total of 43,285,237 shares were tendered, corresponding to 9.8% of the total number of Volvo shares. The payment of SEK 11.6 billion was transferred to Volvo's shareholders on July 18, 2000. The remaining 0.2% of the shares was repurchased on the OM Stockholm Exchange during the autumn of 2000. In total SEK 11.8 billion was transferred to Volvo's shareholders.

The repurchased shares were transferred to Renault on January 2, 2001 as partial payment for the shares in Mack and Renault V.I. On February 1, 2001, the Board of Directors of AB Volvo decided to acquire a maximum of 10% of the Company's shares on the OM Stockholm Exchange, corresponding to 44,152,088 shares. Of the repurchased shares, 5% shall be transferred to Renault S.A. as final payment. Any repurchases in addition to the 5% to be delivered to Renault S.A. will be made in order to optimize the capital structure of the Volvo Group.

High or low risk

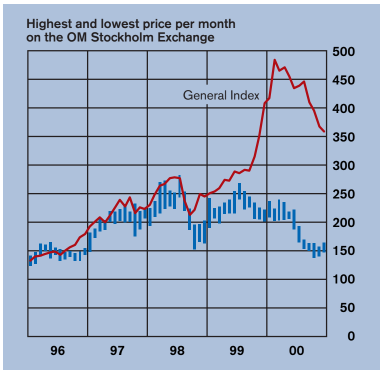
The beta value is a measurement of implied risk or volatility that shows a share price change relative to all the other share price changes on a stock exchange. A low beta value (<1) indicates a low-risk share compared to the other shares on the exchange, and a high beta value (>1) implies a higher risk. The average beta value for the period from 1997 to 2000 for Volvo Series B shares was 0.53, which means that the Volvo share price changed 47% less than all the shares on the OM Stockholm Exchange.

Turnover, Volvo Series B shares Millions



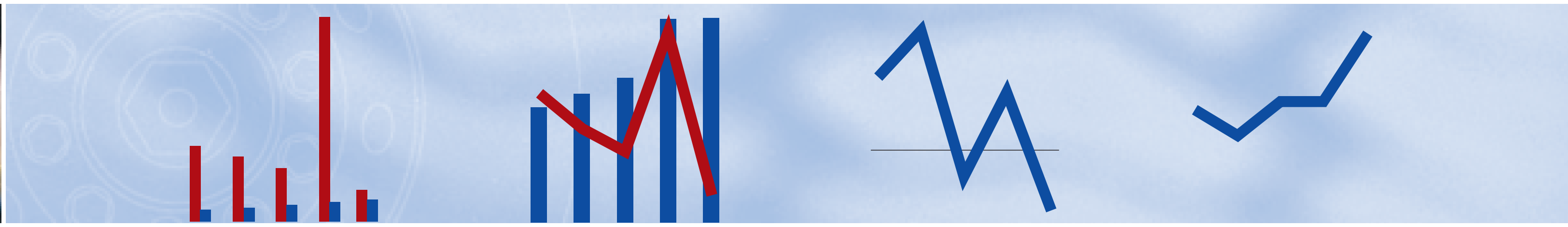
Source: OM Stockholm Exchange

Price trend, Volvo Series B shares SEK



Source: OM Stockholm Exchange

For more information related to the Volvo share, see page 101.



	96	97	98	99	00
Net income, SEK per share	26.9	23.2	19.1	73.0	11.2
Dividend, SEK per share	4.3	5.0	6.0	7.0	8.0
Return on equity, %	23.7	17.2	13.0	34.9	5.0
Shareholders' equity per share, SEK	125	140	157	221	222
Effective return, %	30	46	(10)	22	(23)
Direct return, %	2.9	2.3	3.2	3.2	5.1

The year with The Volvo Way

During the year, The Volvo Way was developed further resulting in the Volvo Human Resources Agenda. The agenda shows how the Volvo Group's core values – safety, quality and environmental care – are to be reflected in policies and operational activities, all with the aim of fulfilling the Volvo Group's strategic objectives. The agenda is broadly established within the organization and is an important tool in implementing The Volvo Way throughout the entire Volvo Group.

To support a continuous dialogue on The Volvo Way, a series of workshops were held during the year. The employees are given the opportunity to have a dialogue with their colleagues and their managers on key issues in The Volvo Way. It is the employees who make The Volvo Way a reality.

A strong organization prepared for changes

The development of the Volvo Group's structure in recent years has placed major demands on its employees' willingness to change. In order to strengthen and unify the global company, a development program The Volvo Way, started in 1999. It describes Volvo's values and corporate culture and how managers and employees should cooperate in the best way. By expending more energy and passion, and showing respect for the individual, Volvo's objectives will be fulfilled more rapidly.

The personnel strategy for change is based on three components: a sense of belonging and identity, created through The Volvo Way; insight into change, created through open dialogue with employees and union representatives; and acceptance of, and identification with, Volvo's vision, achieved through clear, realistic and challenging goals.

Focusing on leadership

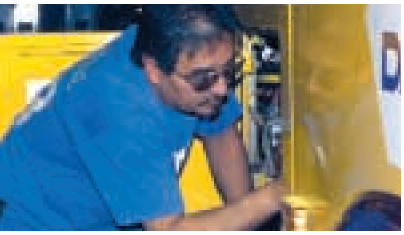
During periods of major change, effective leadership is crucial for the outcome of this change. Accordingly, Volvo continuously invests in management development, and this will also include the expertise added by Mack and Renault V.I. Volvo believes that value-driven leadership is fundamental to success and has therefore created a model showing the values required when setting the direction, creating structure, energy and commitment and delivering change and results. The leadership model is used when recruiting, promoting, developing, evaluating and rewarding managers within the Volvo Group. Measures to master key competencies are an integral part, and when management personnel are working to attain these competencies the targeted behavior is reinforced and rewarded.

A global company with multicultural competence

Furthermore, a global introduction program for new managers was introduced during the year to strengthen the global integration and the internal culture of the Group. In this way, a global company with common basic values and a strong network within management will be created.

Health and wellbeing

The sound health of employees is of major importance, both for the individual and the company. Volvo works actively with health and the work environment and various activities were carried out in this area during the year. In the autumn of 2000, a health conference was



arranged in Göteborg, Sweden. Approximately 600 managers attended the conference where they took part in lectures and workshops on how Volvo can improve health and prevent burnout. A health action plan will be put forward from each company within the Volvo Group.

The project “Prevent Burnout” has been going on since 1998 and the result is a toolbox for handling stress-related problems in the workplace. The toolbox will constitute support to the organization to improve health and prevent long-term absence due to illness. The Volvo Group has developed a unique program for those who are affected by illness, with the aim of reducing costs and increase the employer value to the employees.

Globalization

Today, there are significant number of persons assigned to Volvo organizations outside their home countries, with the aim of sharing and adding expertise. This category of employees increases annually and clearly reflects the ongoing globalization process. This will be further emphasized now that Mack and Renault V.I. are part of the Volvo Group and integration efforts require the exchange of personnel within various areas and at various levels. There is also a tendency for an increasing number of persons from countries other than Sweden to be assigned to Volvo organizations outside their home countries. This will further develop and strengthen the Volvo Group’s already multicultural organization.

Integration of Mack and Renault V.I.

The integration of Mack and Renault V.I. into the Volvo Group is the largest challenge that has ever faced Volvo, particularly from a multicultural perspective. For Volvo, it is important to utilize all expertise regardless of a person’s gender, nationality, age and education. Diversity promotes creativity and also increases the opportunities for effective international cooperation and greater understanding.

In collaboration with representatives of Mack and Renault V.I., extensive analyses were conducted, with the aim of clarifying synergies in the area of personnel policy. With the help of leading expertise, the methods applied within Mack, Renault V.I. and Volvo Trucks were compared with similar areas in other leading global companies. The goals established for integration efforts are, in the majority of cases, related to the achievement of world-class results.

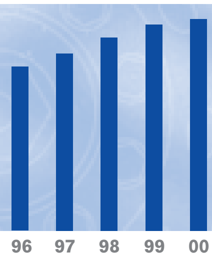
Diversity work rewarded

Volvo Trucks has developed a diversity model, which is applied for changing attitudes and opening the company to all groups in society, regardless of nationality, culture or gender. During autumn 2000, Volvo Trucks was awarded a prize for its work with diversity from the Swedish Council for Diversity in Working Life.

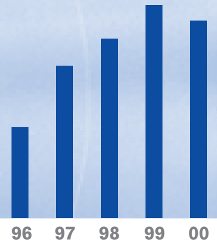
Volvo Trucks has also participated in an EU project concerning Equality in Life and Work, together with both national and transnational partners, such as the City of Göteborg, the City of Stuttgart and DaimlerChrysler. The aim is to increase the cooperation between the partners regarding equality and diversity issues.

Global Profit Sharing

The year 2000 was the first for the global application of Volvo Profit Sharing. The main message in the information activities that took place focused on Volvo’s success factors: growth, product-cycle management and operational excellence. Since profit sharing is provided in the form of shares in the Group, it has been possible to create a focus on the success factors, from the point of view of both employees and shareholders. The condition for the payment of Volvo Profit Sharing is a return on shareholders’ equity that exceeds 10%.



Net sales/employee*, SEK M



Operating income/ employee**, SEK T

* Excluding divested operations

** Excluding divested operations and items affecting comparability

The Volvo Group year 2000

Volvo's planned acquisition of Scania

On March 14, 2000, the European Commission rejected Volvo's proposed acquisition of Scania. Based on the Commission's decision, Volvo was not able to fulfill the agreement to acquire Investor's holding in Scania, or to implement the public offer to Scania's shareholders. Volvo's present holding in Scania amounts to 30.6% of the voting rights and 45.5% of the share capital in the company. The shares were acquired at an average price of SEK 267 per share. AB Volvo will have to divest its holding in Scania within a period of up to three years from the approval from the U.S. competition authorities of the acquisition of Mack and Renault V.I.

An eventful year

2001

February

January

Volvo forms Volvo Global Trucks

On January 2, 2001, AB Volvo's acquisition of Renault's truck operations, Mack and Renault V.I., became effective. The acquisition implies that AB Volvo acquires all the shares of Renault V.I. in exchange for 15% of AB Volvo's shares. The agreement was approved by the competition authorities in the European Union and the U.S. during the second half of 2000, after Volvo and Renault agreed to make certain concessions. The main consessions mean that AB Volvo will divest the LCOE business (special trucks with Low Cab Over Engine) conducted by Volvo Trucks in the U.S., within three months following the approval from the U.S. competition authorities and that AB Volvo will divest its holding in Scania (see also the adjoining factbox). In connection with the acquisition of Mack and Renault V.I., Renault V.I. Finance was acquired for approximately FRF 154 M.

Volvo's repurchase of Company shares

During 2000, Volvo's Board of Directors effected a repurchase of Company shares amounting to 10% of the total number of Volvo shares. As a result a total of SEK 11.8 billion was transferred to Volvo's shareholders. The repurchase was made in order to finance the acquisition of Renault V.I. The repurchased shares were transferred to Renault on January 2, 2001 as partial payment for the shares of Renault V.I. (see note 21, page 65).

Volvo acquires an interest in Mitsubishi Fuso Truck and Bus Company

At the end of July, 2000, Volvo and Mitsubishi signed a contract specifying the conditions for Volvo's acquisition of 19.9% of the shares in Mitsubishi Fuso Truck & Bus Company, a company to be formed in conjunction with the transformation of the truck and bus division into a subsidiary of Mitsubishi Motors. According to the agreement, Volvo will provide a capital contribution to Mitsubishi Fuso Truck & Bus Company totaling about SEK 3.2 billion in exchange for newly issued shares amounting to 19.9% of the company's capital and voting rights. 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.

Agreement on new bus company in China

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

2000

Volvo Aero divests its truck components manufacturing

In February 2000, the Swedish engineering group Finnveden took over Volvo Aero's truck components manufacturing operations in Trollhättan, with annual sales of approximately SEK 300 M. The sale was part of Aero's program of concentrating on its core operations.

New business area for Volvo's finance operations

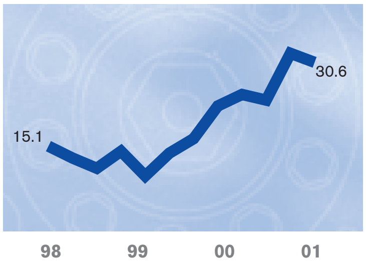
At January 1, 2000, Volvo's finance operations have been organized in Volvo Financial Services, a new business area. Financial Services includes the Volvo Group's customer-financing operations, the insurance business, treasury and real estate operations.

The business environment

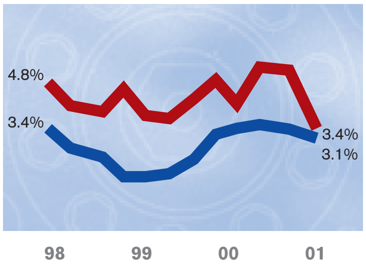
The strong growth momentum in the world economy in 1999 carried over into the first half of 2000. The solid performance was mostly reflecting positive surprises to the U.S. economy but also robust conditions in Europe and in most emerging markets. However, the global economic cycle was maturing during the year and the Gross Domestic Product (GDP) growth peaked around the second quarter in the U.S., the EMU countries and Japan.

Interest rates rose on the back of tighter monetary policies, inflationary pressures rooted in high economic activity, and rising oil prices. Notwithstanding upbeat world demand and soaring energy prices, inflation remained muted in major economies. In part this reflected "new economy" improvements from fast productivity growth – most pronounced in the U.S. – but increased price transparency also helped to keep inflation low. Meanwhile, capacity utilization in the U.S. stood at historical highs together with elevated industrial and consumer confidence indicators. Talk about an era without business cycles appeared increasingly unrealistic as the global economy moved toward more uncertain ground by the end of last year. The perception of the U.S. economy shifted rapidly as evidence mounted of a faster-than-expected slowdown and record gains in most stock markets reversed when technology stocks tumbled and broader indices showed lukewarm performance. Attention then moved toward how the rest of the world would weather a U.S. set-back with risks focusing on Asia and Latin America. Early signs suggested that Europe was fairly sheltered from repercussions, thanks to limited external exposure to U.S. trade, a fiscal expansion and job creation.

Faster than expected economic slowdown



Oil price, USD/barrel



U.S. GDP-growth, %
EMU GDP-growth, %

Currency development and commodity prices

The strength of the U.S. dollar was the key theme in the international currency markets throughout most of 2000 while the euro slid significantly against most major currencies. In this environment the Swedish krona failed to build on solid macroeconomic fundamentals, trading fairly narrowly against the euro but losing ground against the U.S. dollar and the British pound. The Japanese yen initially appreciated but, following disappointing stock market developments and downward revisions of the Japanese economic outlook, it weakened towards the end of last year. Most commodity prices rose through the end of the year. In particular, oil prices increased significantly driven by strong world demand, low reserves, and political turmoil in the Middle East.

The transportation markets

Macroeconomic developments were reflected in transportation markets. The U.S. total market for heavy trucks turned around ahead of the business cycle in part due to a large supply of used vehicles and high fuel prices. In Europe, however, truck market expansion continued at a brisk pace ending the year at record size. Elsewhere, the cyclical upturn, notably in Asia and Latin America, provided a positive backdrop for transportation markets.

Financial performance

Net sales by business area

SEK M	1998	1999	2000	% [1]
Trucks	58,505	63,010	62,196	(1)
Buses	14,286	14,713	17,187	+17
Construction Equipment	19,372	18,882	19,993	+6
Marine and Industrial Power Systems	4,931	5,761	6,599	+15
Aero	8,584	9,953	10,713	+8
Financial Services	7,224	8,637	9,678	+12
Other	9,977	11,934	12,669	+6
Eliminations	(8,025)	(7,871)	(8,965)	–
Volvo Group excl Cars	**114,854**	**125,019**	**130,070**	**+4[2]**
Cars	103,798	–	–	–
Eliminations	(5,716)	–	–	–
Volvo Group	**212,936**	**125,019**	**130,070**	**–**

1 Percentage change pertains to 2000/1999.
2 Excluding effects of foreign exchange movements the increase was 2%.

Net sales by market area

SEK M	1998	1999	2000	% [1]
Western Europe	59,621	66,158	68,182	3
Eastern Europe	4,160	2,899	3,933	36
North America	35,857	43,002	40,655	(5)
South America	6,636	3,942	5,182	31
Asia	5,490	6,028	8,765	45
Other markets	3,090	2,990	3,353	12
Volvo Group excl Cars	**114,854**	**125,019**	**130,070**	**4**
Cars	98,082	–	–	–
Total	**212,936**	**125,019**	**130,070**	**–**

1 Percentage change pertains to 2000/1999.

Operating margin[1]

%	1998	1999	2000
Trucks	4.8	5.2	2.3
Buses	2.7	1.5	2.6
Construction Equipment	7.9	9.1	8.0
Marine and Industrial Power Systems	1.9	5.5	7.3
Aero	6.1	5.9	5.8
Financial Services	8.2	11.3	14.4
Volvo Group excl Cars	**4.7**	**5.4**	**4.7**
Cars	3.7	–	–
Total	**4.3**	**5.4**	**4.7**

1 Excluding items affecting comparability

Net sales

Net sales of the Volvo Group in 2000 amounted to SEK 130,070 M (125,019), an increase of 4% compared with 1999. 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 were substantial, 17% and 15% respectively. The North American market continued to weaken, with a resulting negative impact on Trucks' sales, which declined by 1%. Deliveries declined by 31%, but the company was able to maintain its share of the market. Construction Equipment and Aero also reported a favorable trend of sales with increases of 6% and 8%, respectively.

Volvo Group net sales developed well in all markets, except in North America. 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%, 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, 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. 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% (10) of Group sales.

The number of Volvo trucks delivered in 2000 decreased by 4%, to 81,830 (85,090) and the number of buses and bus chassis delivered increased by 16%, to 11,015 (9,500). Construction Equipment sold more than 21,000 units for the first time in a single year.

Items affecting comparability

Items affecting comparability in 1999 included a gain of SEK 26,695 M on the sale of Volvo Cars to Ford Motor Company.

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).

Trucks' operating income amounted to SEK 1,414 M (3,247). The decrease in income was attributable to the sharp reduction in the volume of business and the price pressure in North America. This was offset in part by continuing strong demand in Western Europe, with larger volumes and gradually improved margins. The profit improvement program that was initiated in June also helped to strengthen operating income mainly due to lower costs in production and product development, and as a result of realized price increases.

Buses, Marine and Industrial Power Systems, Aero and Financial Services reported higher operating income compared with last year, 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.

Consolidated income statements SEK M	1998	Excluding Cars 1998	1999	**2000**
Net sales	212,936	114,854	125,019	**130,070**
Cost of sales	(163,876)	(89,305)	(99,501)	**(104,548)**
Gross income	49,060	25,549	25,518	**25,522**
Research and development expenses	(10,104)	(4,265)	(4,525)	**(4,876)**
Selling expenses	(19,042)	(8,929)	(8,865)	**(10,140)**
Administrative expenses	(8,091)	(5,652)	(4,791)	**(4,974)**
Other operating income and expenses	(2,634)	(1,322)	(611)	**622**
Items affecting comparability [1]	(2,331)	(1,650)	26,695	**–**
Operating income	6,858	3,731	33,421	**6,154**
Income from investments in associated companies	444		567	**444**
Income from other investments	4,526		170	**70**
Interest income and similar credits	1,268		1,812	**1,588**
Interest expenses and similar charges	(1,315)		(1,505)	**(1,845)**
Other financial income and expenses	(162)		131	**(165)**
Income after financial items	11,619		34,596	**6,246**
Taxes	(3,140)		(2,270)	**(1,510)**
Minority interests	(42)		(104)	**(27)**
Net income	8,437		32,222	**4,709**
Income per share	19.10		73.00	**11.20**

1 Items affecting comparability in 1999 pertain to the sale of Volvo Cars and in 1998 to provisions for restructuring costs.

Operating income for 2000 includes SEK 610 M pertaining to realized gains on the remaining securities portfolio in Volvia. Operating income also includes surplus funds of SEK 683 M from SPP. Income also includes SEK 520 M resulting from a favorable adjustment of gain on the sale of Volvo Cars. 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% (5.4).

Impact of exchange rates on operating income

The effect of changes in currency exchange rates on operating income in 2000 compared with 1999 was approximately SEK 50 M.

The Swedish krona weakened during 2000 against the inflow currencies, the U.S. dollar, Canadian dollar and British pound, with considerably positive effects on operating income. The Swedish krona strengthened against the major inflow currency Euro with adverse effect on operating income as a consequence. The negative effect was intensified by the weakened krona against the South-Korean won, in which the Volvo Group has an outflow equivalent to about SEK 2 billion. Changes in spot-market rates for other currencies had minor effects. The total effect of changed spot-market rates was positive, approximately SEK 220 M.

Change of operating income SEK M	
Operating income excluding items affecting comparability 1999	**6,726**
Decreased volumes	(2,190)
Change in product and market mix, etc.	+910
Higher research and development expenses	(350)
Reversal of reserves in customer-financing operations, 1999	(240)
Capital gain on the sale of a company in Construction Equipment, 1999	(180)
Adjustment of the gain on sale of Volvo Cars	+520
Surplus funds from SPP	+683
Gains on sale of securities portfolio in Volvia	+610
Other	(335)
Operating income 2000	**6,154**

Impact of exchange rates on operating income Compared with preceding year, SEK M	
Net sales	+2,850
Cost of sales	(2,370)
Research and development expenses	(50)
Selling and administrative expenses	(620)
Other operating income and expenses	+240
Total effect of changes in exchange rates on operating income	**+50**

Group sales are reported at average spot prices and the effects of currency hedges are reported among "Other operating income and expenses."

Operating net flow per currency, excluding divested operations SEK M	1998	1999	**2000**
USD	6,400	6,400	7,000
EUR	6,900	7,900	7,500
GBP	2,700	4,200	4,000
JPY	(100)	0	(300)
Other currencies	2,200	3,800	1,100
Total	**18,100**	**22,300**	**19,300**

Operating income by business area

SEK M	1998	1999	2000
Trucks	2,815	3,247	1,414
Buses	385	224	440
Construction Equipment	1,536	1,709	1,594
Marine and Industrial Power Systems	95	314	484
Aero	527	584	621
Financial Services	590	977	1,396
Other and eliminations	(567)	(329)	205
Operating income excluding Cars	**5,381**	**6,726**	**6,154**
Cars	3,808	–	–
Operating income [1]	**9,189**	**6,726**	**6,154**
Items affecting comparability	(2,331)	26,695	–
Operating income	**6,858**	**33,421**	**6,154**

1 Excluding items affecting comparability.

The effect on income of forward and option contracts amounted to a loss of SEK 700 M (1999: loss of SEK 620 M), which resulted in a negative impact of SEK 80 M for 2000, compared with 1999.

Changes in spot rates in connection with the translation of income in foreign subsidiaries and the revaluation of balance sheet items in foreign currencies had a negative impact of SEK 90 M.

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 Commission rejected Volvo's application for approval of the company'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 expense/income

Net interest expense amounted to SEK 257 M (income 307). The decrease was due largely to lower net financial assets as a result of the repurchase of company shares. 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 the preceding year.

Taxes

Tax expenses 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, for which no income tax was incurred. In addition, the tax expenses reported during the year were reduced through revaluation of valuation allowances in prior years for deferred tax receivables. The reported tax expenses pertained primarily to current taxes in Swedish and foreign Volvo Group companies.

Minority interests in net income

Minority interests in the Volvo Group consist mainly of the Henlys Group's holding (49%) in Prévost Car Inc. and the minority interests in The AGES Group (14%) and Volvo Aero Norge AS (22%).

Net income

Net income amounted to SEK 4,709 M (32,222) and the return on equity, excluding items affecting comparability and gains on the sale of shares, was 5.0% (8.0).

Financial position

Volvo Group consolidated balance sheets, December 31	Volvo Group, excl Financial Services [1]			Financial Services			Total Volvo Group		
SEK billion	1998	1999	**2000**	1998	1999	**2000**	1998	1999	**2000**
Assets									
Intangible assets	5.7	6.5	**6.8**	0.1	0.1	**0.1**	5.8	6.6	**6.9**
Property, plant and equipment	33.9	17.3	**19.6**	2.3	2.5	**2.6**	36.2	19.8	**22.2**
Assets under operating leases	1.8	1.6	**4.2**	20.5	10.7	**11.9**	22.3	12.3	**14.2**
Shares and participations	11.8	35.3	**37.4**	0.7	0.7	**0.8**	3.4	29.2	**30.5**
Long-term customer finance receivables	0.1	0.0	**0.0**	24.4	17.8	**23.0**	24.5	17.8	**22.9**
Long-term interest-bearing receivables	3.3	17.6	**5.1**	0.0	0.0	**0.0**	3.3	17.6	**5.0**
Other long-term receivables	7.5	2.4	**2.2**	0.2	0.1	**0.1**	7.7	2.5	**2.2**
Inventories	31.9	21.0	**23.0**	0.2	0.4	**0.6**	32.1	21.4	**23.6**
Short-term customer finance receivables	0.3	0.0	**0.0**	22.0	16.5	**19.2**	22.3	16.5	**18.9**
Short-term interest bearing receivables	1.4	1.0	**14.2**	0.0	0.0	**0.0**	1.4	1.0	**14.2**
Other short-term receivables	23.9	18.7	**22.7**	2.6	2.9	**2.6**	26.5	21.6	**24.1**
Marketable securities	4.4	18.0	**5.7**	2.8	3.0	**3.9**	7.2	21.0	**9.6**
Cash and bank	11.0	6.5	**5.3**	2.0	1.8	**1.7**	13.0	8.3	**6.4**
Total assets	137.0	145.9	**146.2**	77.8	56.5	**66.5**	205.7	195.6	**200.7**
Shareholders' equity and liabilities									
Shareholders' equity	69.4	97.7	**88.3**	9.1	6.8	**7.7**	69.4	97.7	**88.3**
Minority interests	0.8	0.5	**0.6**	0.1	0.0	**0.0**	0.9	0.5	**0.6**
Provision for post employment benefits	2.9	2.1	**2.6**	0.0	0.0	**0.0**	2.9	2.1	**2.6**
Other provisions	19.4	9.8	**8.4**	5.8	5.0	**6.6**	25.2	14.8	**15.0**
Loans	5.0	12.3	**18.2**	59.2	41.1	**49.0**	64.2	53.4	**66.2**
Other liabilities	39.5	23.5	**28.1**	3.6	3.6	**3.2**	43.1	27.1	**28.0**
Shareholders' equity and liablities	137.0	145.9	**146.2**	77.8	56.5	**66.5**	205.7	195.6	**200.7**
Shareholders' equity and minority interests as percentage of total assets	51.2	67.3	**60.8**	11.7	12.1	**11.5**	34.1	50.2	**44.3**

1 Financial Services reported in accordance with the equity method.

Total assets

The Volvo Group's total assets at December 31, 2000 amounted to SEK 200.7 billion, 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 Financial Services 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, due mainly to dividends paid and payments in conjunction with the repurchase of own shares.

Shareholders' equity

Shareholders' equity declined by SEK 9.4 billion and amounted to SEK 88.3 billion at year-end. The Volvo Group's net income during the year contributed SEK 4.7 billion, while dividends paid and the repurchase of company 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

The Volvo Group's net financial assets at December 31, 2000 amounted to SEK 9.4 billion (28.8). The decrease of SEK 19.4 billion is shown in detail in the following table.

Change in net financial assets SEK billion		
December 31, 1999[1]		**28.8**
Cash flow from operating activities	3.6	
Net investments in fixed assets and leasing assets	(5.0)	
Operating cash flow, excluding Financial Services		**(1.4)**
Acquisition of shares in Scania		(1.3)
Other acquired subsidiaries and shares [2]		(0.3)
Dividend to AB Volvo's shareholders		(3.1)
Repurchase of own shares		(11.8)
Other, including foreign currency translation		(1.5)
December 31, 2000		**9.4**

1 Effective in 2000, the Volvo Group's net financial assets are calculated excluding Financial Services, since interest income and interest expenses in these operations are included in operating income. The change resulted in a decrease of SEK 2.2 billion in net financial assets as of January 1, 2000.

2 Including purchase amount and financial net debt in acquired companies. See further Note 2, page 56.

Cash flow statement

Operating cash flow, excluding Financial Services

	1998[1]	1999	**2000**
Operating income[2]	3.1	5.7	4.8
Depreciation	3.5	3.1	3.8
Other	0.1	(3.2)	(5.0)
Cash flow from operating activities	**6.7**	**5.6**	**3.6**
Net investments in fixed assets and leasing assets	(5.0)	(4.3)	(5.0)
Operating cash flow, Volvo Group, excluding Financial Services	**1.7**	**1.3**	**(1.4)**

1 Pro forma, excluding Cars. Volvo's cash flow from financial items in 1998 has also been adjusted to reflect the effects of the amount received for Volvo Cars and the amounts paid for shares in Scania in 1999.
2 1999: excluding gain on sale of Volvo Cars, SEK 26.7 bn.

Future capital expenditures, approved

Trucks	5.3
Buses	0.5
Construction Equipment	0.1
Marine and Industrial Power Systems	0.0
Aero	0.7
Other companies and undistributed investments	0.2
Total	**6.8**

Cash flow

The Volvo Group's operating cash flow, excluding Financial Services, 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 improved during the last six months of the year, amounting to SEK 0.3 billion. 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 tied up operating capital 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 Financal Services business area, due to a continued expansion within this area.

Capital expenditures

Capital expenditures for property, plant and equipment in 2000 amounted to SEK 5.4 billion (5.2). Capital expenditures in Trucks, which amounted to SEK 3.2 billion (2.5), were made to increase efficiency in the production of drive-line components and cabs. Investments were made to increase the capacity at the assembly plant in New River Valley in the U.S. Investments also included a spare parts storage facility in Singapore and China. Capital expenditures in Buses decreased to SEK 0.4 billion (0.6), including an expansion of the plant in Mexico. Capital expenditures in Construction Equipment amounted to SEK 0.4 billion, a decrease compared to last year (0.6). The level of capital expenditures in Marine and Industrial Power Systems remained at the same level as last year, SEK 0.1 billion, including an investment in tools for the engine plant in Vara, Sweden. The capital expenditures in Aero amounted to SEK 0.6 billion (0.8) and were made in engine alliance programs for both commercial aero engines, military engines and components for space propulsion. Capital expenditures in Financial Services increased to SEK 0.3 billion (0.1) due mainly to the continued expansion of the real-estate operations and the North American operation.

Investments in leasing assets and customer financing receivables (net) during 2000, amounted to SEK 5.7 billion and SEK 4.5 billion, respectively. The investments pertained mainly to the operations in North America and Western Europe.

Acquisitions and divestments

Acquisitions and divestments of subsidiaries and other business units in 2000 had no net impact on the cash flow, while in 1999 mainly the sale of Volvo Cars resulted in a positive cash flow of SEK 31.0 billion. Investments in shares and participations in 2000 amounted to SEK 1.6 billion of which SEK 1.3 billion was attributable to additional investments in Scania. The comparable figure for 1999 amounted to SEK 25.9 billion, of which SEK 23.0 billion pertained to the acquisition of 43% of the shares in Scania AB and SEK 2.3 billion was attributable to the acquisition of a 5% stake in Mitsubishi Motors Corporation.

Consolidated cash flow statements, SEK billion	Volvo Group, excl Financial Services [1]			Financial Services			Total Volvo Group		
SEK billion	1998	1999	**2000**	1998	1999	**2000**	1998	1999	**2000**
Operating income [1]	6.1	5.7	**4.8**	0.8	1.0	**1.4**	6.9	6.7	**6.2**
Depreciation and amortization	6.4	3.1	**3.8**	3.2	2.1	**2.5**	9.6	5.2	**6.3**
Other non-cash items	(0.5)	0.2	**(1.2)**	0.5	0.3	**0.4**	0.0	0.5	**(0.8)**
Change in working capital	0.7	(1.7)	**(3.0)**	0.8	0.7	**(0.3)**	1.5	(1.0)	**(3.3)**
Financial items and income taxes	(2.3)	(1.7)	**(0.8)**	0.3	0.0	**0.4**	(2.0)	(1.7)	**(0.4)**
Cash flow from operating activities	**10.4**	**5.6**	**3.6**	**5.6**	**4.1**	**4.4**	**16.0**	**9.7**	**8.0**
Investments in fixed assets	(10.2)	(4.7)	**(5.1)**	(0.3)	(0.2)	**(0.3)**	(10.5)	(4.9)	**(5.4)**
Investments in leasing assets	(0.9)	(0.5)	**(0.6)**	(11.8)	(5.1)	**(5.1)**	(12.7)	(5.6)	**(5.7)**
Disposals of fixed assets and leasing assets	1.5	0.8	**0.7**	1.1	0.8	**1.4**	2.6	1.6	**2.1**
Customer finance receivables, net	(0.3)	0.1	**0.0**	(12.5)	(7.2)	**(4.5)**	(12.8)	(7.1)	**(4.5)**
Operating cash flow	**0.5**	**1.3**	**(1.4)**						
Investments in shares, net	5.5	(25.9)	**(1.6)**	–	–	**–**	5.5	(25.9)	**(1.6)**
Loans to external parties, net	(0.3)	(3.2)	**0.3**	(0.0)	–	**–**	(0.3)	(3.2)	**0.3**
Acquired and divested operations, net	(5.0)	31.0	**0.0**	(0.6)	–	**(0.0)**	(5.6)	31.0	**0.0**
Cash flow after net investments	**0.7**	**3.2**	**(2.7)**	**(18.5)**	**(7.6)**	**(4.1)**	**(17.8)**	**(4.4)**	**(6.8)**
Increase in loans							19.5	16.3	**8.1**
Repurchase of own shares							–	–	**(11.8)**
Dividends paid to AB Volvo's shareholders							(2.2)	(2.6)	**(3.1)**
Other							(0.2)	(0.1)	**0.0**
Change in liquid funds, excluding translation difference							**(0.7)**	**9.2**	**(13.6)**
Translation difference on liquid funds							0.3	(0.2)	**0.3**
Change in liquid funds							**(0.4)**	**9.0**	**(13.3)**

1 1999: Excluding gain on the sale of Volvo Cars, SEK 26.7 billions

Financing and dividend

Increases in loans during 2000 contributed liquid funds, net, of SEK 8.1 billion, of which new borrowing during the year, mainly through the issue of bonds and a commercial paper program, contributed SEK 19.5 billion.

During the year, Volvo Group loans, excluding Financial Services, rose SEK 5.3 billion, which was mainly attributable to increased borrowing during the first quarter pending the planned acquisition of Scania. A dividend amounting to SEK 3.1 billion was paid to AB Volvo shareholders during the year.

96	97	98	99	00
87	**181**	**108**	**127**	**72**

Self-financing ratio, excluding Financial Services, (%)

Change in liquid funds

The Group's liquid funds decreased by SEK 13.3 billion during the year, to SEK 16.0 billion, mainly due to dividends paid and repurchase of own shares.

Trucks

Transport planning software such as Dynafleet 2.0, is used to fully utilize a fleet of vehicles.

▶ The competitive transport market is forcing the hauliers to focus on their core business. This development means higher demands on the truck manufacturers to deliver not only vehicles, spare parts and technical services but also complete transport solutions, which include a wide range of business services. Volvo Trucks offers customer-specific business solutions, which lead to improved vehicle utilization and cost control.

The customer offering is based on an adequate vehicle specification for every customer's needs. Volvo Trucks has a broad range of truck specifications for all kinds of transport needs, from city distribution to construction work and long-distance transports. More than 90 percent of Volvo's truck production is sold in the heavy truck segment (>16 tons GVW), where all models are based on the company's global modular platform. The use of a common platform ensures product quality, parts availability and service, all contributing to higher vehicle uptime. In 2000, Volvo Trucks introduced the Volvo VHD, primarily developed for vocational use in North America. The new medium-heavy truck Volvo FL, launched in 2000, shares much of its technology with the heavy-duty models.

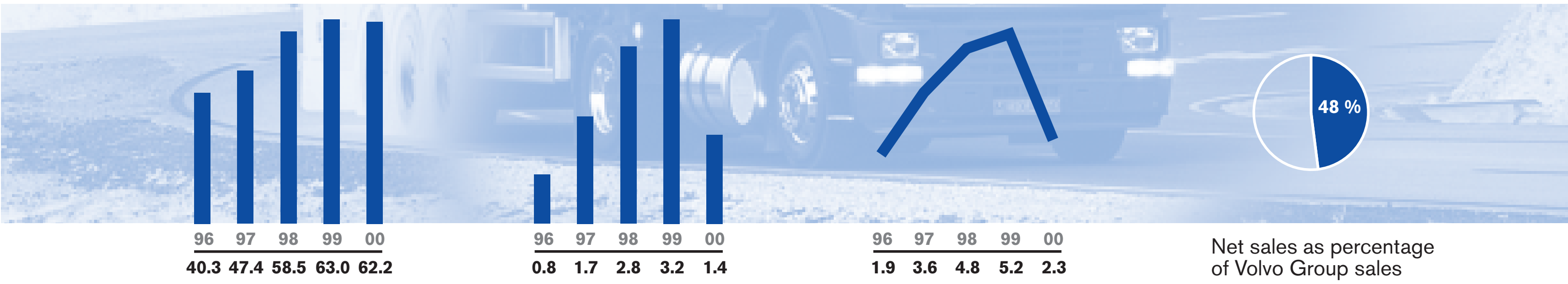
Successful introduction of the Volvo VHD and the Volvo FL

The customer is also offered an extensive range of support services. Financial services include many different kinds of leasing solutions, often in combination with service and insurance agreements. Leasing contracts giving the customer a fixed price per kilometer, apart from fuel and driver costs, are also common.

Transport planning equipment such as Dynafleet 2.0, developed by Volvo Trucks, represents a growing business. Based on information technology and wireless communication, Dynafleet 2.0 gives transport companies increased possibilities to coordinate a number of vehicles, optimize loading capacity and monitor vehicle efficiency, resulting in higher utilization of the vehicles.

Total market

The market for heavy trucks reached an all-time high level of 246,000 (236,000) vehicles in Western Europe in 2000, driven by high economic activity in the region. The markets in Eastern Europe, the Far East and Brazil increased as well, although from comparatively low levels. In North America, the market declined significantly and was troubled by large inven-



Net sales, SEK bn

Operating income, SEK bn

Operating margin, %

Net sales as percentage of Volvo Group sales

Number of vehicles invoiced	1998	1999	2000 Trucks
Western Europe	37,810	39,630	42,050
Eastern Europe	4,540	2,900	4,090
North America	29,310	34,300	23,610
South America	6,020	3,900	4,530
Asia	3,760	2,720	5,560
Other markets	1,840	1,640	1,990
Total	**83,280**	**85,090**	**81,830**

Largest markets	Volvo heavy trucks registrations		Market share, % (Trucks)	
	1999	2000	1999	2000
United States	28,177	22,565	10.7	10,7
France	5,856	6,323	13.5	13.5
Great Britain	6,088	5,784	19.3	17.7
Germany	4,288	4,684	7.3	8.2
Brazil	3,229	4,032	27.3	27.4
Spain	2,794	3,326	12.3	13.0

Net sales per market SEK M	1998	1999	2000 Trucks
Western Europe	30,666	32,750	33,383
Eastern Europe	3,089	2,265	3,158
North America	17,659	22,303	17,201
South America	3,777	2,190	3,111
Asia	2,047	2,010	3,432
Other markets	1,267	1,492	1,911
Total	**58,505**	**63,010**	**62,196**

tories of new and used trucks. As a result, the competition continued to stiffen, causing cutbacks in production and personnel reductions by most manufacturers.

In total, the world market for heavy trucks in 2000 increased by 4% to 780,000 vehicles (750,000). The market in Western Europe increased by 4% while the U.S. market declined by 19%, compared with 1999 figures.

Business environment

The consolidation in the heavy truck industry continues towards fewer producers of trucks and components. In the year 2000 several mergers and cooperations were established.

The DaimlerChrysler Group acquired the American truck producer Western Star (100%) and the American diesel engine manufacturer Detroit Diesel (100%). The Renault Group acquired 22.5% of the Japanese truck manufacturer Nissan Diesel. The German heavy truck manufacturer MAN bought the British truck producer ERF (100%) and the Polish truck company Star (100%). Volkswagen acquired 18% of Scania AB and AB Volvo acquired 100% of Renault V.I. and Mack.

Sales and market shares

Volvo Trucks delivered 81,830 medium-heavy and heavy trucks in 2000, a decrease of 4% compared with 1999. Deliveries in Western Europe totaled 42,050 (39,630). The market share in this area in the heavy class (>16 tons) was 14.9% (15.0). The production capacity in Volvo Trucks' European industrial system was fully utilized in 2000 but could not fully meet the strong demand from the market in Western Europe in combination with increasing demand in Eastern Europe and parts of Asia. Volvo's deliveries in North America amounted to 23,610 trucks (34,300) in a declining total market and the market share in Class 8 in the U.S. amounted to 10.7% (10.7).

Deliveries of Volvo trucks in South America increased by 16% to 4,530 units (3,900). The market share in Brazil increased to 27.4% (27.3) and Volvo is now the second-largest heavy truck brand on the market. Volvo's deliveries in the rest of the world in 2000 totaled 11,640 units (7,260). Significant increases during the year 2000 took place in Iran, Turkey, South Korea and Japan.

Deliveries of medium-heavy trucks increased by 39% to 5,360 units following the successful launch of the new Volvo FL in March 2000.

Volvo Trucks' net sales in 2000 amounted to SEK 62,196 M (63,010). Orders booked in 2000 decreased by 6%, mainly as a result of the downward market trend in North America. Volvo Trucks' order book at the end of 2000 was 19% lower than in 1999.

Operating income

Operating income decreased to SEK 1,414 M (3,247), including a refund from SPP of SEK 192 M. The decrease is mainly attributable to the significant market reduction and price pressure in North America, the competitive market in Western Europe and a weak euro. The operating margin decreased to 2.3% (5.2) and the return on operating capital was 9% (25).

The profit improvement program that was introduced in June to strengthen Volvo Truck's 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.

Competition continued to stiffen in North America

Production and investments

Production of Volvo trucks in 2000 amounted to 82,010 vehicles (84,660). The production capacity was further increased in the European industrial system but was reduced by more than 30 percent in North America. The truck assembly in Irvine, Scotland was transferred to Göteborg, Sweden and Ghent, Belgium. Furthermore, a new assembly plant was started in Bangkok, Thailand. Investments in Europe during 2000 focused on eliminating bottlenecks in the production of driveline components and cabs. Previously approved investments related to the production start of the Volvo VHD at the assembly plant in New River Valley in the U.S., were carried out. The market investments included spare parts storage facilities in Singapore and China.

Number of trucks produced — Trucks

	1998	1999	2000
Volvo FH	30,610	25,880	32,720
Volvo VN and VHD [1]	30,540	35,440	23,400
Volvo FL7, 10, 12 and FM7, 10, 12	9,350	13,090	15,310
Volvo FL	8,780	7,040	7,890
Volvo NL and NH	5,490	3,210	2,690
Total	**84,770**	**84,660**	**82,010**

1 Includes other truck models produced in the United States.

Ambitions for 2001

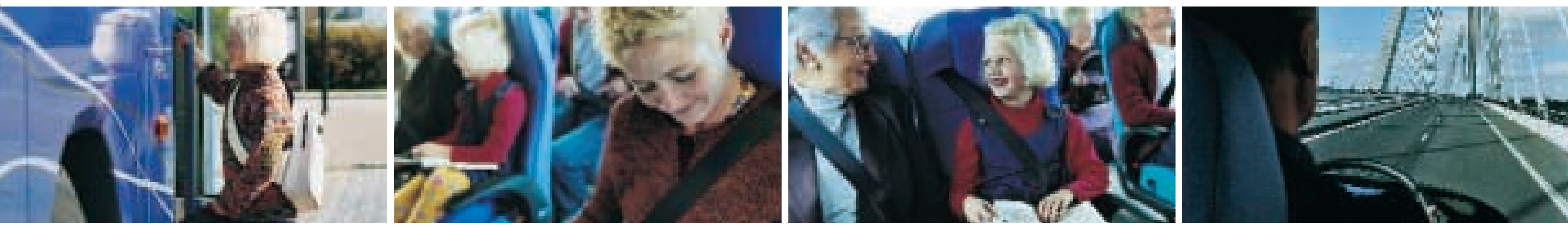
The ambition in year 2001 is to successfully and rapidly integrate the Mack and Renault V.I. operations with Volvo's truck operations and to further strengthen the unique brand identities and product programs of the three already strong brand names – Mack, Renault and Volvo. The action program introduced in June, 2000, to improve profitability will be completed during this year.

Strategic development

The acquisition of Mack and Renault V.I. will support growth, development and competitiveness. Through increased resources and larger volumes, the three brands – Mack, Renault and Volvo – will be further developed in the markets, based on their individual identities.

The cooperation between Volvo Trucks and Mitsubishi with respect to the development of a new medium-heavy truck is proceeding. Mitsubishi formed a new division in April 2000, Mitsubishi Fuso Truck and Bus, in line with its agreement with Volvo in 1999.

Buses



Safety in focus. The new Volvo 8500, with seat belts as standard.

Volvo Buses' product line comprises complete buses, bus chassis and bodies for various applications – city and intercity buses and coaches – and also in more specifically adapted forms such as mobile homes. The passenger capacity varies from 24 – in a luxury tourist coach – to 270 in a bi-articulated intercity bus. The customers are mainly bus operators throughout the world, with vehicle fleets ranging from a single bus to as many as 20,000.

New modularized TX platform increases capacity

During the autumn of 2000, Volvo Buses launched a new global product program for coaches and intercity buses based on the new TX platform. The TX platform enables a more effective production process which requires about 40% fewer components, while the number of model versions and customer value are increased.

Volvo Buses offers traditional financial solutions and service contracts. In cooperation with Volvo Mobility, the customer offering is extended to complete system solutions including traffic planning, design of infrastructures, support systems (ticket systems, traffic management, information and follow-up systems) and system implementation.

Total market

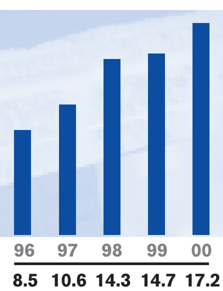
The overall market for heavy buses increased during 2000. The growth is attributable mainly to the recovering economic situation in Mexico and Brazil. European volumes remained steady, while the North American market rose by 27%, despite the deteriorating market conditions in the U.S. and Canada. Driven by the Brazilian market, the South American market rose 20%. The world's largest bus markets, China and India, dominated by local designs, increased by approximately 18% and 11%, respectively.

Business environment

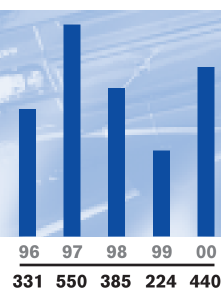
The ongoing liberalization of city bus traffic contributes to the creation of larger and more professional operators. Competition among these often privately owned operators increases as they internationalize and compete for contracts. The requirements placed on bus manufacturers and products are increasing, with demands for lower fuel consumption, lower operating costs and more complete offerings, including IT-based solutions for both operational and traffic planning.

Sales and market shares

Volvo delivered 11,015 buses and bus chassis during 2000, 16% more than in 1999. Volvo Buses' net sales increased to SEK 17,187 M (14,713), attributable to increased volumes in

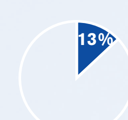


Net sales, SEK bn



Operating income, SEK M

Operating margin, %



Net sales as percentage of Volvo Group sales

Europe and to favorable currency effects. Volvo's share of the market for heavy buses in Europe improved to 18% (15%). There was a favorable trend of business in the UK, in particular, where Volvo regained market shares as a result of new and successfully launched products. The Nordic markets also showed strong growth. At year-end, order bookings were 25% lower than on the same date in 1999. Order bookings in North America, the Middle East and Europe declined, due mainly to a slower market development and a change in product-generations.

Deliveries of buses and chassis increased by 16%

Operating income

Operating income in 2000 nearly doubled to SEK 440 M (224), including a refund from SPP of SEK 22 M. The higher operating income was a result of increased sales, high utilization of capacity and positive effects of an improved cost level. The positive trend in Mexico continued but the demand for coaches weakened in Canada and the U.S. The operating margin increased to 2.6%, compared with 1.5% in 1999.

Production and investments

During the year Volvo produced 11,244 (10,050) buses and bus chassis, of which 49% were complete buses. There was a high degree of utilization in the production system in Europe and North America.

Moving the production in Great Britain to Sweden and Poland continued the consolidation of the industrial structure. The planned capacity in Poland is 2,500, including 1,100 complete buses. An expansion of the existing plant in Mexico was inaugurated for the production of the Volvo 7550 coach model. In June 2000, Volvo Buses signed an agreement with Shanghai Automotive Industry Corporation to establish a joint-venture company in China for production and sales of city and commuter buses. The first bus was produced in September 2000.

Ambitions for 2001

Europe shows a decreasing market in 2001 and the weakening in the U.S. and Canada will continue. The business activities in China and other parts of Asia will increase during 2001. The process of exploiting existing strengths and building for the future continues. Key areas in this process are increased profitability through high quality, reduced product costs based on more efficient production processes, customer focused sales strategy and improved assets management. The future launches of products based on the new modularized TX platform will continue to support this program.

Strategic development

Volvo Buses has grown rapidly, through organic growth and through several acquisitions and joint ventures in Europe, North America and Asia. Volvo will continue to exploit the global presence and the synergies between the different companies and build on common components whenever feasible. The products will be further modularized, which will reduce the number of parts and suppliers drastically. A series of new products based on the TX platform will follow during the next couple of years and TX modules are planned to be introduced.

Number of vehicles invoiced — Buses

	1998	1999	2000
Western Europe	3,580	3,430	3,870
Eastern Europe	280	200	124
North America	2,730	3,640	3,869
South America	1,510	710	980
Asia	1,650	1,000	1,659
Other markets	450	520	513
Total	**10,200**	**9,500**	**11,015**

Largest markets — Buses

	Volvo buses registrations		Market share, %	
	1999	2000	1999	2000
Mexico	1,270	1,620	18.5	16.0
United States [1]	1,850	1,520	n/a	n/a
Great Britain	790	1,230	28.3	48.6
Brazil	460	610	6.4	6.4
Sweden	470	560	47.3	54.5

1 Deliveries from factory.

Net sales per market — Buses

SEK M	1998	1999	2000
Western Europe	5,528	5,735	6,767
Eastern Europe	366	226	182
North America	5,574	6,871	7,723
South America	910	469	732
Asia	1,519	943	1,269
Other markets	389	469	514
Total	**14,286**	**14,713**	**17,187**

Construction Equipment

▶ Volvo Construction Equipment offers high-quality products to meet and exceed the needs of demanding customers worldwide. As one of the largest manufacturers of construction equipment in the world, the company offers around 130 models.

Volvo CE's product range comprises excavators, wheel loaders, articulated haulers and motor graders. The products are used in construction, extraction, aggregate production, loading and haulage, road construction and industrial applications. All products are built to work in all kinds of climates and ground conditions. Volvo's product range within compact machines includes compact excavators and compact wheel loaders.

More than 21,000 machines sold in 2000, a new all-time high for Volvo CE

Volvo CE, with production facilities on four continents, markets its products in more than 100 countries, mainly via independent dealers. Europe and North America are the largest markets.

Net sales per market
Construction Equipment

SEK M	1998	1999	2000
Western Europe	9,557	9,901	10,029
Eastern Europe	336	193	255
North America	6,548	5,725	5,823
South America	957	498	776
Asia	1,092	1,903	2,484
Other markets	882	662	626
Total	**19,372**	**18,882**	**19,993**

Total market

The total market for heavy construction equipment increased by approximately 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 other markets amounted to 12%.

The markets in South America and Eastern Europe continued to improve during the year. The market in Asia strengthened, although there were signs of softening demand towards the end of the year.

In the compact segment, there was continued strong growth and the global market increased by approximately 4%.

Business environment

As a result of a flattening-out in demand and decreasing volumes there has been increasing price pressure throughout the industry. Another factor affecting the industry is the shift in product mix, since the compact market is growing more than the heavy equipment market.

The construction equipment sector has gone through a period of consolidation in recent years and this is expected to continue. Volvo has been part of this consolidation and will continue to play an active part when opportunities arise.

Sales and market shares

Net sales increased by approximately 6% and amounted to SEK 19,993 M. A record number of more than 21,000 machines were sold during the year. The number of light construction equipment units sold increased while the number of heavy construction equipment units sold

96	97	98	99	00
12.8	**16.7**	**19.4**	**18.9**	**20.0**

Net sales, SEK bn

96	97	98	99	00
1.2	**1.4**	**1.5**	**1.7**	**1.6**

Operating income, SEK bn

96	97	98	99	00
9.1	**8.6**	**7.9**	**9.1**	**8.0**

Operating margin, %

Net sales as percentage of Volvo Group sales

Volvo CE offers on-the-spot and round-the-clock response.

decreased slightly. This overall increase in sales was driven mainly by the positive development in the excavator business, as well as the increasing market for compact equipment.

The market in Western Europe continued to be the largest single market, accounting for approximately 51% of sales. North America accounted for nearly 30% of sales and Asia and the rest of the world for the remaining 19%.

Operating income

Operating income amounted to SEK 1,594 M (1,709), despite the downturn in the market and price pressure on heavy equipment in North America and Europe. Operating income included a refund from SPP of SEK 147 M. The operating margin reached 8.0%, a competitive level within the industry.

Production and investments

In 2000, a number of new products were successfully launched, including two new articulated haulers, A35D and A40D, and a new generation of wheel loaders. In the field of excavators, a range of new models was introduced. Other products launched recently include additions to the existing range of compact excavators, compact wheel loaders and motor graders. The new products were received very favorably by dealers, customers and the trade press.

Range of new products launched successfully in 2000

Last year saw the start of production of compact excavators and the assembly of articulated haulers in South Korea. 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. To date, a small number of articulated haulers have been assembled there.

New investments were made in e-commerce technology. The company invested USD 5 M in IronPlanet Inc., a leading U.S.-based e-auction company for used construction equipment. The investment will act as an additional component of the future e-commerce strategy.

Ambitions for 2001

It is anticipated that the decline in the world market will continue in 2001. Volvo CE's ambition is to increase its market shares, and to focus on the softening market demand, with cost reductions in all areas. In the U.S., where the company currently has 30% of its sales, a restructuring program has been launched. This program is being implemented and will continue during 2001. At the marketing level, the company has taken steps to reinforce the relationship with dealers under a program called "Partners for Profit."

Strategic development

Volvo CE has grown considerably in recent years and the ambition is to continue growing both organically and through acquisitions, with a continued focus on profitable growth.

At the marketing level, the company has taken steps to reinforce the Volvo brand.

Marine and Industrial Power Systems

Volvo Penta provides power units for customers who produce leisure boats, workboats, power generating equipment, forklifts etc. The products are sold through dealers in about 120 countries and are well-known for their quality, reliability and good environmental performance.

During the year, the new 12-liter diesel engine, D12, for use in marine leisure and commercial applications was launched. A new series of V8 gasoline engines was also introduced. A taste of the future was offered when Volvo Penta showed the Concept Boat, which introduces numerous safety and comfort features, using state-of-the-art electronics and telematics.

In 2000, an agreement was signed with Mitsubishi Heavy Industries Ltd for global distribution of Volvo Penta branded diesel engines in the 25- to 65-liter range. With the expanded range, an entire new group of customers in fishing, inland waterways, freight and other businesses can be served by Volvo Penta.

The engine range for power generation was extended downwards with the introduction of two 5-liter as well as two 7-liter diesel-powered engines, which will give Volvo Penta access to a new segment in the market.

Net sales per market
Marine and Industrial Power Systems

SEK M	1998	1999	2000
Western Europe	2,725	2,986	3,204
Eastern Europe	23	26	30
North America	1,412	1,770	2,257
South America	153	134	160
Asia	476	692	794
Other markets	142	153	154
Total	**4,931**	**5,761**	**6,599**

Strong marine program and new products increased order bookings

Total market

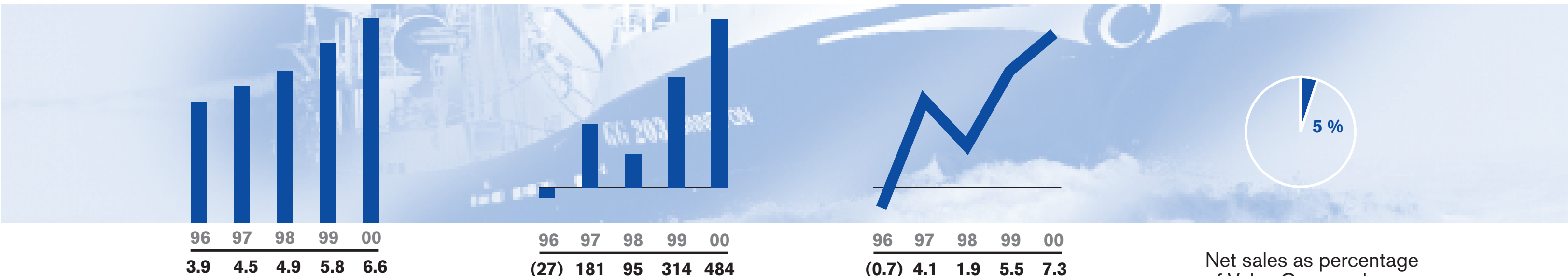
Worldwide sales of marine engines recorded a solid increase in 2000, compared with 1999, due mainly to a strong recovery in the European economy. In North America, sales continued to be strong, but in the latter part of the year there were signs of a somewhat weaker demand for marine engines. The demand for marine engines in Asia continued to be weak.

The world market for industrial engines continued to grow in North America and Asia during 2000. However, the industrial engine market in Europe experienced a decline in demand during the second half of the year.

Business environment

The basic demand for marine and industrial power systems is strong and growing, although with some short-term uncertainties concerning primarily the North American market.

The bankruptcy of the OMC company (Outboard Marine Corporation) will have an effect on competitive positions in the North American market. The sale of OMC's boat-building business to Genmar, an independent boatbuilder and a Volvo Penta customer, indicates that the effect of the OMC bankruptcy on Volvo Penta sales volumes will be limited. Yanmar is expanding its business from small to larger engines. During the year, Caterpillar introduced the marine engine series – CAT 3000 Family – which also will increase the competition.



Net sales, SEK bn

Operating income, SEK M

Operating margin, %

Net sales as percentage of Volvo Group sales

Sales and market shares

Volvo Penta's net sales during 2000 increased by 14.5%, to SEK 6,599 M (5,761), due primarily to strong sales of marine engines in North America and Europe. Sales in Asia and other international markets developed favorably and sales of industrial engines increased in all markets.

Best year ever

Volvo Penta continued to increase its market share for marine engines and strengthened its position in the industrial engine field in Europe. A large number of new products were introduced during the year and they have been well received in the market. The value of the order book at December 31, 2000 was 13.8% higher than at the end of 1999.

Operating income

Operating income, which was the best ever, amounted to SEK 484 M (314), including a refund of SEK 41 M from SPP. The operating margin increased substantially, to 7.3% (5.5%). Cost constraints and larger sales volumes in all markets contributed to the positive outcome in 2000. The return on operating capital exceeded 25%.

Production and investments

During 2000, there was high utilization of capacity in the plants in Sweden and the U.S. Volvo Penta's and Wuxi Diesel Engine Works' joint-venture company, the Wuxi Da-Hao Power Company, inaugurated its assembly plant. The plant is located in Wuxi, China, with a full capacity of 5,000 engines per year. During the year Volvo Penta decided to invest nearly SEK 100 million in its engine plant in Vara, Sweden.

Ambitions for 2001

In 2000, Volvo Penta entered a phase of product renewal that will be completed during the next few years. The Asian operations will continue to expand. The factory in Wuxi will be an industrial hub for the Asian region and customer service will be further developed through an extended dealer network. In the Parts segment, the newly launched e-commerce interface, the Volvo Penta Partner network, will be implemented on a global basis and new functions will be introduced. In North America, Volvo Penta will continue to expand its diesel engine business and, based on the established distributor network, develop engine sales to the mobile off-road market.

Strategic development

During the years ahead, Volvo Penta's ambition is to continue to grow through an aggressive product development program, and customer services will be expanded. Within the industrial segment, growth will be accomplished through focused actions to win new customers in new segments.

The launch of new diesel engines during 2000 and 2001 will increase Volvo Penta's competitiveness within the marine commercial segment. Expansion of the North American business geared to the use of gasoline during the past few years has created an important customer base and an extensive dealer network, which forms a platform for further expansion in diesel engines.

Aero

Volvo Aero develops and manufactures high-technology components for commercial aircraft and rocket engines. Aero also develops, manufactures and maintains military engines for the Swedish defense forces. Volvo Aero offers a wide range of services, including sale of parts for aircraft engines and aircraft, sale and leasing of aircraft engines and aircraft, overhaul and repair of aircraft engines, and asset management. In addition, Volvo Aero develops, produces and provides aftermarket services for gas turbine engines and systems.

The company's businesses are based on close cooperation with partners and on selective specialization in order to be truly competitive. This is mirrored in the business concept "Specialized for Partnership" and the vision of being the "Best Partner." Volvo Aero operates in Sweden, Norway and the U.S.

Net sales per market			Aero
SEK M	1998	1999	2000
Western Europe	4,231	4,560	4,651
Eastern Europe	47	16	42
North America	3,502	4,557	5,040
South America	284	193	134
Asia	336	491	701
Other markets	184	136	145
Total	**8,584**	**9,953**	**10,713**

Several important contracts secured

Total market

Commercial airline traffic developed favorably throughout the world in 2000. World airline passenger traffic increased by 7.2% in the year 2000, exceeding the long-term growth rate of 5% that has prevailed for several decades. For the year 2000, the load factor was up to a new record level of 72.2%, compared to the prior record level of 70.5% in 1999.

The confidence of the world's leading airlines was clearly reflected in the large number of orders for new aircraft. During 2000, Airbus and Boeing received orders for 1,131 new aircraft, an increase of 30% compared with 1999.

Business environment

During 2000, the market for commercial aircraft engines continued to be characterized by increased competition. The high level of new aircraft deliveries during recent years has led to some weakening of demand for spare parts, leading to increased competition in the aftermarket. On the strength of its specialized core operations, Volvo Aero works in alliance with the world's three major engine manufacturers: Pratt & Whitney, General Electric and Rolls Royce. The military market is undergoing a dramatic change due to the new strategic concept called Revolution in Military Affairs (RMA).

Sales and market shares

The company's order backlog for commercial aircraft engine components increased by 8% as a result of the large number of orders for new aircraft. Volvo Aero managed to capture a strong position in the market, and in 2000, engine components from Volvo Aero were installed in

96	97	98	99	00
4.1	7.5	8.6	10.0	10.7

Net sales, SEK bn

96	97	98	99	00
153	472	527	584	621

Operating income, SEK M

96	97	98	99	00
3.7	6.3	6.1	5.9	5.8

Operating margin, %

Net sales as percentage of Volvo Group sales


A46

more than 80% of all large new aircraft. The production plants in Trollhättan, Sweden and Kongsberg, Norway both posted all-time records for deliveries of engine components. The company's sales related to military engines increased. Despite difficult after-market conditions Volvo Aero Services, formerly the AGES Group, reported higher parts sales.

All-time highs for deliveries of engine components

Operating income

Net sales by Volvo Aero exceeded SEK 10 billion during 2000, in line with the company's long-term expansion plan. Operating income increased by 6.3 % to SEK 621 M (584), including a refund from SPP of SEK 106 M. The increase was attributable to highly favorable trends for aerospace components and military engines, partly offset by declining profitability within Volvo Aero Services and Engine Services.

Production and investments

During 2000, investments were made in engine alliance programs for commercial aero engines (GE90 for future jumbo jets), military engines (F414 for the F18 E/F, Super Hornet) and components for space propulsion (nozzles and turbines for the Ariane-5 rocket engines).

Ambitions for 2001

Deliveries of new aircraft will remain at a high level during 2001. This will translate into high deliveries of engine components. Volvo Aero is planning to further expand its components business, by entering into new engine programs or through acquisitions.

Continuous growth of revenue passenger miles (RPM) and high load factors will ultimately lead to increased demand for parts and services. The restructuring of the parts redistribution business will also have a positive impact. By utilizing the synergies between Engine Services, Aviation Services and leasing operations, Aero will lower the costs for material supply significantly.

During 2001, Volvo Aero aims to further strengthen its capacity within the large market for JT8-engine maintenance. During the first half of 2001, Aero will open a supplementary JT8D-200 engine service facility in Trollhättan.

Several countries are planning to purchase new jet fighter aircraft. Volvo Aero is supporting Saab/BAe in its efforts to win further export orders for Gripen jet fighters.

Strategic development

Volvo Aero's ambition is to continue the expansion through organic growth and acquisitions. Parallel efforts will be made to consolidate the company and further improve profitability through continued productivity improvements and cost reductions. Under the terms of long-term supply agreements, Volvo Aero Services now offers total support management, including purchase of parts and total inventory supply responsibility.

Financial Services

Financial services are a significant part of Volvo's strategy to become the world's leading provider of commercial transport solutions. The Financial Services business area was established during the year to handle Group customer-financing operations, the insurance business, treasury activities and real estate operations. The aim is to focus on developing various types of financial services, primarily related to Volvo's products and services.

Financial Services fulfills the market's growing need for increasingly sophisticated financial solutions, separately or combined with insurance and/or service contracts. This strengthens the competitiveness of Volvo's dealers as well as enhancing the Group's growth and profitability.

Volvo's customer-financing operations cover Europe, North America, part of South America and Australia. Customer financing is primarily truck-related, although buses and construction equipment are included to an increasing extent. The range of financing services includes installment contracts, financial leasing, operational leasing and dealer financing. In most markets, insurance, service and maintenance contracts are also offered separately or in combination with financing services.

Operations

Operations continued to expand strongly during 2000, though at a slower rate than in the preceding year. Since year-end 1999, the credit portfolio has grown by SEK 8.5 bn, amounting to SEK 53.6 bn at year-end 2000. The credit portfolio consisted of approximately 111,000 contracts of which approximately 91,000 related to Trucks.

New business area within Volvo

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. 31% (26) of all new trucks sold in 2000, in markets where Financial Services offers financing, were financed by Financial Services. During the year, financing of Penta engines was launched and a company for financing aircraft engines was started.

Volvo's insurance operations developed strongly during the year, and in North America a complete set of transport-related insurance products are offered to the customer. Together with Volvo Action Services, an integrated claim process is offered in the U.S., which minimizes customers' downtime in case of accidents.

The real estate operations, conducted primarily through leasing and development of commercial properties in Göteborg, Sweden, expanded further in 2000, and the year-end leasing rate was

95%, of which 56% to external customers. Of total leasing, 40% involved contracts longer than five years.

Volvo Treasury's value added, included in operating income as of 2000, is generated through management of the Volvo Group's assets and liabilities, and foreign exchange operations.

During the year, Volvo Treasury continued to develop the Group's treasury operations, in part through the introduction of a common cash-pool system for Europe.

Strong profitable growth

Operating income

Operating income amounted to SEK 1,396 M (977), of which SEK 610 M pertained to gains on the sale of Volvia's securities portfolio, and SEK 38 M to SPP refunds. Operating income 1999 included reversals of reserves for customer financing of SEK 240 M. Adjusted for the sale of securities, including the lower yield from Volvia's portfolio compared with the preceding year, the refund from SPP, Volvo Treasury's income and the reversal of reserves in 1999, operating income declined by 8%, compared with year-earlier income.

Operating income in the established customer-financing companies was stable, but was affected by increased credit losses from truck financing in North America. At the same time, income from operations in South America and Eastern Europe was higher than in previous years.

Income from other operations – insurance, real estate and treasury – was higher than in the preceding year.

Provision for risks

Provision is made for both credit risks and residual-value risks to the degree that residual-value risks are attributable to the customer-financing company. For customers unable to fulfill their contractual obligations, specific provisions for credit risks are made based on an individual assessment of each contract. In addition, in accordance with established policies, provisions are made for estimated credit and residual-value losses for each customer-financing company, based on historical data and anticipated future risks.

Total reserves amounted to 2.7% of the credit portfolio at year-end (2.7), of which the reserve for residual-value risk amounted to 0.4%, and the credit reserve allocated to individual contracts amounted to 1.6%. 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.

Condensed income statement[1]

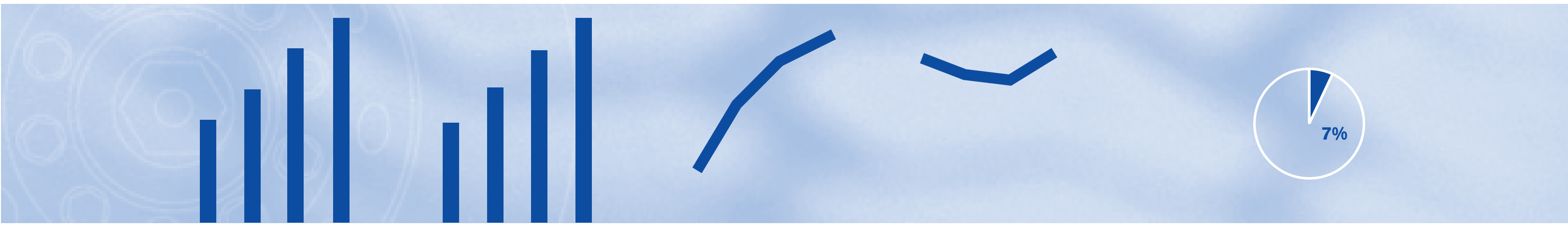
SEK M	1998	1999	2000
Net sales	7,224	8,637	9,678
Operating income	**590**	**977**	**1,396**
Income from investments in associated companies	90	89	103
Income after financial items	**680**	**1,066**	**1,499**
Taxes	(242)	(316)	(471)
Net income	**438**	**750**	**1,028**

1) Excluding divested operations in 1998

Distribution of credit portfolio, net[1]

%	1998	1999	2000
Commercial products			
Operational leasing	26	25	23
Financial leasing	31	29	28
Installment contracts	26	29	34
Dealer financing	16	16	14
Other customer credits	1	1	1

1) Excluding divested operations in 1998



97	98	99	00
33.3	43.2	56.5	66.5

Assets, SEK bn

97	98	99	00
26.2	35.4	45.1	53.6

Credit portfolio, SEK bn

97	98	99	00
4.0	8.9	12.0	14.1

Return on shareholders' equity, %

97	98	99	00
30	27	26	31

Market penetration, %

Net sales as percentage of Volvo Group sales

Research and development

New products offer customers improved operating economy

Volvo's research and development focuses on the customers' business, environmentally adapted solutions and safety awareness. During 2000, Volvo presented a large number of new products that offer customers improved operating economy through reduced fuel consumption, as well as a higher degree of reliability and quality. One area of priority in research involves the development of transport telematics and other software designed to improve profitability in the customer's business, which also has positive effects on the environment.

The "Cost-Per-Mile" program, designed to improve operating economy, is another example of research that focuses on customers' business. The program, which is the most comprehensive in the industry, is being offered to Volvo Trucks' North American customers. Via satellite communications and at low cost, customers can process vehicle data for invoicing and can also obtain rapid support from Volvo Action Service in the event of unexpected interruptions of operations. Automatic determination of a vehicle's position is effected via the Global Positioning System (GPS), and messages can be handled via wireless Internet links. The program makes it possible to schedule maintenance at exactly the right time – the communications received via satellite automatically report each vehicle's mileage and current status.

Global platform complete

During the year, Volvo Trucks launched the Volvo VHD, designed for construction site work. All of Volvo's heavy-truck models are being built on the same global modular platform. With the global platform, the quality of products improves at the same time that lead times are shortened and costs are reduced. The number of parts involved has been cut substantially as new models have been introduced based on the global platform, resulting in higher quality and greater safety for customers. The platform technology is also being applied within Volvo Buses, which during the autumn of 2000 launched the Volvo 8500, the first model based on the new TX platform.

Safety in focus

Safety is one of Volvo's core values and research in this field has a high priority. So-called "active" safety involves research pertaining to the driving and road characteristics of a vehicle, such as electronic stability systems, ABS brakes and disc brakes on heavy trucks, while "passive" safety is being developed in the form of safety belts, airbags and impact-resistant cabs.

The Volvo VHD, with driver airbag as standard equipment, as well as three-point safety belts for all seats and an energy-absorbing steering column, was launched during the year. In addition, the Volvo VHD was subjected to the most rigorous collision tests in the industry and its cab was constructed to give the driver adequate space even after a rollover, in part through the use of high-strength steel.

An important area of research deals with the interplay between driver and vehicle or machine. The driver has to feel comfortable and must be able to see and reach all important controls in order to operate the vehicle as safely and efficiently as possible. To date, very interesting research findings have been reported with respect to drivers' behavior while operating vehicles, in part through studies of eye movements as well as by filming tired drivers – under safe conditions, of course.

With a global modular platform, the quality of products improves at the same time that lead times are shortened and costs are reduced.

Research for decreased environmental impact

The environmental impact of transports is constantly in focus in society and among our customers, and therefore it is vital for Volvo's long-term profitability and competitiveness to show commitment and actions.

The climate change issue and the need to meet more stringent air-quality standards in urban areas, are strong driving forces for improving vehicle technologies. There is still a large potential in increasing the efficiency of today's technology, along with the development of future propulsion and alternative fuel systems.

Emissions and fuel consumption

The emission legislation for heavy trucks, buses and construction equipment in the EU has been defined until 2008, which in itself requires large development investments. In the U.S., even stricter requirements are being discussed. Volvo's ambition is to fulfill these requirements well before they come into force.

Improvements of current vehicle fleets in big cities represent a new development area. Volvo Trucks has introduced a kit for upgrading EURO1 engines to EURO2. Already today, buses can be equipped with VEC (Volvo Emission Control) and thereby fulfill the requirements of EURO4, and oxidation catalysts and filters can be fitted to buses already in use. Low fuel consumption is directly linked to the customers' business, and is therefore competition-driven.

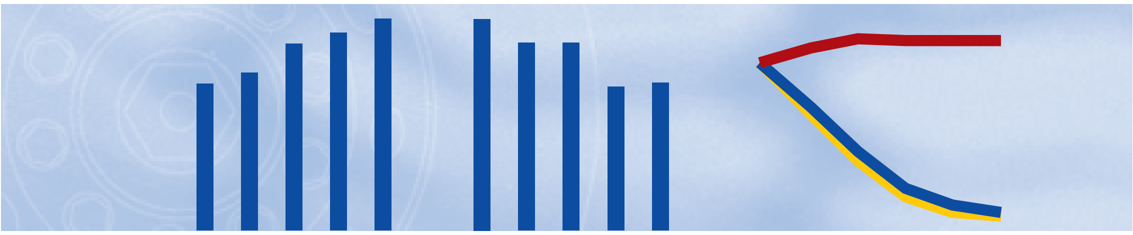
Alternative fuels and powertrains

Non-fossil and renewable fuel systems are essential for long-term transport systems. Volvo Buses is one of the largest manufacturers of methane-powered city buses, using natural gas or biogas. The Volvo development of DME-powered (dimethyl ether) engines, combines the benefits of renewable sources and low emissions. Fuel cell projects, with demonstrator vehicles and laboratory research, are already under way in order to be well prepared for future demands on vehicles.

Efficient and safe high-tech solutions

Pioneering research into energy issues

Volvo's Environment Prize 2000 is awarded in recognition of a unique cooperation that has transcended cultural, economic and geographic borders. Four scientists from four different parts of the world have worked with the question of how the world's energy resources can be made to suffice as the world's population grows and the global environment becomes threatened. Among other points, they showed that if the developing countries make the same mistakes as the industrialized countries in the energy exploitation area, this would lead to enormous environmental problems. They reasoned that it would be preferable to aim for a technological gain by skipping the intermediate stage and focusing directly on new technology.



96	97	98	99	00
3.4	3.6	4.3	4.5	4.9

Research and development expenses*, SEK bn

96	97	98	99	00
5.3	4.7	4.7	3.6	3.7

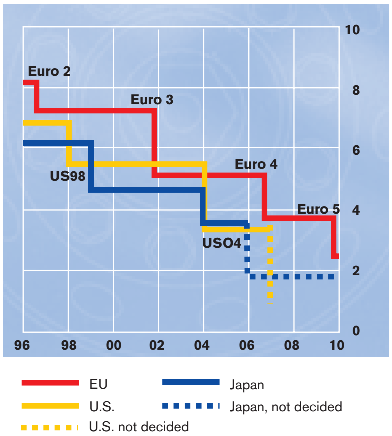
Research and development expenses* as % of net sales

1995	2000	2005	2010	2015	2020	
100	76	52	32	23	19	NO_x
100	72	47	27	19	17	PM-diesel
100	108	113	112	112	112	CO^2

Estimated road transport emissions

* Volvo Group excluding divested operations

Legislative demands regarding emissions of nitrogen oxides



World-class environmental management to reduce environmental risks

To support long-term competitiveness, it is important to integrate environmental strategies and efforts in all areas, from suppliers to the sales and service organizations. Introducing environmental management systems in the complete value chain, all based on the Volvo Group's Environmental Policy, has been a high priority since 1995. Suppliers of production material and major dealers are requested to be certified according to ISO 14001, along with their internal environmental management development. As of December 31, 2000, 37 of Volvo's plants and units were certified in the Volvo Group.

Since 1989, environmental audits have identified clean-up requirements that have resulted in corrective measures amounting to about SEK 50 M. Environmental risk evaluations of operations are also made in connection with environmental audits, and Volvo has insurance covering damage to nearby areas, that may be caused by unexpected discharges.

Production

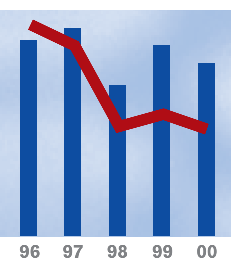
At the beginning of 2000, Volvo had a total of 45 production plants, of which 16 in Sweden. All the plants have the requisite permits. The Swedish permit conditions for the production of trucks, buses, construction equipment, marine and industrial power systems and aircraft engines cover waste, noise and emissions to air and soil. Three permits will be renewed during 2001. Consumption of energy and water, hazardous waste and emissions of solvents are reported below. For detailed information see page 106.

Transports

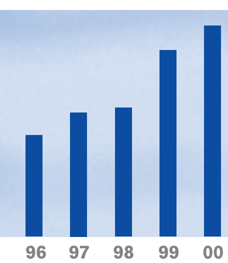
Transports to and from Volvo's production facilities and distributors cause more substantial emissions of air pollutants than the operations at the company's production plants. In order to encourage environmental improvement measures, Volvo Transport, the Group's procurement company for transport services, continuously assesses the environmental work of contracted transport companies according to a classification system. Every new supplier contract includes an environmental clause whereby the transport company undertakes to operate in accordance with the ISO 9000 and ISO 14001 standards.

Energy consumption

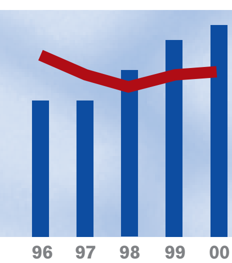
Water consumption



Hazardous waste



Solvent emissions



Volvo's use of information technology

e-strategy

The Volvo Group is implementing an e-strategy within all business areas, covering all of the value chain from product development to after-sales support.

In April 2000, the Volvo Penta Partner Network was launched. It is one of the first web-based B2B (business-to-business) systems in the marine industry, enabling the company's dealers to order spare parts and report warranty information directly over the Internet. For Volvo Penta, it is an important step towards more efficient and cost-effective handling of parts. It also marks the first step in a more complete e-business platform geared towards all target groups.

Efficient public transport traffic management

In order to offer our customers increasingly efficient transport systems, Volvo takes an active interest in the systems in which its vehicles operate. One example is the IT-based transport management system, Dynafleet 2.0. This system, developed by Volvo, makes it possible for a transport company or bus operator to efficiently coordinate all of its operations involving a large number of vehicles by means of communications via a GSM or satellite network. In the Dynafleet system, data on a vehicle's condition and on the manner in which the driver is performing is continuously collected. The information is used for transport, service and maintenance planning.

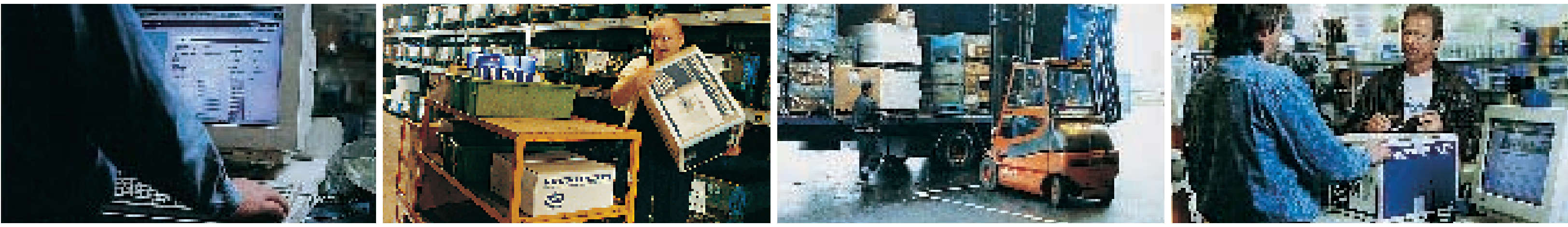
During 2000, Volvo Mobility Systems acquired the unit within Göteborgs Energi AB that works with public transport traffic management systems. The software is used to develop information on real-time status, traffic forecasting and follow-up of performance, for the benefit of traffic planners as well as users of public transport.

e-learning

Volvo is a global company with more than 50,000 employees throughout the world. The new information technology enables new ways of working, communicating and collaborating. e-learning is a cost-effective method of providing employees, who are interested in improving their education, the opportunity to meet in a virtual classroom at times which suit each individual best. It also enables co-workers to share knowledge in many areas.

During 2000, Volvo Technological Development introduced a web-based interactive course in vehicle eletronics designed for Volvo Group engineers worldwide.

Efficient traffic management equipment represents a growing business



Volvo Penta Partner Network – to order spare parts over the Internet.

Volvo and the euro

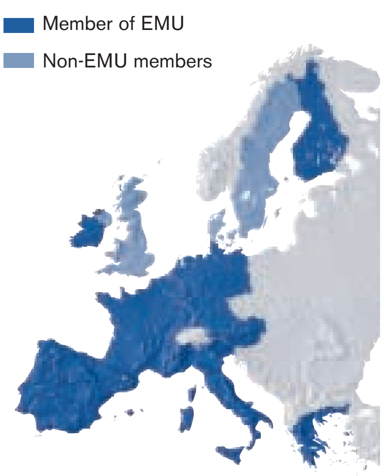
Volvo's operations within the Economic and Monetary Union are converting to the euro

The Volvo Group in euro

	1999	**2000**
Net sales, EUR M	14,167	15,394
Operating income, excluding items affecting comparability, EUR M	762	728
Income after financial items, EUR M	3,920	739
Net income, EUR M	3,651	557
Income per share, excluding items affecting comparability, EUR	1.41	1.33
Dividend per share, EUR	0.79	0.95

In 2000, EUR 1.00 = 8.4494 SEK, annual average
In 1999, EUR 1.00 = 8.8245 SEK, annual average

EU countries



Volvo's gradual conversion to the euro, for operations within the EMU, started late in 2000. The common finance and control system in the Group, covering transactions, accounting and reporting, is changing from national currencies to the euro early in 2001. The conversions are planned to be completed by the end of the third quarter of 2001, with individual time plans for each business area.

The cost of Volvo's changeover to the euro within the EMU is estimated to be less than 0.1 percent of sales. The dominant portion of these costs is related to information technology.

After having established the euro as the internal currency within the EMU, administrative cost savings can be realized within distribution, inventory control and marketing.

Swedish companies have had the option to use the euro as their accounting currency since March, 2000. Volvo is in favor of the euro, but will continue to use the national currency in its Swedish operations until Sweden decides to join the EMU.

Treasury operations

Volvo has made significant gains in efficiency within treasury operations after the introduction of the euro. Substantial savings have been made and risks have been reduced due to a lower foreign currency exposure. Currency hedges for EMU currencies have been denominated in euro since the start of the EMU, in 1999. The policy for currency hedging was reviewed and redefined during 2000.

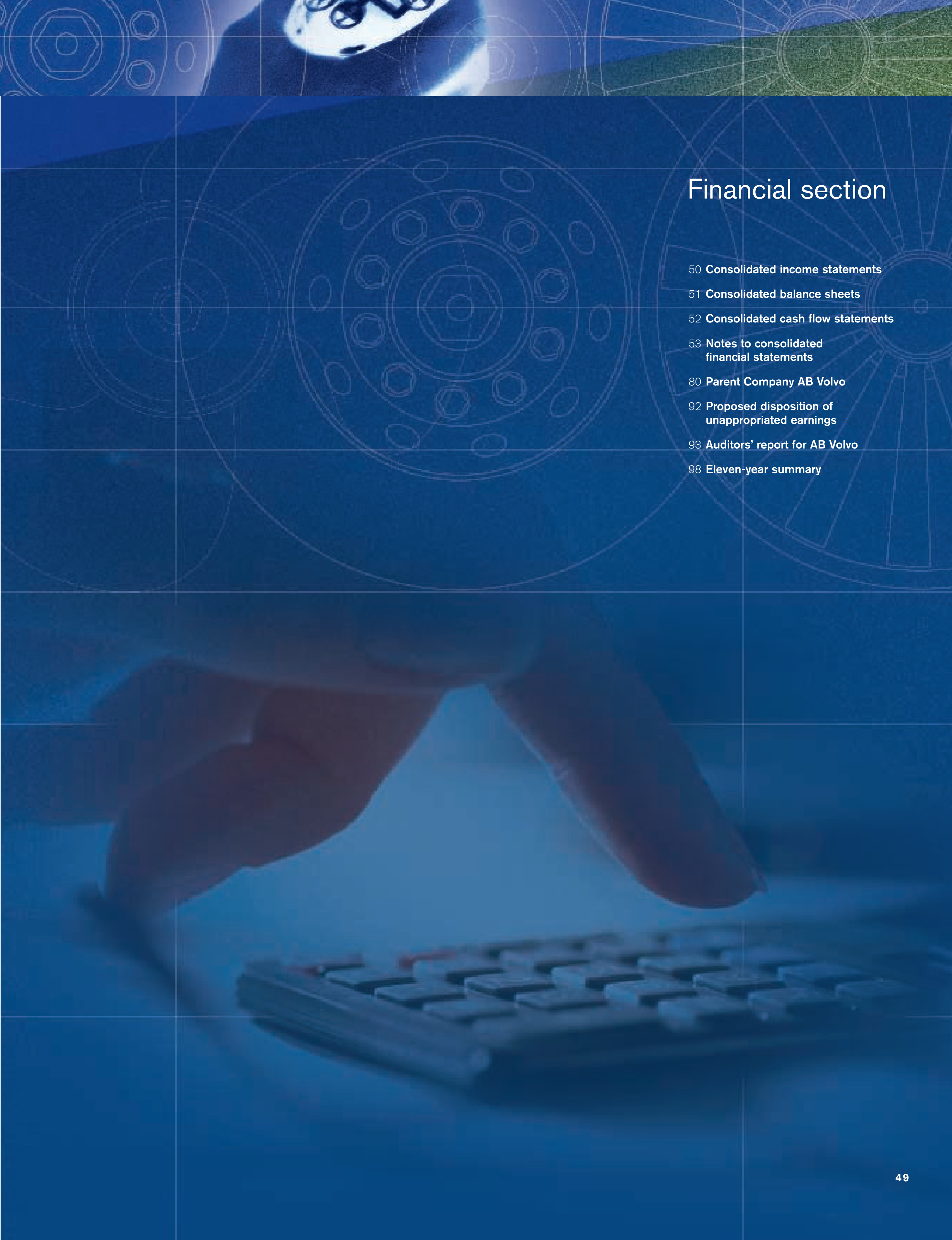
External and other relations

The changeover to the euro in external relations within the EMU is occurring gradually over the three-year transition period up to and including 2001. The commercial partners of Volvo are changing to the euro on different dates, based on commercial agreements. Volvo has promoted an early changeover of both suppliers and customers to the euro. A common currency simplifies calculations and administration. Volvo supports its dealers through a close dialogue and through offers and plans to install euro-compatible systems. The euro will also be used for third-party business agreements.

Volvo has approximately 10,000 employees within the EMU who are affected by the euro changeover. Volvo employees within the EMU will be paid in euros in connection with the introduction of notes and coins in 2002.

Since 1999, it has been possible to list Swedish shares denominated in euro on the OM Stockholm Exchange. Volvo has not chosen to list its shares or to report in euro but will do so if interest from shareholders and investors increases.

Greece became the 12th member state of the EMU, effective January 1, 2001.



Financial section

Consolidated income statements

SEK M		1998	1999	**2000**
Net sales	Note 3	212,936	125,019	**130,070**
Cost of sales		(163,876)	(99,501)	**(104,548)**
Gross income		49,060	25,518	**25,522**
Research and development expenses		(10,104)	(4,525)	**(4,876)**
Selling expenses		(19,042)	(8,865)	**(10,140)**
Administrative expenses		(8,091)	(4,791)	**(4,974)**
Other operating income and expenses	Note 4	(2,634)	(611)	**622**
Items affecting comparability	Note 5	(2,331)	26,695	**–**
Operating income	Note 6	6,858	33,421	**6,154**
Income from investments in associated companies	Note 7	444	567	**444**
Income from other investments	Note 8	4,526	170	**70**
Interest income and similar credits		1,268	1,812	**1,588**
Interest expenses and similar charges		(1,315)	(1,505)	**(1,845)**
Other financial income and expenses	Note 9	(162)	131	**(165)**
Income after financial items		11,619	34,596	**6,246**
Taxes	Note 10	(3,140)	(2,270)	**(1,510)**
Minority interests in net income	Note 11	(42)	(104)	**(27)**
Net income		8,437	32,222	**4,709**

Consolidated balance sheets

SEK M		December 31, 1998		December 31, 1999		**December 31, 2000**	
Assets							
Non-current assets							
Intangible assets	Note 12		5,778		6,618		**6,925**
Tangible assets	Note 12						
Property, plant and equipment		36,207		19,788		**22,231**	
Assets under operating leases		22,285	58,492	12,337	32,125	**14,216**	**36,447**
Financial fixed assets							
Shares and participations	Note 13	3,393		29,213		**30,481**	
Long-term customer-financing receivables	Note 14	24,546		17,817		**22,909**	
Other long-term receivables	Note 15	10,989	38,928	20,089	67,119	**7,264**	**60,654**
Total non-current assets			103,198		105,862		**104,026**
Current assets							
Inventories	Note 16		32,128		21,438		**23,551**
Short-term receivables							
Customer-financing receivables	Note 17	22,252		16,496		**18,882**	
Other receivables	Note 18	27,943	50,195	22,547	39,043	**38,316**	**57,198**
Marketable securities	Note 19		7,168		20,956		**9,568**
Cash and bank accounts	Note 20		13,056		8,313		**6,400**
Total current assets			102,547		89,750		**96,717**
Total assets			205,745		195,612		**200,743**
Shareholders' equity and liabilities							
Shareholders' equity	Note 21						
Restricted equity							
Share capital		2,649		2,649		**2,649**	
Restricted reserves		17,100	19,749	12,553	15,202	**13,804**	**16,453**
Unrestricted equity							
Unrestricted reserves		41,189		50,268		**67,176**	
Net income		8,437	49,626	32,222	82,490	**4,709**	**71,885**
Total shareholders' equity			69,375		97,692		**88,338**
Minority interests	Note 11		860		544		**593**
Provisions							
Provisions for post-employment benefits	Note 22	2,936		2,130		**2,632**	
Provisions for deferred taxes		4,317		2,218		**2,264**	
Other provisions	Note 23	20,870	28,123	12,614	16,962	**12,676**	**17,572**
Non-current liabilities	Note 24						
Bond loans		15,624		24,238		**30,872**	
Other loans		9,730		7,984		**9,533**	
Other long-term liabilities		658	26,012	292	32,514	**265**	**40,670**
Current liabilities	Note 25						
Loans		38,876		21,123		**25,828**	
Trade payables		16,317		11,456		**11,377**	
Other current liabilities		26,182	81,375	15,321	47,900	**16,365**	**53,570**
Total shareholders' equity and liabilities			205,745		195,612		**200,743**
Assets pledged	Note 26		5,388		3,930		**2,990**
Contingent liabilities	Note 27		6,737		6,666		**6,789**

Consolidated cash flow statements

SEK M			1998		1999		**2000**
Operating activities							
Operating income			+ 6,858		+ 33,421		**+ 6,154**
Depreciation and amortization	Note 6		+ 9,626		+ 5,171		**+ 6,251**
Other items not affecting cash	Note 28		(26)		(26,117)		**(679)**
Changes in working capital:							
Increase (–)/decrease (+) in receivables			(2,744)		(2,864)		**(1,450)**
Increase (–)/decrease (+) in inventories			(1,306)		(370)		**(1,458)**
Increase (+)/decrease(–) in liabilities and provisions			+ 5,553		+ 2,207		**(356)**
Dividends received			+ 680		+ 334		**+ 767**
Interest and similar items received			+ 1,227		+ 1,520		**+ 1,262**
Interest and similar items paid			(1,213)		(1,405)		**(1,325)**
Other financial items			(158)		+125		**(57)**
Income taxes paid			(2,485)		(2,349)		**(1,084)**
Cash flow from operating activities			+ 16,012		+ 9,673		**+ 8,025**
Investing activities							
Investments in fixed assets		(10,549)		(4,924)		**(5,419)**	
Investments in leasing assets		(12,654)		(5,578)		**(5,684)**	
Disposals of fixed assets and leasing assets		+ 2,632		+ 1,569		**+ 2,107**	
Customer-financing receivables, net	Note 28	(12,767)		(7,087)		**(4,509)**	
Shares and participations, net	Note 28	+ 5,504		(25,887)		**(1,654)**	
Loans to external parties, net	Note 28	(329)		(3,230)		**+ 305**	
Acquired and divested subsidiaries and other business units, net	Note 2	(5,622)	(33,785)	+ 31,048	(14,089)	**(1)**	**(14,855)**
Cash flow after net investments			(17,773)		(4,416)		**(6,830)**
Financing activities							
Increase in bond loans and other loans	Note 28	+ 19,537		+ 16,332		**+ 8,162**	
Dividend to AB Volvo shareholders		(2,208)		(2,649)		**(3,091)**	
Repurchase of own shares		–		–		**(11,808)**	
Increase (decrease) in minority interests		+ 68		–		**–**	
Dividends to minority shareholders		(59)		(70)		**(9)**	
Other		(251)	+ 17,087	(20)	+ 13,593	**–**	**(6,746)**
Change in liquid funds, excluding translation differences			(686)		+ 9,177		**(13,576)**
Translation difference on liquid funds			+ 307		(132)		**+ 275**
Change in liquid funds			(379)		+ 9,045		**(13,301)**
Liquid funds, January 1			+ 20,603		+ 20,224		**+ 29,269**
Liquid funds, December 31			+ 20,224		+ 29,269		**+ 15,968**

The effects of major acquisitions and divestments of subsidiaries in each year have been excluded from other changes in the balance sheet in the cash flow statement. The effects of currency movements in translation of foreign Group companies have also been excluded since these effects do not affect cash flow. Liquid funds include cash and bank balances and marketable securities.

Notes to consolidated financial statements

Amounts in SEK M unless otherwise specified. The amounts within parentheses refer to the two preceding years; the first figure is for 1999 and the second for 1998.

Note 1 Accounting principles

Volvo's operations

Considering the prevailing competitive situation and the ongoing consolidation in the transport vehicle industry, Volvo chose at the beginning of 1999 to divest Volvo Cars to the Ford Motor Company. Consequently, Volvo's operations are now concentrated in commercial vehicles and service with the aim of further developing its market positions in trucks, buses, construction equipment, engines for marine and industrial applications and engine components and service for the aerospace industry. Effective in 2000, Volvo's operations in customer-financing, insurance, treasury and real estate were brought together in a separate business area, Financial Services. When presenting the Volvo Group's sales and operating income per segment, the results of Financial Services operations are reported separately from those of the other five business areas. Comparable figures for 1998 and 1999 have been adjusted to conform to the new organization.

Operating structure

The Volvo Group's operations during 2000 were organized in six business areas: Trucks, Buses, Construction Equipment, Marine and Industrial Power Systems, Aero and Financial Services. In addition to the six business areas, there are certain operations, consisting mainly of service companies, that are designed to support the business areas' operations.

Each business area except Financial Services has total responsibility for its operating income and operating capital. The Financial Services business area has responsibility for its net income and total balance sheet within certain restrictions and principles that are established centrally.

The supervision and coordination of treasury and tax matters is organized centrally to obtain the benefits of a Groupwide approach.

The legal structure of the Volvo Group is based on optimal handling of treasury, tax and administrative matters and, accordingly, differs from the operating structure.

The consolidated financial statements for AB Volvo (the Parent Company) and its subsidiaries are prepared in accordance with Swedish GAAP. These accounting principles differ in significant respects from U.S. GAAP, see Note 33.

Changes in accounting principles

Financial income and expenses in the Financial Services business area

In connection with the formation of the Financial Services 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 in 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 net interest income/expense. Comparable figures for 1998 and 1999 have been adjusted to conform to the revised classification principle. As a result of the above, the definition of the Volvo Group's net financial assets has also been modified. Effective in 2000, the Volvo Group's net financial assets have been calculated excluding the Financial Services business area since financial income and expense in Financial Services 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 2000, Volvo Treasury's income is reported as part of the operating income in the Financial Services 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 expenses.

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

Effective in 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 cost of sales. Comparable figures for 1999 have been adjusted to conform to the changed classification.

Income taxes

Effective in 1999, Volvo adopted the Swedish Financial Accounting Standards Councils Recommendation, Income Taxes, RR9, which in all significant respects corresponds with the International Accounting Standard Committee's (IASC's) recommendation, Income Taxes, IAS 12 (revised 1996). Volvo formerly recognized deferred tax assets pertaining to temporary differences, as well as tax loss carryforwards, to the degree that these items could be netted against deferred tax liabilities in the same tax jurisdiction. Effective in 1999, deferred tax assets are recognized, provided that it is probable that the amounts can be utilized in connection with future taxable income. The comparable figures for 1998 have been restated to reflect the new accounting principle. At January 1, 1998 and 1999, this resulted in an increase in the Volvo Group's shareholders' equity of SEK 1.5 and 1.3 billion, respectively.

Exchange rates

		Average rate Jan–Dec			Year-end rate		
Country	Currency	1998	1999	2000	1998	1999	2000
Belgium	BEF	0.2196	0.2187	0.2095	0.2341	0.2123	0.2196
Denmark	DKK	1.1897	1.1864	1.1334	1.2685	1.1505	1.1870
Finland	FIM	1.4930	1.4838	1.4211	1.5885	1.4403	1.4896
France	FRF	1.3514	1.3450	1.2881	1.4400	1.3055	1.3502
Italy	ITL	0.0046	0.0046	0.0044	0.0049	0.0044	0.0046
Japan	JPY	0.0610	0.0731	0.0850	0.0700	0.0835	0.0832
The Netherlands	NLG	4.0202	4.0034	3.8342	4.2865	3.8859	4.0191
Norway	NOK	1.0520	1.0604	1.0414	1.0730	1.0605	1.0715
Great Britain	GBP	13.2215	13.3834	13.8620	13.5200	13.7950	14.2200
Germany	DEM	4.5317	4.5108	4.3201	4.8295	4.3784	4.5285
United States	USD	7.9676	8.2742	9.1581	8.0650	8.5250	9.5350
Euro	EUR	–	8.8245	8.4494	–	8.5635	8.8570

Cash flow statement

Effective in 1999, Volvo's cash flow statement is presented in accordance with the Swedish Financial Accounting Standards Council's recommendation, Cash Flow Accounting, RR7. Comparable figures for 1998 were restated to conform with the new presentation.

New accounting principles 2001

Effective in 2001, Volvo intends to adopt the following new accounting standards issued by the Swedish Financial Accounting Standards Council, RR1:00, Business Combinations, RR12, Tangible assets, RR13, Associates, RR14, Joint ventures, RR15, Intangible assets, RR16, Provisions, contingent liabilities and contingent assets, RR17, Impairment of assets, RR18 Income per share, RR19, Discontinuing operations and RR20, Interim financial reporting.

Consolidated accounts

The consolidated accounts comprise the Parent Company, all subsidiaries and associated companies. Subsidiaries are defined as companies in which Volvo holds more than 50% of the voting rights or in which Volvo otherwise has a controlling influence. However, subsidiaries in which Volvo's holding is temporary are not consolidated. Associated companies are companies in which Volvo has long-term holdings equal to at least 20% but not more than 50% of the voting rights.

The consolidated accounts are prepared in accordance with the principles set forth in the Recommendation of the Swedish Financial Accounting Standards Council, RR1:96, Business combinations.

All acquisitions of companies are accounted for in accordance with the purchase method.

Companies that have been divested are normally included in the consolidated accounts up to and including the date of divestment. However the measurement date for divestment of Volvo Cars was January 1, 1999. Companies acquired during the year are consolidated as of the date of acquisition.

Holdings in associated companies are reported in accordance with the equity method. The Group's share of reported income before taxes in such companies, adjusted for minority interests, is included in the consolidated income statement in Income from investments in associated companies, reduced in appropriate cases by amortization of goodwill. The Group's share of reported taxes in associated companies, is included in Group tax expense.

For practical reasons, most of the associated companies are included in the consolidated accounts with a certain time lag, normally one quarter. Dividends from associated companies are not included in consolidated income. In the consolidated balance sheet, the book value of shareholdings in associated companies is affected by Volvo's share of the company's income after tax, reduced by the amortization of goodwill and by the amount of dividends received.

Accounting for hedges

Loans and other financial instruments used to hedge an underlying position are reported as a hedge. In order to apply hedge accounting, the following criteria must be met: the position being hedged is identified and exposed to exchange-rate or interest-rate movements, the purpose of the loan/instrument is to serve as a hedge and that the hedging effectively protects the underlying position against changes in the market rates. Financial instruments used for the purpose of hedging future currency flows are accounted for as hedges if the currency flows are considered probable to occur.

Foreign currencies

In preparing the consolidated financial statements, all items in the income statements of foreign subsidiaries (except subsidiaries in highly inflationary economies) are translated to Swedish kronor at the average exchange rates during the year (average rate). All balance sheet items except net income are translated at exchange rates at the respective year-ends (year-end rate). The differences in consolidated shareholders' equity arising as a result of variations between year-end exchange rates are charged or credited directly to shareholders' equity and classified as restricted or unrestricted reserves. The difference arising in the consolidated balance sheet as a result of the translation of net income, in the income statements, in foreign subsidiaries' to Swedish kronor at average rates, and in the balance sheets at year-end rate, is charged or credited to unrestricted reserves. Movements in exchange rates change the book value of foreign associated companies. This difference affects restricted reserves directly.

When foreign subsidiaries and associated companies are divested, the accumulated translation difference is reported as a realized gain/loss and, accordingly, affects the capital gain.

Financial statements of subsidiaries operating in highly inflationary economies are translated to Swedish kronor using the monetary method. Monetary items in the balance sheet are translated at year-end rates and non-monetary balance sheet items and corresponding income statement items are translated at rates in effect at the time of acquisition (historical rates). Other income statement items are translated at average rates. Translation differences are credited to, or charged against, income in the year in which they arise.

In the individual Group companies as well as in the consolidated accounts, receivables and liabilities in foreign currency are valued at year-end exchange rates. In appropriate cases, hedged receivables and liabilities are valued at the underlying forward rate.

Gains and losses pertaining to hedges are reported at the same time as gains and losses of the items hedged. Received premiums or payments for currency options, which hedge currency flows in business transactions, are reported as income/expense during the contract period.

Gains/losses on outstanding currency futures at year-end, which were entered into to hedge future commercial currency flows, are reported at the same time as the commercial flow is realized. For other currency futures that do not fullfil the criteria for hedge accounting a full market valuation is made on a portfolio basis and are credited to, or charged against income.

In valuing financial assets and liabilities whose original currency denomination has been changed as a result of currency swap contracts, the loan amount is accounted for translated to Swedish kronor taking into account the swap contracts.

Exchange differences on loans and other financial instruments in foreign currency, which are used to hedge net assets in foreign subsidiaries and associated companies, are offset against translation differences in the shareholders' equity of the respective companies.

Exchange gains and losses on payments during the year and on the valuation of assets and liabilities in foreign currencies at year-end are credited to, or charged against, income before taxes and minority interests in the year they arise. The more important exchange rates employed are shown above.

Other financial instruments

Interest-rate contracts and foreign exchange contracts are used to change the underlying financial asset and debt structure and are reported as hedges against such assets and debts.

Interest-rate contracts used as part of the management of the Group's short-term investments are valued together with these investments in accordance with the portfolio method. Provisions are made for unrealized losses in excess of the unrealized gains within the portfolio.

Interest-rate contracts that do not fullfil the criteria of hedge accounting are valued at the balance sheet date at which time provisions for unrealized losses are made.

Capital expenditures

Capital expenditures include investments in buildings, machinery and equipment, as well as in intangible assets. Investments pertaining to assets under operating leases are not included.

Investments in fixed assets included in the Group's cash flow statement include only capital expenditures that have reduced the Group's liquid funds during the year.

Depreciation and amortization of tangible and intangible non-current assets

Depreciation is based on the historical cost of the assets, adjusted in appropriate cases by write-downs, and estimated economic lives. Capitalized type-specific tools are generally depreciated over 2 to 8 years. The depreciation period for assets under operating leases is normally 3 to 5 years. Machinery is generally depreciated over 5 to 20 years, and buildings over 25 to 50 years, while the greater part of land improvements are depreciated over 20 years. In connection with its participation in aircraft engine projects with other companies, Volvo Aero in certain cases pays an entrance fee. These entrance fees are capitalized and depreciated over 5 to 10 years.

The difference between depreciation noted above and depreciation allowable for tax purposes is reported by the parent company and in the individual Group companies as accumulated accelerated depreciation, which is included in untaxed reserves. Consolidated reporting of these items is described below under the heading Deferred taxes, allocations and untaxed reserves.

Goodwill is included in intangible assets and amortized on a straight-line basis over 5 to 20 years. The goodwill pertaining to Volvo Construction Equipment, Champion Road Machinery, The AGES Group, Prévost, Nova BUS, Mexicana de Autobuses, Volvo Construction Equipment Korea and Volvo Aero Norge are being amortized over 20 years due to the holdings' long-term and strategic importance.

Inventories

Inventories are stated at the lower of cost, in accordance with the first-in, first-out method (FIFO), or net realizable value. Provisions are made for obsolescence.

Marketable securities

Marketable securities are stated at the lower of cost or market value in accordance with the portfolio method.

Liquid funds

Liquid funds include Cash and bank balances and marketable securities. Marketable securities to some extent consist of interest bearing securities with maturities exceeding three months. However, these securities have high liquidity and can easily be converted to cash.

Postemployment benefits

Most of the Volvo Group's pension commitments are met through continuous payments to independent authorities or bodies that administer the plans. Pension expense corresponding to the fees paid for these defined-contribution pension plans is reported continuously. In certain of Volvo's subsidiaries, mainly in Sweden and the U.S., there are defined benefit plans covering pensions and healthcare benefits. For these plans, a provision and annual pension expense are calculated based on the current value of the earned future benefits. Provisions for pensions and annual expenses related to defined pension and healthcare benefits are reported in Volvo's consolidated balance sheet and income statement by applying the local rules and directives in each country.

Net sales

The Group's reported net sales pertain mainly to revenues from sales of goods and services. Net sales are reduced by the value of discounts granted and by returns.

Income from the sale of goods is recognized when the goods are delivered to the customers. If however the sale of goods is combined with a buy-back agreement or a residual value guarantee, the sale is accounted for as an operating lease transaction if significant risks are retained in Volvo. Income from the sale of workshop services is recognized when the service is provided. Rental revenues and interest income in conjunction with financial leasing or installment contracts is recognized over the contract period.

Research and development expenses and warranty expenses
Research and development expenses are charged to income as incurred.

Estimated costs for product warranties are charged to cost of sales when the products are sold.

Items affecting comparability
Items affecting comparability are reported separately in the income statement. They pertain to considerable restructuring costs and considerable gains and losses mainly attributable to changes in the composition of the Group.

Deferred taxes, allocations and untaxed reserves
Tax legislation in Sweden and other countries sometimes contains rules other than those identified with generally accepted accounting principles, and which pertain to the timing of taxation and measurement of certain commercial transactions. Deferred taxes are provided for on differences which arise between the taxable value and reported value of assets and liabilities (temporary differences) as well as on tax loss carryforwards. However, with regards to the valuation of deferred tax assets (the value of future tax deductions), these items are recognized provided that it is probable that the amounts can be utilized in connection with future taxable income.

Tax laws in Sweden and certain other countries allow companies to defer payment of taxes through allocations to untaxed reserves. These items are treated as temporary differences in the consolidated balance sheet, that is, a division is made between deferred tax liability and equity capital (restricted reserves). In the consolidated income statement an allocation to, or withdrawal from, untaxed reserves is divided between deferred taxes and net income for the year.

Application of estimated values
In preparing the year-end financial statements in accordance with generally accepted accounting principles, company management makes certain estimates and assumptions which affect the value of assets and liabilities as well as contingent liabilities at the balance sheet date. Reported amounts for income and expenses in the reporting period are also affected. The actual results may differ from these estimates.

Note 2 Acquisitions and divestments of shares in subsidiaries

Parent Company holdings of share in subsidiaries as of December 31, 2000 are shown on pages 90–91. Significant acquisitions, formations and divestments within the Group are shown below.

Eddo Restauranger AB
In December 2000, AB Volvo and Volvo Car Corporation divested in total 51% of the Eddo Restauranger restaurant chain to Amica AB, a company within the Fazer Group. Eddo was 55% owned by AB Volvo and 45% by Volvo Car Corporation. Amica AB acquired the shares in proportion to earlier holdings by AB Volvo and Volvo Car Corporation. The remaining holdings in Eddo by AB Volvo is 30%. Amica has an option to acquire and AB Volvo has an option to sell the remaining shares. The options expire in 2002.

Duffields of East Anglia Ltd
In July 2000, Volvo Trucks acquired Duffields of East Anglia Ltd, a company that has been a Volvo dealer since 1969. Duffields is represented in the east of England where they operate from ten own dealerships, manage two customer workshops and are responsible for a small independent dealer.

Volvo (Southern Africa) (Pty) Ltd
In February 2000, the new wholly-owned company Volvo (Southern Africa) (Pty) Ltd acquired the assets of the former distributor in South Africa for approximately USD 10 million, including dealerships in South Africa and an assembly plant for trucks and bus chassis in Botswana. The company will run operations within the truck, bus, construction equipment and marine and industrial engines sectors.

Truck Engine Parts Division
In February 2000, Volvo Aero's Truck Engine Parts Division (TEPD) was taken over by the Finnveden engineering group. TEPD produces components for trucks.

Volvo Maquinaria de Construccion Espana SA
As part of the strategy to mainly organize sales through independent dealers, Volvo Construction Equipment divested its market company in Spain in the second quarter of 1999. The buyer was Auto Sueco Lda, which previously was Volvo's partner in Portugal for more than 50 years. The gain on the sale amounted to SEK 0.2 billion.

Pro-Pav and Superpac
In April 1999, Volvo Construction Equipment reached an agreement covering the sale of its operations under the trademarks Pro-Pav and Superpac. The operations were previously conducted within the Canadian subsidiary Champion Road Machinery.

Mecalac
In March 1999, Volvo Construction Equipment divested 65% of its operations involving compact machinery under the Mecalac brand name. Concurrently, the intention to divest the remaining 35% interest within three years was announced.

Jet Support Corporation
As a result of the agreement between Volvo Aero and Boeing that grants Volvo Aero exclusive rights to market and to sell surplus spare parts to the fleet of Boeing aircraft on the world market, primarily to aircraft types that are no longer manufactured, the operations of American Jet Support Corporation were acquired in April 1999.

Volvo Aero Norge AS (formerly Norsk Jetmotor AS)
During 1999, Volvo Aero acquired 78% of the shares in Norsk Jetmotor AS in two stages for NOK 240 M. In conjunction with the acquisition, the name of the company, which is mainly involved in production of commercial aircraft components, was changed to Volvo Aero Norge AS. Goodwill of SEK 0.1 billion that arose in conjunction with the acquisition is being amortized over 20 years.

Volvo Malaysia Sdn Bhd
In the beginning of 1999, Federal Auto Industrial Sdn Bhd was acquired. The company, whose name was changed later in the year to Volvo Malaysia Sdn Bhd, conducts importer and dealer operations in Malaysia for trucks and buses as well as marine and industrial engines.

Volvo Cars
In January 1999, AB Volvo reached an agreement with Ford Motor Company covering the sale of Volvo Cars. Following approval by a General Meeting of Volvo shareholders on March 8, and by the relevant competition authorities, AB Volvo completed the sale of Volvo Cars to Ford Motor Company on March 31, 1999. Under terms of the agreement, Ford has the right to Volvo Cars' earnings beginning on January 1, 1999. In addition to a dividend of SEK 17.7 billion from Volvo Personvagnar Holding AB, AB Volvo received SEK 10.3 billion for the shares, plus USD 2.3 billion, of which USD 1.6 billion will be paid on March 31, 2001. In connection with the sale, Ford assumed financial net debt of SEK 4.8 billion. The gain from the sale amounted to SEK 26.7 billion. In conjunction with the sale of Volvo Cars, the Volvo trademark was transferred to a newly formed company named Volvo Trademark Holding AB which is owned jointly by AB Volvo and Volvo Car Corporation. The right to use the trademark is thereby governed by a license agreement between Volvo Trademark Holding AB and AB Volvo as well as Volvo Car Corporation.

Mexicana de Autobuses SA de CV
In October 1998, AB Volvo acquired all of the shares of Mexicana de Autobuses (MASA). MASA is Mexico's second-largest producer of tourist and intercity buses. Goodwill amounting to SEK 0.6 billion, which is being amortized over 20 years, arose in connection with the acquisition.

Euclid Hitachi Heavy Equipment Inc.
In October 1998, Volvo Construction Equipment concluded an agreement with Hitachi Construction Machinery Ltd. to reduce Volvo's holding in Euclid Hitachi Heavy Equipment, a jointly owned company, from 60% to 20%. The sale of shares had only a marginal impact on reported earnings of the Volvo Group for 1998. The remaining 20% of Euclid Hitachi Heavy Equipment was sold to Hitachi on December 20, 2000 for a nominal amount.

Kopsch AG
In September 1998, Volvo Construction Equipment acquired its largest dealer in Germany, Kopsch AG, with ten branches.

Volvo Otomotiv Türk Ltd Sti (Trakmas)
In September 1998, Volvo Construction Equipment took over its import operations in Turkey, including four sales locations, from Trakmas. Volvo's operations in the Turkish market were then coordinated with those of Volvo Otomotiv Türk, a wholly owned subsidiary.

Volvo Construction Equipment Korea Co Ltd
In July 1998, Volvo Construction Equipment acquired all of the assets of Samsung Heavy Industries' construction equipment business for slightly less than USD 500 M. The assets were acquired mainly through a newly formed subsidiary, Volvo Construction Equipment Korea. The acquired business includes the development, production and marketing of excavators, as well as wheel loaders and other equipment on a smaller scale. The acquisition also includes a comprehensive distribution network in the South Korean market. Goodwill amounting to SEK 1.2 billion, which is being amortized over 20 years, arose in connection with the acquisition.

ZAO Volvo Vostok
In June 1998, a company was established in Russia, ZAO Volvo Vostok, in which each of the business areas conducts its business.

Nova BUS Corporation
In February 1998, Volvo Bus Corporation acquired Nova BUS, a North American bus manufacturer, for slightly more than CAD 50 million. The acquisition was effected via Prévost Car Inc., in which Volvo Bus Corporation has held a 51% interest, and British Henlys Group 49%, since 1995. Nova BUS is the largest producer of city buses in the United States and Canada, with production plants in both countries. Goodwill amounting to SEK 0.3 billion, which is being amortized over 20 years, arose in connection with the acquisition.

BRS Truck Rental and Contract Hire Ltd
In February 1998, Volvo Contract Services, Volvo's sales financing company in Great Britain, acquired BRS, a British truck leasing company, for approximately GBP 49 million. BRS is a well-established brand name in the field of British truck leasing, with representation throughout Great Britain and in other parts of Europe.

Carrus Oy
In January 1998, Volvo Bus Corporation acquired all the shares of Carrus Oy, a Finnish producer of bus bodies, for SEK 0.5 billion. The company manufactures five different body models for city, intercity and tourist buses used on bus chassis of various vehicle producers. Goodwill amounting to SEK 0.2 billion, which is being amortized over 10 years, arose in connection with the acquisition.

The effects during 2000 and 1999 on the Volvo Group's balance sheet and cash flow statement in connection with the **acquisition of subsidiaries and other business units** are specified in the following table:

	1999	2000
Intangible assets	480	125
Property, plant and equipment	147	68
Shares and participations	–	(9)
Inventories	365	348
Current receivables	233	300
Liquid funds	51	2
Other assets	43	1
Minority interests	335	–
Provisions	(72)	(7)
Loans	(256)	(89)
Current liabilities	(264)	(237)
Acquired net assets	**1,062**	**502**
Liquid funds paid	(1,062)	(502)
Liquid funds according to acquisition analysis	51	2
Effect on Group liquid funds	**(1,011)**	**(500)**

The effects during 2000 and 1999 on the Volvo Group's balance sheet and cash flow statement in connection with the **divestment of subsidiaries and other business units** are specified in the following table:

	1999	2000
Intangible assets	(46)	(17)
Property, plant and equipment	(17,915)	(132)
Assets under operating leases	(12,324)	–
Shares and participations	(100)	7
Inventories	(11,600)	(69)
Customer-financing receivables	(19,288)	–
Loans to external parties [1]	10,474	–
Other receivables	(13,203)	(93)
Liquid funds	(1,602)	(7)
Minority interests	49	10
Provisions for postemployment benefits	866	–
Other provisions	11,054	158
Loans	28,682	38
Other liabilities	17,622	172
Divested net assets	**(7,331)**	**67**
Liquid funds received	33,661	506
Liquid funds, divested companies	(1,602)	(7)
Effect on Group liquid funds	**32,059**	**499**

1 1999: Of which, 12,214 pertains to the outstanding portion of consideration to be paid discounted to present value.

Note 3 Net sales

Net sales per business and market area are shown in tables on page 20.

Note 4 Other operating income and expenses

Other operating expenses include losses on forward and options contracts of 700 (620; 640), amortization of goodwill amounting to 491 (398; 338), surplus funds from SPP 683 (–; –) and adjustment of the gain on sale of Volvo Cars 520 (–; –).

Note 5 Items affecting comparability

Operating income in 1999 included items affecting comparability amounting to 26,695 pertaining to the gain on sale of Volvo Cars. In 1998, items affecting comparability amounted to 2,331 and pertained to the restructuring costs aimed at adapting Volvo's industrial structure and the distribution and market organization. The adaption included, for example, closure, moving or merger of production sites. Approximately 1,300 of the total amount was attributable to contractual pensions and excess personnel, approximately 600 to writedowns of assets, 348 in capital gain on the sale of Trucks' rear-axle plant in Lindesberg and the remainder, approximately 800 to other restructuring costs. Cars accounted for 681 of the costs, Trucks for 46, Buses 422, Construction Equipment 910, Marine and Industrial Engines 158 and other operations for 114.

Note 6 Operating income

Operating income excluding items affecting comparability by business area is shown in a table on page 22. Depreciation and amortization is included in operating income and is specified by type of asset as shown below:

	1998	1999	2000
Intangible assets	574	525	648
Property, plant and equipment	5,753	2,514	2,733
Assets under operating leases	3,299	2,132	2,870
Total	**9,626**	**5,171**	**6,251**

Note 7 Income from investments in associated companies

Volvo's share of income in associated companies before taxes, is shown below:

	Income (loss)			Dividends received		
	1998	1999	2000	1998	1999	2000
Bilia AB	131	89	120	35	35	41
AB Volvofinans	87	89	111	7	8	8
Aviation Lease Finance	3	7	19	–	–	–
Xian Silver Bus Corp	16	4	13	–	–	–
AVC Intressenter AB	6	1	(1)	506	81	24
Omninova Technology AB	0	(26)	(17)	–	–	–
Turbec	(4)	(22)	(44)	–	–	–
Arrow Truck Sales	–	(21)	(76)	–	–	–
Petro Stopping Centers Holding LP	–	(13)	(46)	–	–	–
Other companies	(25)	(10)	15	1	9	31
Holdings no longer reported as equity method investments						
Scania AB [1]	–	467	341	–	–	637
Netherlands Car BV	232	–	–	–	–	–
VOCS Finance Ltd	16	–	–	85	–	–
Other companies	(2)	–	–	–	–	–
Subtotal	**460**	**565**	**435**	**634**	**133**	**741**
Gains (loss) on sale of shares in associated companies						
Other companies	(16)	2	9			
Subtotal	(16)	2	9			
Total income from investments in associated companies	**444**	**567**	**444**			

1 On March 14, 2000 the European Commission rejected Volvo's application for approval of Volvo's proposed acquisition of Scania. As a result, Volvo's holding in Scania is no longer reported in accordance with the equity method.

Note 8 Income from other investments

	1998	1999	2000
Dividends received			
Scania AB [1]	–	180	–
Henlys Group Plc	–	13	23
Pharmacia & Upjohn, Inc.	43	–	–
Other	3	8	3
Subtotal	**46**	**201**	**26**
Gain on sales of securities			
Pharmacia & Upjohn, Inc.	4,452	–	–
Stockholms Fondbörs AB	33	–	–
Holdings of Volvo Technology Transfer [2]	–	–	105
Other	(5) [3]	(31) [3]	(61) [3]
Subtotal	**4,480**	**(31)**	**44**
Total	**4,526**	**170**	**70**

1 Pertains to dividends received during the period when Volvo's holding was less than 20%.

2 A Volvo venture-capital company.

3 Including write-down of shares.

Note 9 Other financial income and expenses

Other financial income and expenses include exchange gains amounting to 52 (372; 164).

Note 10 Taxes

Income after financial items was distributed as follows:

	1998	1999	2000
Sweden	7,089	31,268	3,983
Outside Sweden	4,070	2,763	1,828
Share of income (loss) in associated companies	460	565	435
Total	**11,619**	**34,596**	**6,246**

Tax expense was distributed as follows:

	1998	1999	2000
Current taxes:			
Sweden	(975)	(812)	(755)
Outside Sweden	(1,553)	(651)	(291)
Subtotal	(2,528)	(1,463)	(1,046)
Deferred taxes:			
Sweden	(72)	(480)	23
Outside Sweden	(480)	(6)	(243)
Subtotal	(552)	(486)	(220)
Associated companies	(60)	(321)	(244)
Total taxes	**(3,140)**	**(2,270)**	**(1,510)**

Tax expense pertains to current as well as deferred tax in Swedish and foreign companies.

Provision has been made for estimated tax charges that may arise as a result of prior tax audits in the Volvo Group. Tax claims for which no provision has been deemed necessary of approximately 2,071 (2,754; 1,442) are included among contingent liabilities.

The gain on the sale of Volvo Cars in 1999 amounted to SEK 26.7 billion. On November 25, 1999, Sweden's Supreme Administrative Court confirmed the preliminary decision of the Tax Board that AB Volvo's sale of Volvo Cars did not result in a taxable capital gain.

Deferred taxes relate to estimated tax on the change in tax loss carryforwards and temporary differences.

Deferred tax assets are reported to the extent that it is probable that the amount can be utilized against future taxable income.

At year-end 2000, the Group had tax loss carryforwards of about 5,200, of which approximately 3,500 was recognized in calculating deferred taxes.

Accordingly, tax loss carryforwards of about 1,700 may be utilized to reduce tax expense in future years, of which about 500 expires within five years.

The Swedish corporate income tax rate is 28%. The table below shows the principal reason for the difference between this rate and the Group's tax rate, based on income after financial items.

	1998, %	1999, %	2000, %
Swedish corporate income tax rates	28	28	28
Difference in tax rate in various countries	4	1	2
Capital gains	(8)	(23)	(2)
Utilization of tax-loss carryforwards	(2)	0	(2)
Losses for which no benefit has been recognized	3	1	0
Recognition of deferred tax assets	–	–	(3)
Non-deductible expenses	1	0	2
Non-taxable income	–	–	(2)
Amortization of goodwill	1	1	2
Other, net	(1)	(2)	(3)
Tax rate for the Group, excluding equity method	**26**	**6**	**22**
Equity method	(1)	1	2
Tax rate for the Group	**25**	**7**	**24**

Specification of deferred tax assets and tax liabilities

	1998	1999	2000
Deferred tax assets:			
Tax loss carryforwards, gross	1,085	1,031	1,698
Other tax deductions	60	154	303
Shares and participations	109	55	3
Internal profit on inventory	551	223	221
Provision for doubtful receivables	227	186	157
Provision for warranties	1,103	552	555
Provision for pensions and other post-employment benefits	476	653	708
Provision for restructuring measures	562	277	206
Other deductible temporary differences	2,556	650	1,026
	6,729	**3,781**	**4,877**
Valuation allowance	(1,084)	(379)	(613)
Deferred tax assets after deduction for valuation allowance	**5,645**	**3,402**	**4,264**
Deferred tax liabilities:			
Accelerated depreciation on property, plant and equipment	1,557	989	1,180
Accelerated depreciation on leasing assets	897	855	1,432
LIFO valuation of inventory	442	206	167
Untaxed reserves	1,924	900	721
Other taxable temporary differences	956	1,004	1,501
	5,776	**3,954**	**5,001**
Deferred tax liabilities, net	**131**	**552**	**737**

Deferred taxes are recognized after taking into account offsetting possibilities.

Note 11 Minority interests

Minority interests in profit (loss) and in equity consist mainly of Henlys Group's participation in Prévost Car Inc (49%) and the minority interests in Volvo Aero Norge AS (22%) and in The AGES Group, ALP (14%). Through September 1998, minority interests in profit (loss) also included Hitachi Construction Machinery Company's participation in Euclid-Hitachi Heavy Equipment Inc (40%).

Note 12 Intangible and tangible assets

Acquisition costs	Value in balance sheet 1998	Value in balance sheet 1999	Invest-ments	Sales/ scrapping	Subsidaries acquired and divested	Translation differences	Reclassi-fications	Value in balance sheet 2000
Goodwill	7,199	6,929	–	–	108	308	(22)	7,323
Entrance fees, aircraft engine programs	1,248	1,293	413	(32)	–	3	1	1,678
Other intangible assets	170	1,727	103	(17)	–	80	(4)	1,889
Total intangible assets	**8,617**	**9,949**	**516**	**(49)**	**108**	**391**	**(25)**	**10,890**
Buildings	16,055	10,575	771	(174)	67	387	418	12,044
Land and land improvements	3,303	2,633	163	(63)	–	69	(12)	2,790
Machinery and equipment [1]	51,642	24,235	3,602	(1,161)	(277)	601	(24)	26,976
Construction in progress including advance payments	4,194	1,368	378	(10)	–	(2)	(346)	1,388
Total buildings, machinery and equipment	75,194	38,811	4,914	(1,408)	(210)	1,055	36	43,198
Assets under operating leases	27,639	16,516	5,709	(3,202)	–	1,145	(914)	19,254
Total tangible assets	**102,833**	**55,327**	**10,623**	**(4,610)**	**(210)**	**2,200**	**(878)**	**62,452**

1 Machinery and equipment pertains mainly to production equipment.

Accumulated depreciation and amortization	Value in balance sheet 1998	Value in balance sheet 1999	Deprecia-tion and amortiza-tion [2]	Sales/ scrapping	Subsidaries acquired and divested	Trans-lation differ-ences	Re-classifi-cations	Value in balance sheet 2000	Book value in balance sheet 2000 [3]
Goodwill	1,592	1,836	491	–	–	74	(47)	2,354	4,969
Entrance fees, aircraft engine programs	1,134	1,170	82	(32)	–	2	(1)	1,221	457
Other intangible assets	113	325	75	(17)	–	9	(2)	390	1,499
Total intangible assets	**2,839**	**3,331**	**648**	**(49)**	**0**	**85**	**(50)**	**3,965**	**6,925**
Buildings	6,840	3,654	461	(73)	51	99	6	4,198	7,846
Land and land improvements	597	226	25	(5)	–	10	(1)	255	2,535
Machinery and equipment[1]	31,550	15,143	2,247	(916)	(197)	332	(95)	16,514	10,462
Construction in progress, including advance payments	–	–	–	–	–	–	–	–	1,388
Total buildings, machinery and equipment	38,987	19,023	2,733	(994)	(146)	441	(90)	20,967	22,231
Assets under operating leases	5,354	4,179	2,870	(1,621)	–	276	(666)	5,038	14,216
Total tangible assets	**44,341**	**23,202**	**5,603**	**(2,615)**	**(146)**	**717**	**(756)**	**26,005**	**36,447**

1 Machinery and equipment pertains mainly to production equipment.
2 Includes write-downs.
3 Acquisition cost less accumulated depreciation and amortization.

Capital expenditures amounted to 5,430 (5,172; 10,549). Investments in assets under operating leases amounted to 5,709 (5,578; 12,654).

Capital expenditures approved but not yet implemented at December 31, 2000, amounted to SEK 6.8 billion (7.2; 18.0).

Note 13 Shares and participations

A specification of Group holdings of shares and participations appears on page 89.

The Volvo Group has transactions with some of its associated companies. As of December 31, 2000, the Group's net receivables from associated companies amounted to 358 (820; 6,260).

The market value of Volvo's holdings of shares and participations in listed companies as of December 31, 2000 is shown below.

	Book value	Market value
Scania AB	24,051	19,015
Mitsubishi Motors	2,344	1,331
Deutz AG	670	166
Bilia AB	570	721
Henlys Group	524	443
Total holdings in listed companies	**28,159**	**21,676**
Holdings in non-listed companies	2,322	–
Total shares and participations	**30,481**	**–**

Shanghai Sunwin Bus Corporation
In 2000, Volvo and the Chinese vehicle manufacturer, Shanghai Automotive Industry Corporation, signed agreeements covering establishment in Shanghai of a joint-venture company, Shanghai Sunwin Bus Corporation, for the manufacture and sale of city and commuter buses. Each party will own 50% of the new company.

Euromation AB
In 2000, a new company was formed, in which Volvo acquired 55%. Euromation is a supplier within industrial automation. It offers products, services and complete solutions in production equipment, maintenance and service to customers within the manufacturing industry.

Eddo Restauranger AB
As from December, 2000, Volvo owns 30% of Eddo Restauranger after the divestment of 51% to Amica AB, which acquired 51% of the shares in 2000 and has the option to acquire the remaining shares in 2002.

Mitsubishi Motors Corporation
In 1999, an agreement was signed between Volvo and Mitsubishi Motors Corporation covering ownership cooperation and a letter of intent to form a strategic alliance between the companies regarding market, product and industrial cooperation in trucks and buses. In conjunction with this agreement Volvo acquired shares corresponding to 5% of the votes and capital in Mitsubishi Motors.

Scania AB
During 1999, Volvo acquired 43.5% of the capital and 28.6% of the voting rights in Scania, one of the world's leading manufacturers of trucks and buses. At December 2000, Volvo's holding in Scania was 45.5% of the capital and 30.6% of the voting rights.

Petro Stopping Centers Holding LP
In 1999, Volvo acquired 28.7% of the truck-stop chain Petro Stopping Centers in the U.S. This expanded service to Volvo's truck customers along the interstate network in the U.S., offering preventative maintenance, spare parts sales, emergency road service and minor repairs.

VOCS Finance Limited
The holding in VOCS Finance Limited was divested in connection with the sale of Volvo Cars to Ford.

Svevia Fin SPA
The holding in Svevia Fin SPA was divested in connection with the sale of Volvo Cars to Ford.

AutoNova AB
The holding in AutoNova AB was divested in connection with the sale of Volvo Cars to Ford.

Ned Car BV
The holding in Ned Car BV was divested in connection with the sale of Volvo Cars to Ford.

Pharmacia & Upjohn, Inc
In 1998, Volvo divested all of its remaining holding. The sales proceeds amounted to SEK 6.5 billion and the book capital gain was SEK 4.5 billion.

Verimation AB
The entire holding, equal to 10% of the share capital and voting rights was sold in 1998. The sales proceeds amounted to 12 and the capital gain was 5.

Aviation Lease Finance, ALF
In 1998, Volvo Aero's subsidiary, The AGES Group, and BTM Capital's subsidiary, Engine Lease Finance, ELF, formed a new company to lease aircraft engines. ELF owns 46% of the new company, and AGES 44%, while BTM Capital and Volvo Aero each own 5%. In addition, BTM Capital acquired a 5% interest in AGES and Volvo Aero acquired a 5% interest in ELF.

Henlys Group Plc
In August 1998, Volvo acquired 10% of the share capital and voting rotes in Henlys Group Plc. Henlys is the leading manufacturer of bus bodies in Great Britain. Volvo and Henlys jointly own the shares of the Canadian bus manufacturer Prevost, 51% and 49%, respectively. In November 1999, Volvo subscribed for new Henlys shares in an amount equal to approximately 149. In September 1999, Volvo also concluded an agreement to issue a convertible debenture loan of approximately SEK 2 billion to Henlys, which was paid out in October 1999.

Deutz AG
In October 1998, a cooperation agreement was signed between Volvo and the German diesel engine manufacturer Deutz AG. Under terms of the agreement Deutz becomes the main supplier of small and medium-size diesel engines to Volvo's trucks, buses and construction equipment as well as for marine and industrial applications. Concurrently, Volvo acquired 10.5% of the capital and votes in Deutz.

ABB Olofström Automation AB
The entire holding, corresponding to 49% of the shares and votes, was divested in 1998.

EBP Olofström AB
The entire holding, corresponding to 23% of the shares and votes, was divested in 1998.

Arabian Vehicles and Trucks Industry Ltd
In 1998, Volvo acquired 25% of the voting rights and share capital in Arabian Vehicles and Trucks in Saudi Arabia. The company is an assembly plant for Volvo heavy trucks.

Changes in the Volvo Group's holdings of shares and participations:	1998	1999	2000
Balance sheet, December 31, preceding year	4,583	3,393	29,213
Acquisitions and divestments, net	(931)	25,550	1,641
New issue of shares and shareholders' contributions	107	199	122
Share of income in associated companies, after tax	204	253	208
Dividends	(634)	(133)	(741)
Write-downs	(6)	(30)	(60)
Translation differences	11	(30)	92
Other	59	11	6
Balance sheet, December 31	**3,393**	**29,213**	**30,481**

Note 14 Long-term customer-financing receivables

	1998	1999	2000
Installment credits	14,956	9,115	12,115
Financial leasing	9,297	8,581	10,082
Other receivables	293	121	712
Total	**24,546**	**17,817**	**22,909**

The increase in 1999, excluding Cars, was 4,158. The increase in 2000 and in 1999 was mainly attributable to the North American operations.

Note 15 Other long-term receivables

	1998	1999	2000
Receivable from Ford Motor Company	–	12,125	–
Convertible debenture loan in Henlys	–	2,046	2,288
Other loans to external parties	3,313	3,434	2,744
Deferred tax assets	4,186	1,666	1,527
Other receivables	3,490	818	705
Total	**10,989**	**20,089**	**7,264**

As of 1999, deferred tax assets are reported as long-term receivables. Other receivables include interest-free debenture loans to associated companies at a nominal value of – (– ; 2,700).

Note 16 Inventories

	1998	1999	2000
Finished products	20,872	11,622	13,210
Production materials, etc.	11,256	9,816	10,341
Total	**32,128**	**21,438**	**23,551**

Increase (decrease) in obsolescence reserve	1998	1999	2000
Balance sheet, December 31, preceding year	1,310	1,738	1,277
Increase (decrease) in obsolescence reserve charged to income	232	233	155
Scrapping	(84)	(247)	(53)
Acquired and divested operations	210	(376)	3
Translation differences	66	66	76
Reclassifications, etc.	4	(137)	(125)
Balance sheet, December 31	**1,738**	**1,277**	**1,333**

Note 17 Short-term customer-financing receivables

	1998	1999	2000
Installment credits	4,859	4,099	6,143
Financial leasing	3,774	4,595	5,195
Retailer financing	11,815	6,890	6,816
Other receivables	1,804	912	728
Total	**22,252**	**16,496**	**18,882**

The increase in 1999, excluding Cars, was 3,137. The increase in 2000 and in 1999 was mainly attributable to the North American operations.

Note 18 Other short-term receivables

	1998	1999	2000
Receivable from Ford Motor Company	–	–	12,125
Accounts receivable	16,637	14,871	16,174
Prepaid expenses and accrued income	2,918	2,601	2,821
VAT receivables	1,661	1,437	1,659
Current income tax receivables	656	841	842
Other receivables	6,071	2,797	4,695
Total, after deduction of reserves for doubtful accounts receivable 1,101 (1,147; 927)	**27,943**	**22,547**	**38,316**

As of 1999, deferred tax assets are reported as long-term receivables.

Change of reserve for doubtful accounts receivable	1998	1999	2000
Balance sheet, December 31, preceding year	710	927	1,147
Change of reserve charged to income	126	382	151
Utilization of reserve related to actual losses	(61)	(86)	(10)
Acquired and divested operations	37	(178)	4
Translation differences	35	(60)	67
Reclassifications, etc.	80	162	(258)
Balance sheet, December 31, current year	**927**	**1,147**	**1,101**

Note 19 Marketable securities

Marketable securities consist mainly of interest-bearing securities, distributed as shown below:

	1998	1999	2000
Government securities	2,902	1,848	1,581
Banks and financial institutions	240	5,419	2,702
Corporate institutions	–	8,559	2,348
Real estate financial institutions	1,851	3,411	2,581
Securities issued by associated companies	1,368	725	–
Shares	783	833	–
Other	24	161	356
Total	**7,168**	**20,956**	**9,568**

Note 20 Cash and bank accounts

	1998	1999	2000
Cash in banks	8,771	4,324	5,802
Time deposits in banks	4,285	3,989	598
Total	**13,056**	**8,313**	**6,400**

Note 21 Shareholders' equity

The share capital of the Parent Company is divided into two series of shares: A and B. Both series carry the same rights, except that each Series A share carries the right to one vote and each Series B share carries the right to one tenth of a vote. During 2000, AB Volvo repurchased 10% of its registered shares, 13,860,494 Series A shares and 30,291,594 Series B shares for SEK 11.8 billion. On January 2, 2001, the repurchased shares were transferred to Renault S.A. as partial payment for the shares of Renault V.I, whereby the number of outstanding Volvo shares amounts to 441,520,885. The average number of outstanding shares was 421,683,857 in 2000.

Number of shares outstanding and par value	A (no.)	B (no.)	Total (no.)	Par value [1]
December 31, 2000	**124,744,451**	**272,624,346**	**397,368,797**	**2,649**

1 Par value per share is SEK 6.00 (total par value is based on 441,520,885 registered shares).

In accordance with the Swedish Companies Act, distribution of dividends is limited to the lesser of the unrestricted equity shown in the consolidated or Parent Company balance sheets after proposed appropriations to restricted equity. Unrestricted equity in the Parent Company at December 31, 2000 amounted to 52,368.

As of December 31, 2000, Volvo related foundations holdings in Volvo were 1.16% of the share capital and 2.71% of the voting rights.

As shown in the consolidated balance sheet as of December 31, 2000, unrestricted equity amounted to 71,885 (82,490; 49,626). It is estimated that SEK 49,000 of this amount will be allocated to restricted reserves.

Change in shareholders' equity	Share capital	Restricted reserves	Unrestricted reserves	Total shareholders' equity
Balance at December 31, 1997	**2,649**	**16,473**	**42,829**	**61,951**
Cash dividend	–	–	(2,208)	(2,208)
Net income	–	–	8,437	8,437
Effect of equity method of accounting [1]	–	(466)	466	–
Transfer between unrestricted and restricted equity	–	130	(130)	–
Translation differences	–	970	441	1,411
Exchange differences on loans and futures contracts [2]	–	–	(237)	(237)
Other changes	–	(7)	28	21
Balance at December 31, 1998	**2,649**	**17,100**	**49,626**	**69,375**
Cash dividend	–	–	(2,649)	(2,649)
Net income	–	–	32,222	32,222
Effect of equity method of accounting [1]	–	271	(271)	–
Transfer between unrestricted and restricted equity	–	523	(523)	–
Transfers between unrestricted and restricted equity as a result of the sale of Volvo Cars	–	(5,063)	5,063	–
Translation differences	–	(292)	(501)	(793)
Accumulated translation differences related to the sale of Volvo Cars	–	–	(598)	(598)
Other changes	–	14	121	135
Balance at December 31, 1999	**2,649**	**12,553**	**82,490**	**97,692**
Cash dividend	–	–	(3,091)	(3,091)
Net income	–	–	4,709	4,709
Effect of equity method of accounting [1]	–	119	(119)	–
Transfer between unrestricted and restricted equity	–	(261)	261	–
Translation differences	–	1,385	(417)	968
Repurchase of own shares	–	–	(11,808)	(11,808)
Other changes	–	8	(140)	(132)
Balance at December 31, 2000	**2,649**	**13,804**	**71,885**	**88,338**

1 Mainly associated companies' effect on Group net income, reduced by dividends received.

2 Hedged net investments in foreign subsidiaries and associated companies.

Note 22 Provisions for post-employment benefits

	1998	1999	2000
Provisions for pensions	1,451	1,002	1,294
Provisions for other post-employment benefits	1,485	1,128	1,338
Total	**2,936**	**2,130**	**2,632**

The amounts shown for Provisions for post-employment benefits correspond to the actuarially calculated value of obligations not insured with a third party or secured through transfers of funds to pension foundations. The amount of pensions falling due within one year is included. The Swedish Group companies have insured their pension obligations with third parties.

Group pension costs in 2000 amounted to 1,548 (1,541; 3,567). The greater part of pension costs consist of continuing payments to independent organizations that administer defined contribution pension plans. The pension costs in 2000 was reduced by SPP surplus funds of 683 (see below).

In 1996 two Groupwide pension foundations for employees in Swedish companies were formed to secure commitments in accordance with the ITP plan (a Swedish pension plan). The Volvo 1995 Pension Foundation pertained to pension benefits earned up to and including 1995 and the Volvo 1996 Pension Foundation pertained to benefits earned beginning in 1996. After the sale of Volvo Cars, these pension foundations were common to both the Volvo Group and Volvo Cars. During 2000 the two foundations were merged to form a single foundation, The Volvo Pension Foundation. In 1998 and 1999, a net of 339 and 58 was transferred to the pension foundations while in 2000 a net of 105 was received. The accumulated benefit of Volvo Group pension obligations secured by these foundations at year-end 2000 amounted to 3,644.

Assets in the pension foundations are invested in Swedish and foreign shares and funds, as well as interest-bearing securities. The assets, marked to market, exceeded corresponding commitments at year-end 2000 by 21.

In the mid-1990s and later years, surpluses arose in the SPP insurance company in the management of the ITP pension plan. In December 1998 SPP decided to distribute, 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 recognized in the financial statements when the present value could be calculated in a reliable manner. The rules governing how the refund was to be made were established in the spring of 2000 and a refund of 683 was recognized in Volvo's accounts during the second quarter of 2000. The present value of the refund was included as Other operating income in the income statement. In the balance sheet, the unsettled refunds are shown as interest-bearing receivables.

Note 23 Other provisions

	1998	1999	2000
Warranties	6,599	3,594	3,644
Provisions in insurance operations	2,139	2,491	2,488
Provisions attributable to participations in associated companies	1,819	155	43
Restructuring measures	1,718	1,621	798
Provison for residual value risks	954	519	725
Provision for service contracts	629	913	1,247
Other provisions	7,012	3,321	3,731
Total	**20,870**	**12,614**	**12,676**

Note 24 Non-current liabilities

The listing below shows the Group's non-current liabilities in which the largest loans are distributed by currency. Most are issued by Volvo Treasury AB and Volvo Group Finance Europe BV. Information on loan terms is as of December 31, 2000. Volvo hedges foreign-exchange and interest-rate risks using derivative instruments. See also Note 32.

Bond loans	1998	1999	2000
FRF 1995–1998/2005–2009, 6.13–7.63%	3,887	3,271	3,383
GBP 1999/2003, 6.27%	–	–	142
DKK 1996–1998/2002–2005, 4.30–6.00%	704	377	389
SEK 1997–2000/2002–2008, 4.08–12.51%	3,749	3,101	2,952
JPY 1995–1999/2002–2005, 0.10–3.33%	2,640	4,654	4,812
HKD 1999/2006, 7.99%	–	–	122
ITL	1,357	221	–
NLG 1998/2003, 5.163%	214	248	256
DEM	771	–	–
USD 1997–2000/2002–2008, 6.93–7.36%	1,921	1,918	667
EUR 1999–2000/2002–2009, 0.10–6.24%	–	10,002	17,505
Other bond loans	381	446	644
Total bond loans	**15,624**	**24,238**	**30,872**

Other loans	1998	1999	2000
USD 1997–2000/2002–2017, 5.50–9.35%	3,721	2,954	4,487
GBP 1994–2000/2002–2009, 5.42–8.12%	777	1,151	858
DEM 1996–2000/2002–2006, 4.64%	46	489	493
BRL 1996–2000/2002–2006, 6.00–18.14%	258	364	849
NLG 1998–2000/2002–2004, 5.25–6.60%	214	266	254
SEK 1989–1999/2006–2013, 4.00–9.00%	657	631	822
CAD 1988/2003, 9.35%	490	543	558
PEI 1999–2000/2002–2004, 5.43–8.01%	–	–	418
Other loans	3,567	1,586	794
Total other long-term loans	**9,730**	**7,984**	**9,533**
Other long-term liabilities	**658**	**292**	**265**
Total	**26,012**	**32,514**	**40,670**

Of the above long-term loans, 2,360 (2,527; 2,823) was secured.

Long-term liabilities mature as follows:	
2002	6,532
2003	5,408
2004	10,844
2005	5,650
2006	1,843
2007 or later	10,393
Total	40,670

At year-end 2000, credit facilities granted but not utilized and which can be used without restrictions amounted to approximately SEK 23 billion (20; 22). In 2000 approximately SEK 19 billion of these facilities consisted of stand-by facilities for loans with varying maturities through the year 2003. A fee normally not exceeding 0.25% of the unused portion is charged for credit facilities.

Note 25 Current liabilities

Balance sheet amounts for loans were as follows:

	1998	1999	2000
Bank loans	21,143	9,822	7,160
Other loans	17,733	11,301	18,668
Total	**38,876**	**21,123**	**25,828**

Bank loans include current maturities, 2,917 (1,893; 4,379), of long-term loans. Other loans include current maturities of long-term loans, 7,750 (5,245; 3,825), and commercial paper, 10,724 (5,526; 9,472).

The weighted average interest rate for the interest-bearing current liabilities was 6.6% (5.2; 6.5).

Noninterest-bearing liabilities accounted for 27,742 (26,777; 42,499), or 52% (56; 52) of the Group's total current liabilities.

Balance sheet amounts for Other current liabilities were as follows:

	1998	1999	2000
Advances from customers	3,464	3,447	3,512
Current income tax liabilities	2,739	569	697
Wages, salaries and withholding taxes	3,471	2,420	2,527
VAT liabilities	1,431	701	735
Accrued expenses and prepaid income	9,626	5,680	6,960
Other liabilities	5,451	2,504	1,934
Total	**26,182**	**15,321**	**16,365**

Secured bank loans at year-end 2000 amounted to 1,136 (2,497; 3,731). The corresponding amount for other current liabilities was 5,914 (3,429; 3,048).

Note 26 Assets pledged

	1998	1999	2000
Property, plant and equipment – mortgages	313	367	109
Chattel mortgages	388	412	350
Receivables	1,948	1,140	1,065
Inventories	1,054	456	254
Cash, marketable securities	1,667	1,548	1,207
Other	18	7	5
Total	**5,388**	**3,930**	**2,990**

The liabilities for which the above assets were pledged amounted at year-end to 11,272 (9,417;10,752).

Note 27 Contingent liabilities

	1998	1999	2000
Discounted bills	482	467	443
Guarantees:			
Bank loans and trade bills – associated companies	8	–	48
Bank loans – customers and others	1,318	909	1,516
Recourse obligations	91	46	66
Tax claims	1,442	2,754	2,071
Other contingent liabilities	3,396	2,490	2,645
Total	**6,737**	**6,666**	**6,789**

The amount shown for guarantees to customers and others pertaining to bank loans, 1,516 (909;1,318) includes the unutilized portion of credit facilities, 623 (31;50). Recourse obligations pertain to receivables that have been transferred (customer-financing operations), less reduction for recognized credit risks. Tax liability pertains to actual or anticipated actions against the Volvo Group for which provisions are not considered necessary.

Legal proceedings

In March 1999, an FH 12 Volvo truck was involved in a fire in the Mont Blanc tunnel. The tunnel suffered considerable damage from the fire, which continued for 50 hours; 39 people lost their lives in the fire, and 34 vehicles were trapped in the tunnel. It is still unclear what caused the fire. The Mont Blanc tunnel has been closed since the fire and will not reopen again until the summer of 2001.

An expert group has been appointed by the Commercial Court in Nanterre, France to investigate the cause of the fire and the damage it caused. At present, it is not possible to anticipate the result of this investigation or the results of certain other French investigations now in progress regarding the fire. One of the investigations is being carried out by an Investigation Magistrate appointed to investigate potential criminal liability for the fire. In December 2000 an expert committee assisting the Investigation Magistrate filed a report on the events. Certain companies and individuals have formally been placed under investigation. At this stage, no Volvo entity, executive or employee has been placed under investigation.

A lawsuit has been filed with the Commercial Court in Nanterre by the insurance company employed by the French company that operates the tunnel against certain Volvo Group companies and the trailer manufacturer in which it demands compensation for the losses it claims to have suffered. The plaintiff has requested that the court postpone its decision until the expert group submits its report. Certain Volvo Group companies have further been involved in proceedings before the Civil Court of Bonneville in proceedings instigated by the French Tunnel operating company against Bureau Central Francais, the owner of the truck and its insurers. These proceedings partly overlap with the proceedings in the Commercial Court of Nanterre. Volvo Group companies are also involved in proceedings regarding minor matters in connection with the tunnel fire before courts in Aosta, Italy, and Brussels, Belgium. Volvo is unable to determine the ultimate outcome of the litigation referred to above.

Volvo is involved in a number of other legal proceedings incidental to the normal conduct of its businesses. Volvo does not believe that any liabilities related to such proceedings are likely to be, in the aggregate, material to the financial condition of the Group.

Note 28 Cash flow

Other items not affecting cash pertain to surplus funds from SPP –508 (–; –), capital gains on the sale of subsidiaries and other business units, –573 (–26,900; –366), risk provisions and losses related to doubtful receivables and customer-financing receivables 522 (766; 526) and other –120 (17; –186).

Net investments in customer-financing receivables resulted in 2000 in a negative cash flow of SEK 4.5 billion (7.1). In this respect, liquid funds were reduced by SEK 15.5 billion (14.2) pertaining to new investments in financial leasing contracts and installment contracts.

Investments in shares and participations, net, in 2000 amounted to SEK 1.6 billion, of which SEK 1.3 billion was attributable to additional investments in Scania. Net investments in shares and participations during 1999 of SEK 25.9 billion pertained in entirety to future investments, of which the acquisition of shares in Scania AB and Mitsubishi Motors Corporation amounted to SEK 23.0 billion and SEK 2.3 billion, respectively. During 1998, changes in the Group's shareholdings resulted in a positive cash flow of SEK 5.5 billion, of which the sale of shares, mainly Pharmacia & Upjohn Inc., contributed SEK 6.9 billion, while investments in shares reduced liquid funds by SEK 1.4 billion.

Net investments during 2000 in loans to external parties contributed to SEK 0.3 billion liquid funds. Net investments during 1999 in loans to external parties amounted to SEK 3.2 billion, of which SEK 2.0 billion pertained to payment of the convertible debenture loan in Henlys group and SEK 1.3 billion new investment in corporate bonds.

The change during the year in bonds and other loans generated liquid funds of SEK 8.1 billion (16.3). New borrowing during the year, mainly the issue of bond loans and a commercial paper program, provided SEK 19.5 billion (19.0). Amortization during the year amounted to SEK 11.4 billion (23.0).

Note 29 Leasing

At December 31, 2000, future rental income from noncancellable financial and operating leases (minimum leasing fees) amounted to 26,445 (19,910; 27,272), of which 25,664 (19,383; 26,670) pertains to customer-financing companies. Future rental income is distributed as follows:

	Financial leases	Operating leases
2001	5,590	3,668
2002-2005	10,704	5,664
2006 or later	776	43
Total	17,070	9,375
Allowance for uncollectible future rental income	(164)	
Unearned rental income	(1,629)	
Present value of future rental income	15,277	

At December 31, 2000, future rental payments (minimum leasing fees) related to noncancellable leases amounted to 4,385 (5,328; 7,042).

Future rental payments are distributed as follows:

	Financial leases	Operating leases
2001	544	906
2002–2005	980	1,692
2006 or later	140	123
Total	1,664	2,721

Rental expenses amount to:

	1998	1999	2000
Financial leases:			
– Contingent rents	–	–	(1)
Operating leases:			
– Contingent rents	–	–	(80)
– Rental payments	–	–	(837)
– Sublease payments	–	–	1
Total	**(1,826)**	**(1,193)**	**(918)**

Book value of assets subject to finance lease:

	2000
Acquisition costs:	
Buildings	48
Land and land improvements	26
Machinery and equipment	12
Assets under operating lease	2,217
Total	**2,303**
Accumulated depreciation:	
Buildings	(3)
Land and land improvements	(2)
Machinery and equipment	(4)
Assets under operating lease	(1,022)
Total	**(1,031)**
Book value:	
Buildings	45
Land and land improvements	24
Machinery and equipment	8
Assets under operating lease	1,195
Total	**1,272**

Note 30 Personnel

In accordance with a resolution adopted at the Annual General Meeting, the fee paid to the Board of Directors is a fixed amount of SEK 2,475,000, to be distributed as decided by the Board. The Chairman of the Board, Lars Ramqvist, receives a fee of SEK 850,000.

In 2000, Leif Johansson, President and Chief Executive Officer, received SEK 8,996,520 in salary and other benefits amounting to SEK 546,085. The bonus in 1999 was SEK 2,212,920 after deduction for the option amount. This bonus, including a 6% upward adjustment, a total of SEK 2,345,695 was allocated to pension. Leif Johansson received 8,821 options at a value totaling SEK 491,760, and 50,000 employee stock options. In addition, SEK 317,809 was paid during the year in cash, consisting of a deferred bonus from fiscal year 1997. For 2000 the bonus is a maximum of 50% of the annual salary. Leif Johansson is eligible to take retirement with pension at age 55. Pension benefits are earned gradually over the years up to the employee's retirement age and are fully earned at age 55. During the period between the ages of 55 and 65, he would receive a pension equal to 70% of his pension-qualifying salary, and a pension amounting to 50% of his pension-qualifying salary after reaching the age of 65. Leif Johansson has twelve months notice of termination from AB Volvo and six months on his own initiative. If Leif Johansson's employment is terminated by AB Volvo, he is entitled to a severance payment equal to two years' salary, plus bonus.

In 2000, Sören Gyll, President and Chief Executive Officer up to and including April 22, 1997, received SEK 325,000 in board fees and other benefits amounting to SEK 145,645. Sören Gyll continued to serve the Group until December 31, 1997 and then retired on pension.

The Group Executive Committee, members of the executive committees of subsidiaries and a number of key executives receive bonuses in addition to salaries. Bonuses are based on the performance of the Volvo Group and/or of the executive's company, in accordance with the bonus system established by the Volvo Board in 1993 and revised in 1996, 1997, 1998 and 1999. A bonus may, in principle, amount to a maximum of 50% of an executive's annual salary.

The employment contracts of certain senior executives contain provisions for severance payments when employment is terminated by the Company, as well as rules governing pension payments to executives who take early retirement. The rules governing early retirement provide that, when employment is terminated by the Company, an employee is entitled to severance pay equal to the employee's monthly salary for a period of 12 or 24 months, depending on age at date of severance. In certain contracts, replacing contracts concluded earlier, an employee is entitled to severance payments amounting to the employee's monthly salary for a period of 30 to 42 months. In agreements concluded after the spring of 1993, severance pay is reduced, in the event the employee gains employment during the severance period, in an amount equal to 75% of income from new employment. An early-retirement pension may be received when the employee reaches age 60. A pension is earned gradually over the years up to the employee's retirement age and is fully earned at age 60. From that date until reaching the normal retirement age, the retiree will receive 70% of the qualifying salary. Volvo currently has three option programs for senior executives. The option programs have no dilutive effect on Volvo's outstanding shares.

In February 1996, Skandia and Trygg-Hansa (insurance companies) provided approximately 100 senior executives in the Volvo Group an opportunity to acquire call options on AB Volvo's Series B shares. At the close of the subscription period approximately 90% of the executives had accepted the offer. The call options, which can be exercised from March 4, 1996 until March 3, 2001, entitle the holder to acquire 1.04 Volvo Series B shares for each option held. The exercise price is 172.20. The option price, based on a market valuation, was fixed at the time of acquisition at SEK 21.15. Members of the Group Executive Committee were offered an opportunity to acquire 6,000 or 10,000 options each. Other senior executives could acquire 4,000 or 6,000 options each. A total of 514,000 options were subscribed.

In October 1998, Volvo announced a new call option program with two subscriptions, one in 1999 and one in 2000. For the first subscription in May 1999, options were subscribed to approximately 100 senior executives. For the second subscription in April 2000, options were subscribed to approximately 60 senior executives.

The call options subscribed in May 1999, which can be exercised from May 18, 1999 until May 4, 2004, give the holder the right to acquire 1.03 Series B Volvo shares for each option held and the exercise price is SEK 290.70. The price of the options is based on market valuation and was fixed at SEK 68.70. The number of options corresponds to a part of the executive's bonus earned. A total of 91,341 options were subscribed. The options are financed 50% by the Company and 50% from the option-holder's bonus.

The second subscription took place in April 2000. These options can be exercised from April 28, 2000 until April 27, 2005, and give the holder the right to acquire one Series B Volvo share for each option held and the exercise price is SEK 315.35. The price of the options is based on market valuation and was fixed at SEK 55.75. The number of options corresponds to a part of the executive's bonus earned. A total of 120,765 options were subscribed. The options are financed 50% by the Company and 50% from the option holder's bonus.

In January 2000, a decision was made to implement a new incentive program for senior executives within the Volvo Group in the form of so-called employee stock options. The decision covers allotment of options for 2000 and 2001. Accordingly, during January 2000, a total of 595,000 options were allotted to 62 senior executives, including President and CEO Leif Johansson, who received 50,000 options. The employee stock options allotted in January 2000 give the holders the right, from March 31, 2002 through March 31, 2003, to redeem their options or alternatively receive the difference between the actual price at that time and the exercise price determined at allotment. The exercise price is SEK 239.35 and the value of the option at allotment was set at SEK 35, which is equal to the market value.

The final allotment will depend on the fulfillment of financial goals. The options are financed by the Company.

Profit-sharing payments to employees for 2000, 1999 and 1998 amounted to –, 185 and 160, respectively.

Average number of employees	1998 Number of employees	1998 of whom, women, %	1999 Number of employees	1999 of whom, women, %	2000 Number of employees	2000 of whom, women, %
AB Volvo						
Sweden	167	57	137	60	115	55
Subsidiaries						
Sweden	41,497	19	24,802	19	24,737	18
Western Europe	16,570	15	10,392	15	10,316	17
Eastern Europe	806	12	1,239	11	1,734	10
North America	12,396	17	11,860	19	11,875	33
South America	1,984	11	1,924	11	2,084	10
Asia	2,581	12	2,344	14	2,616	13
Other countries	627	17	450	12	787	14
Group total	**76,628**	**17**	**53,148**	**17**	**54,264**	**20**

Wages, salaries and other remunerations, SEK M	1998 Board and President	1998 of which, bonuses	1998 Other employees	1999 Board and President	1999 of which, bonuses	1999 Other employees	2000 Board and President	2000 of which, bonuses	2000 Other employees
AB Volvo									
Sweden	23.7	1.8	71.9	27.8	5.9	77.0	23.9	1.0	73.2
Subsidiaries									
Sweden	80.3	10.8	11,760.3	63.3	9.3	6,969.0	64.4	11.7	7,272.5
Western Europe	184.6	11.3	4,639.9	149.7	20.9	3,203.0	112.7	8.8	3,290.6
Eastern Europe	5.0	–	62.1	1.1	0.2	102.2	3.2	0.4	144.8
North America	72.7	2.5	3,101.0	60.9	1.9	3,137.2	220.0	132.8	3,368.1
South America	25.9	0.6	420.7	29.6	0.0	292.9	27.9	0.0	376.5
Asia	62.4	7.6	706.9	33.0	0.5	493.1	36.6	1.4	610.5
Other countries	8.8	–	127.3	6.4	0.5	106.0	5.5	–	134.7
Group total	**463.4**	**34.6**	**20,890.1**	**371.8**	**39.2**	**14,380.4**	**494.2**	**156.1**	**15,270.9**

Wages, salaries other remunerations and social-costs, SEK M	1998 Wages, salaries, remunerations	1998 Social costs	1998 of which, pension costs	1999 Wages, salaries, remunerations	1999 Social costs	1999 of which, pension costs	2000 Wages, salaries, remunerations	2000 Social costs	2000 of which, pension costs
AB Volvo[1]	95.6	83.4	63.3	104.8	78.5	54.3	97.1	90.4	70.3
Subsidiaries	21,257.9	8,627.5	3,504.1	14,647.4	5,001.7	1,486.8	15,668.0	5,654.2	1,477.9
Group total [2]	**21,353.5**	**8,710.9**	**3,567.4**	**14,752.2**	**5,080.2**	**1,541.1**	**15,765.1**	**5,744.6**	**1,548.2**

1 Of the **Parent Company's** pension costs, before withdrawals from the Pension Foundation, 51.3 (14.6; 26.1) pertains to Board members and the President. The Company's outstanding pension obligations to these individuals amount to 301.8 (287.9; 283.2).

2 Of the **Group's** pension costs, before withdrawals from the Pension Foundation, 116.1 (60.0;121.2) pertains to Board members and the President. The Group's outstanding pension obligations to these individuals amount to 397.6 (368.2; 374.2). The Group's pension costs have been reduced by 683, which refers to surplus funds from SPP.

Note 31 Fees to the auditors

Fees and other remuneration to external auditors for fiscal year 2000 amounted to 130 (90; 89), of which 51 (55; 39) for auditing, distributed between PricewaterhouseCoopers, 38 (34; 33) and others, 13 (21; 6), and 79 (35; 50) pertaining to non-audit services from PricewaterhouseCoopers

Auditing assignments involve examination of the annual report and financial accounting and the administration by the Board and the President, other tasks related to the duties of a company auditor and consultation or other services that may result from observations noted during such examination or implementation of such other tasks. All other tasks are defined as other assignments.

Note 32 Financial risks

The Volvo Group is exposed to various types of financial risks. Group-wide policies form the basis for each Group company's action program. Monitoring and control is conducted continuously in each company as well as centrally. Most of the Volvo Group's financial transactions are carried out through Volvo's in-house bank, Volvo Treasury, which conducts its operations within established risk mandates and limits.

Foreign exchange risks

Volvo's currency risks are related to changes in contracted and projected flows of payments (commercial exposure), to payment flows related to loans and investments (financial exposure), and to the translation of assets and liabilities in foreign subsidiaries (equity exposure). The objective of the Volvo Group Currency Policy is to minimize the short-term impact of adverse exchange rate fluctuations on the Volvo Group's operating income, by hedging the Group's firm transaction exposure.

The objective is also to reduce the Group's balance sheet exposure to a minimum. Volvo Group Companies should not assume any currency risk.

Commercial exposure

During 2000 the Volvo Group Currency Policy has been reviewed and set by the Board. In order to meet the objective of the Volvo Group Currency Policy, forecasted currency flows representing firm exposure and forecasted exposure with a pre-fixed price in local currency should be hedged. Volvo uses forward exchange contracts and currency options to hedge these flows. In accordance with the Group's currency policy, between 50% and 80% of the net flow in each currency is hedged for the coming 6 months, 30% to 60% for months 7 through 12 and firm flows beyond 12 months should normally be hedged. Existing long-term contracts with a maturity exceeding 12 months will remain. The notional value of all forward and option contracts as of December 31, 2000 was SEK 16.7 billion (25.0; 47.1).

Volvo Group's outstanding currency contracts pertaining to commercial exposure, December 31, 2000

The table shows forward exchange contracts and option contracts to hedge future flows of commercial payments.

		Currencies				Other Currencies	Total
SEK M		**Inflow** USD	**Inflow** GBP	**Outflow** JPY	**Inflow** EUR	Net SEK	
Due date 2001	amount	616	194	(1,372)	425	1,182	
	rate [1]	8.24	13.16	0,0855	8.70		
Due date 2002	amount	291	61	–	59	149	
	rate [1]	8.09	13.07	–	9.02		
Due date 2003	amount	59	–	–	1	–	
	rate [1]	8.94	–	–	8.73		
Total		**966**	**255**	**(1,372)**	**485**	**1,331**	
of which, option contracts		46	–	–	23	–	
Translated to actual value, SEK M [2]		7,924	3,331	(119)	4,275	1,316	16,727
Fair value of contracts [3]		**(1,314)**	**(190)**	**(8)**	**(8)**	**216**	**(1,304)**
Year-end exchange rates, December 31, 2000		9.54	14.22	0.0832	8.86		

1 Average contract rate.
2 Average forward contract rate and, for options, the most favorable of the year-end rate and contract rate.
3 Outstanding contracts valued to market rates through so-called fictive closing.

Volvo Group's net flow per currency

		Currencies				Other Currencies	Total
SEK M		**Inflow** USD	**Inflow** GBP	**Outflow** JPY	**Inflow** EUR	Net SEK	
Net flow 2000	amount	765	288	(3,530)	888		
	rate [4]	9.1581	13.8620	0.0850	8.4494		
Net flow SEK, [4]		**7,000**	**4,000**	**(300)**	**7,500**	**1,100**	**19,300**
Hedged portion, % [5]		**80**	**67**	**39**	**48**		

4 Average exchange rate during the financial year.
5 Outstanding currency contracts, regarding commercial exposure due in 2001, percentage of net flow 2000.

Financial exposure

Group companies operate in local currencies. Through loans and investments being mainly in the local currency, financial exposure is reduced. In companies which have loans and investments in foreign currencies, hedging is carried out in accordance with Volvo's financial policy, which means no currency risks is assumed.

Equity exposure

In conjunction with translation of the Group's assets and liabilities in foreign subsidiaries to Swedish kronor a risk arises that the currency rate will have an effect on the consolidated balance sheet. Companies in the Volvo Group are generally formed or acquired with a long term perspective, where equity is used to fund real assets that are not to be realized within a foreseeable future. Furthermore, foreign equity exposure is relatively limited in relation to the consolidated equity in the Volvo Group balance sheet.

As a consequence of the above, equity hedging will primarily be used if a foreign Volvo Group company is over capitalized. To avoid extensive equity exposure, the level of equity in Volvo Group companies wil be kept at a commercially, legally and fiscally optimal level. At year-end 2000, net assets in subsidiaries and associated companies outside Sweden amounted SEK 24 billion.

Hedging of translation exposure from shareholdings in foreign associated companies or minority interest companies will be executed on a case-by-case basis.

Total outstanding currency risk related contracts

	December 31, 1998			December 31, 1999			December 31, 2000		
	Notional amount	Book value	Estimated fair value	Notional amount	Book value	Estimated fair value	Notional amount	Book value	Estimated fair value
Foreign exchange contracts - commercial exposure [6]									
– receivable position	71,381	145	2,189	69,531	91	4,044	19,017	71	1,513
– payable position	93,215	(491)	(3,254)	107,509	(203)	(5,628)	24,910	(89)	(2,817)
Foreign exchange contracts - financial exposure [6]									
– receivable position	–	–	–	–	–	–	32,741	34	1,046
– payable position	–	–	–	–	–	–	21,668	(76)	(2,894)
Options – purchased									
– receivable position	4,745	–	193	4,434	–	67	808	–	2
– payable position	324	–	(5)	392	–	(4)	1,736	(3)	(4)
Options – written									
– receivable position	2,867	–	38	3	–	0	385	–	0
– payable position	3,147	–	(42)	3,415	–	(49)	568	–	0
Total		(346)	(881)		(112)	(1,570)		(63)	(3,154)

6 As of 2000, the foreign exchange contracts are divided between commercial and financial exposure.

The notional amount of the derivative contracts represents the gross contract amount outstanding. To determine the estimated fair value, the major part of the outstanding contracts have been marked to market. Discounted cash flows have been used in some cases.

Interest-rate risks

Interest-rate risks relate to the risk that changes in interest-rate levels affect the Group's profit. By matching fixed-interest periods of financial assets and liabilities, Volvo reduces the effects of interest-rate changes. Interest-rate swaps are used to change the interest-rate periods of the Group's financial assets and liabilities. Exchange-rate swaps make it possible to borrow in foreign currencies in different markets without incurring currency risks.

Volvo also holds standardized futures and forward-rate agreements. The majority of these contracts are used to secure interest levels for short-term borrowing or placement.

Liquidity risks

Volvo ensures maintenance of a strong financial position by continuously keeping a certain percentage of sales in liquid assets. A proper balance between short- and long-term borrowing, as well as the ability to borrow in the form of credit facilities, are designed to ensure long-term financing.

Volvo Group outstanding interest-risk related contracts

	December 31, 1998			December 31, 1999			December 31, 2000		
	Notional amount	Book value	Estimated fair value	Notional amount	Book value	Estimated fair value	Notional amount	Book value	Estimated fair value
Interest-rate swaps [7]									
– receivable position	42,273	67	1,362	87,647	486	3,055	64,345	561	2,990
– payable position	65,266	(624)	(1,519)	94,934	(373)	(3,461)	57,488	(366)	(2,969)
Forwards and futures									
– receivable position	240,245	–	1,781	231,907	–	99	174,576	0	201
– payable position	262,968	(54)	(1,855)	220,640	–	(61)	201,657	(28)	(247)
Options purchased, caps and floors									
– receivable position	–	–	–	–	–	–	52	0	1
– payable position	–	–	–	–	–	–	–	–	–
Options written, caps and floors									
– receivable position	–	–	–	–	–	–	–	–	–
– payable position	420	(50)	(50)	–	–	–	55	0	0
Total		(661)	(281)		113	(368)		167	(24)

7 As from 2000 interest-rate swaps in foreign currencies are reported as interest-risk related contracts and are included in interest-rate swaps. Comparative figures for 1998 and 1999 have been calculated.

Credit risks in financial instruments

Credit risk in financial investments

The liquidity in the Group is invested mainly in local cash pools or directly with Volvo Treasury. This concentrates the credit risk within the Group's in-house bank. Volvo Treasury invests the liquid funds in the money and capital markets.

All investments must meet criteria for low credit risk and high liquidity. In accordance with Volvo's credit policy, counterparties for both investments and transactions in derivatives must have received a rating of "A" or better from one of the well-established credit-rating institutions.

Counterparty risks

The derivative instruments used by Volvo to reduce its foreign-exchange and interest-rate risk in turn give rise to a counterparty risk, the risk that a counterparty will not fulfill its part of a forward or option contract, and that a potential gain will not be realized. Transactions with derivative instruments are mainly conducted via Volvo Treasury which means that the counterparty risk is concentrated within the Group's in-house bank. Where appropriate, the Volvo Group arranges master netting agreements with the counterparty to reduce exposure. The credit exposure in interest-rate and foreign exchange contracts is represented by the positive fair value – the potential gain on these contracts – as of the reporting date. The risk exposure is calculated daily. The credit risk in futures contracts is limited through daily or monthly cash settlements of the net change in value of open contracts. The estimated exposure in foreign exchange contracts, interest-rate swaps and futures and options amounted to 2,559, 3,191 and 3 as of December 31, 2000.

Volvo does not have any significant exposure to an individual customer or counterparty.

Calculation of fair value of financial instruments

Volvo has used generally accepted methods to calculate the market value of the Group's financial instruments as of December 31, 1998 and 1999 and 2000. In the case of instruments with maturities shorter than three months – such as liquid funds and certain current liabilities as well as certain short-term loans – the book value has been assumed to closely approximate market value.

Official exchange rates and prices quoted in the open market have been used initially for purposes of valuation. In their absence, the valuation has been made by discounting future cash flows at the market interest rate for each maturity. These values are estimates and will not necessarily be realized.

Estimated fair value of Volvo's financial instruments

	December 31, 1998		December 31, 1999		December 31, 2000	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
Balance sheet items						
Investments in shares and participations						
fair value determinable[1]	1,110	851	3,537	2,212	27,589	20,955
fair value not determinable[2]	132	–	241	–	372	–
Long-term receivables and loans	31,349	31,362	36,240	36,751	28,646	29,095
Short-term receivables and loans	23,674	23,641	17,508	17,288	33,078	35,338
Marketable securities	7,168	7,562	20,956	21,534	9,568	9,603
Long-term loans and debts	26,012	26,882	32,514	32,394	40,670	41,792
Short-term loans	38,876	39,025	21,123	20,429	25,828	27,000
Off-balance-sheet items						
Volvo Group outstanding currency risk related contracts	(346) [3]	(881)	(112)	(1,570)	(63)	(3,154)
Volvo Group outstanding interest-risk related contracts	(661) [3]	(281)	113	(368)	167	(24)
Volvo Group outstanding raw material contracts	–	(77)	–	–	–	0

1 Pertains mainly to Volvo's holdings in Mitsubishi Motors Corporation 1999 as well as 2000, and in Scania AB 2000.

2 No single investment represents any significant amount.

3 Book values are included among items in the balance sheet.

Note 33 Net income and shareholders' equity in accordance with U.S. GAAP

A summary of the Volvo Group's approximate net income and shareholders' equity determined in accordance with U.S. GAAP, is presented in the accompanying tables.

Application of U.S. GAAP would have the following approximate effect on consolidated net income and shareholders' equity:

Net income	1998	1999	2000
Net income in accordance with Swedish accounting principles	8,437	32,222	4,709
Items increasing (decreasing) reported net income			
Foreign currency derivatives (A)	535	576	(654)
Income taxes (B)	–	–	–
Business combinations (C)	(530)	(91)	(91)
Shares and participations (D)	90	12	24
Interest costs (E)	20	21	(3)
Leasing (F)	(118)	39	16
Investments in debt and equity securities (G)	116	253	(548)
Items affecting comparability (H)	1,178	(1,325)	(281)
Pensions and other post-employment benefits (I)	313	40	(170)
SPP surplus funds (J)	–	–	(523)
Software development (K)	–	370	384
Entrance fees, aircraft engine programs (L)	–	(22)	(336)
Tax effect of above U.S. GAAP adjustments	(609)	(405)	600
Net increase (decrease) in net income	995	(532)	(1,582)
Approximate net income in accordance with U.S. GAAP	**9,432**	**31,690**	**3,127**
Approximate net income per share, SEK in accordance with U.S. GAAP	**21.40**	**71.80**	**7.40**
Weighted average number of shares outstanding (in thousands)	441,521	441,521	421,684

Shareholders' equity	1998	1999	2000
Shareholders' equity in accordance with Swedish accounting principles	69,375	97,692	88,338
Items increasing (decreasing) reported shareholders' equity			
Foreign currency derivatives (A)	(628)	(632)	(1,286)
Income taxes (B)	–	–	–
Business combinations (C)	1,499	1,408	1,317
Shares and participations (D)	–	12	36
Interest costs (E)	551	115	112
Leasing (F)	(177)	(189)	(163)
Investments in debt and equity securities (G)	133	(256)	(6,066)
Items affecting comparability (H)	1,178	860	579
Pensions and other postemployment benefits (I)	1,548	443	109
SPP surplus funds (J)	–	–	(523)
Software development (K)	–	370	754
Entrance fees, aircraft engine programs (L)	–	(51)	(387)
Other	(226)	–	–
Tax effect of above U.S. GAAP adjustments	(774)	(165)	1,941
Net increase (decrease) in shareholders' equity	3,104	1,915	(3,577)
Approximate shareholders' equity in accordance with U.S. GAAP	**72,479**	**99,607**	**84,761**

Significant differences between Swedish and U.S. accounting principles

A. Foreign currency derivatives. Volvo uses forward exchange contracts and currency options to hedge the value of future flows of payments in foreign currency. Outstanding contracts that are highly certain to be covered by currency transactions are not assigned a value in the consolidated accounts.

In accordance with U.S. GAAP, outstanding futures contracts and currency options are valued at market through so-called fictive closing. The profits and losses that thereby arise are included when calculating income. Unrealized net losses for 2000 pertaining to forwards and options contracts are estimated at 1,286 (632; 628).

B. Income taxes. Effective in 1999, Volvo adopted the Swedish Financial Accounting Standards Council's recommendation, RR9, Income Taxes, which in all material respects corresponds with SFAS 109, Accounting for Income Taxes, and IAS 12, Income Taxes (revised 1996). Previously, Volvo reported deferred tax receivables related to temporary differences and tax loss carryforwards to the extent that these could be offset against deferred tax liabilities within the same tax jurisdiction. In 1999, deferred tax assets are reported under the condition that it is probable that the amount can be applied against future taxable income. Comparative figures for 1998 have been restated to reflect the new accounting principle. At the beginning of 1998 and 1999, this resulted in an increase of the Volvo Group's shareholders' equity by SEK 1.5 and 1.3 billion, respectively.

C. Business combinations. Acquisitions of certain subsidiaries are reported differently in accordance with Volvo's accounting principles and U.S. GAAP. The difference is attributable primarily to reporting and amortization of goodwill.

In 1995, AB Volvo acquired the outstanding 50% of the shares in Volvo Construction Equipment Corporation (formerly VME) from Clark Equipment Company, in the U.S. In conjunction with the acquisition, goodwill of SEK 2.8 billion was reported. The shareholding was written down by SEK 1.8 billion, which was estimated corresponded to that portion of the goodwill that was attributable at the time of acquisition to the Volvo trademark. In accordance with U.S. GAAP, the goodwill of SEK 2.8 billion should be amortized over its estimated useful life (20 years).

Volvo's earnings in 1993 included a provision for an excess value related to Volvo Trucks which resulted from the exchange of shares with Renault. In accordance with U.S. GAAP, the corresponding excess value should have been reported as goodwill which was being amortized over a period of five years.

	Net income			Shareholders' equity		
Goodwill	1998	1999	2000	1998	1999	2000
Goodwill in accordance with Swedish GAAP, December 31	(512) [1]	(398)	(491)	5,607	5,093	4,969
Items affecting reporting of goodwill:						
Volvo Trucks with regard to exchange of shares with Renault	(439)	–	–	–	–	–
Acquisition of Volvo Construction Equipment Corporation	(91)	(91)	(91)	1,499	1,408	1,317
Net change in accordance with U.S. GAAP	(530)	(91)	(91)	1,499	1,408	1,317
Approximate goodwill in accordance with U.S. GAAP, December 31	(1,042)	(489)	(582)	7,106	6,501	6,286

1 Including write-downs.

Summary of debt and equity securities available for sale and trading	Book value	Market value	FAS 115-adjustment, gross	Tax and minority interests	FAS 115-adjustment, net
Trading, December 31, 2000	7,175	7,211	36 [1]	(10)	26
Trading, January 1, 2000	12,674	13,258	584 [1]	(164)	420
Change 2000			(548) [2]	154	(394)
Available for sale					
Marketable securities	1,723	1,718	(5)	1	(4)
Shares and convertible debenture loan	29,877	23,781	(6,096)	1,707	(4,389)
Available for sale					
December 31, 2000	31,600	25,499	(6,101) [1]	1,708	(4,393)
January 1, 2000	13,409	12,569	(840) [1]	235	(605)
Change 2000			(5,261)	1,473	(3,788)

1 Adjustment of shareholders' equity in accordance with U.S. GAAP before tax effects.
2 Adjustment of income in accordance with U.S. GAAP before tax.

D. Shares and participations. In calculating Volvo's share of earnings and shareholders' equity in associated companies in accordance with U.S. GAAP, differences between the accounting for these companies in accordance with Volvo's principles and U.S. GAAP have been reflected.

Income from investments in associated companies is reported before taxes in accordance with Swedish accounting principles, and after tax in accordance with U.S. GAAP. Taxes attributable to associated companies amounted to 244 (321; 60).

E. Interest expense. In accordance with U.S. GAAP, interest expense incurred in connection with the financing of the construction of property and other qualifying assets is capitalized and amortized over the economic life of the related assets. In Volvo's consolidated accounts, interest expenses are reported in the year in which they arise.

F. Leasing. Certain leasing transactions are reported differently in accordance with Volvo's accounting principles compared with U.S. GAAP. The differences pertain to sale-leaseback transactions prior to 1997.

G. Investments in debt and equity securities. In accordance with U.S. GAAP, Volvo applies SFAS 115: "Accounting for Certain Investments in Debt and Equity Securities." SFAS 115 addresses the accounting and reporting for investments in equity securities that have readily determinable fair market values, and for all debt securities. These investments are to be classified as either "held-to-maturity" securities that are reported at cost, "trading" securities that are reported at fair value with unrealized gains or losses included in earnings, or "available-for-sale" securities, reported at fair value, with unrealized gains or losses included in shareholders' equity.

As of December 31, 2000, unrealized losses after deducting for unrealized gains in "available-for-sale" securities amounted to 6,101 (loss 840; loss 198). Sale of "available-for-sale" shares in 2000 provided SEK – billion (–; 6.6) and the capital gain, before tax, on sales of these shares amounted to approximately SEK – billion (–; 4.5).

The book values and market values for these listed securities are distributed as follows:

	January 1, 2000		December 31, 2000	
	Book value	Market value	Book value	Market value
Available for sale				
Marketable securities	7,826	7,828	1,723	1,718
Shares and convertible debenture loan	5,583	4,741	29,877	23,781
Trading	12,674	13,258	7,175	7,211

H. Items affecting comparability. In the Volvo Group's year-end accounts, costs for restructuring measures are reported in the year that implementation of these measures was decided by each company's Board of Directors. In accordance with U.S. GAAP, costs are reported for restructuring measures only under the condition that a sufficiently detailed plan for implementation of the measures is prepared at the end of the accounting period.

In accordance with U.S. GAAP, the gain on the sale of Volvo Cars was lower than in accordance with Swedish GAAP. This is mainly attributable to the accounting differences described under points A, E, H and I resulting in a higher net asset value for the operations divested.

I. Provision for pensions and other postemployment benefits. The greater part of the Volvo Group's pension commitments are defined contribution plans in which regular payments are made to independent authorities or bodies that administer pension plans. There is no difference between U.S. and Swedish accounting principles in accounting for these pension plans.

Other pension commitments are defined benefit plans; that is, the employee is entitled to receive a certain level of pension benefits, usually related to the employee's final salary. In these cases the annual pension cost is calculated based on the current value of future pension payments. In Volvo's consolidated accounts, provisions for pensions and pension costs for the year in the individual companies are calculated based on local rules and directives. In accordance with U.S. GAAP, provisions for pensions and pension costs for the year should always be calculated as specified in SFAS 87, "Employers Accounting for Pensions." The difference lies primarily in the choice of discount rates and the fact that U.S. calculations of pension benefit obligations, in contrast to Swedish calculations, are based on salaries calculated at the time of retirement. In addition, under U.S. GAAP, the value of pension assets in excess of the pension obligation is accounted for.

Post-retirement expenses in accordance with U.S. GAAP include:

Defined-benefit plans in Sweden and U.S.	1998	1999	2000
Service cost	289	242	279
Interest cost	415	279	328
Actual return on plan assets	(513)	(817)	(149)
Amortization, net	33	466	(310)
Pension costs for defined benefit plans	**224**	**170**	**148**
Other plans (mainly defined contribution plans)	3,030	1,332	2,253
Total pension costs in accordance with U.S. GAAP [1]	**3,254**	**1,502**	**2,401**
Total pension costs in accordance with Swedish accounting principles [1]	3,567	1,542	2,231
Adjustment of net income for the year in accordance with U.S. GAAP before tax effect	313	40	(170)

1 Excluding deduction attributable to SPP surplus funds of 683 under Swedish GAAP and 160 under U.S. GAAP. See (J) in this footnote.

In calculating the provisions for pensions in accordance with U.S. GAAP, the following assumptions were applied:

	Sweden			United States		
	1998	1999	2000	1998	1999	2000
Discount rate, %	6.5	5.5	5.5	7.0	7.5	7.5
Payroll increase, %	3.5	3.0	3.0	4.5	6.0	6.0
Expected return on assets, %	7.0	7.0	7.0	9.0	9.0	9.0

The table below shows the status in accordance with U.S. GAAP of defined-benefit plans.

	Sweden		United States			
	Pension benefits		Pension benefits		Other benefits	
Reconciliation of benefit obligation	1999	2000	1999	2000	1999	2000
Benefit obligation at beginning of year	5,557	3,105	2,380	1,916	1,238	906
Service cost	158	166	84	113	35	45
Interest cost	153	168	127	161	60	76
Plan amendments	(7)	0	134	103	(128)	11
Actuarial loss (gain)	(201)	302	(140)	30	(46)	45
Acquisitions/divestments, net	(2,459)	–	(678)	–	(252)	–
Foreign-exchange translation	–	–	118	239	43	112
Benefits paid	(96)	(100)	(109)	(125)	(44)	(52)
Benefit obligation at end of year	**3,105**	**3,641**	**1,916**	**2,437**	**906**	**1,143**

	Sweden		United States			
	Pension benefits		Pension benefits		Other benefits	
Fair value of plan assets [1]	1999	2000	1999	2000	1999	2000
Fair value of plan assets at beginning of year	5,519	3,671	2,200	2,032	–	–
Lump sums not yet paid at beginning of year	–	–	0	0	–	–
Acquisitions/divestments, net	(2,412)	–	(429)	–	–	–
Actual return on plan assets	645	(39)	199	187	–	–
Employer contributions	(81)	0	49	46	–	–
Foreign-exchange translation	–	–	117	246	–	–
Benefits paid	0	(95)	(104)	(119)	–	–
Fair value of plan assets at end of year	**3,671**	**3,537**	**2,032**	**2,392**	**–**	**–**

1 Assets in pension funds, estimated at fair value.

	Sweden		United States			
	Pension benefits		Pension benefits		Other benefits	
Funded status	1999	2000	1999	2000	1999	2000
Funded status	567	(103)	116	(45)	(906)	(1,143)
Unrecognized actuarial loss (gain)	43	679	(110)	8	(159)	(124)
Unrecognized transition obligation (asset), according to SFAS 87 (net)	(90)	(71)	1	2	56	33
Unrecognized prior service cost	0	0	126	148	0	0
Adjustment to minimum liability	(78)	(261)	0	0	0	0
Net amount recognized	**442**	**244**	**133**	**113**	**(1,009)**	**(1,234)**

The projected benefit obligation, accumulated obligation and fair value of plan assets for the pension plans with an accumulated benefit obligation in excess of plan assets were 704, 682 and 531 at December 31, 2000 and 516, 499 and 374 at December 31, 1999.

Other post-retirement benefit plans

In addition to its pension plans, the Company and certain of its subsidiaries and associated companies sponsor unfunded benefit plans, mainly in the U.S., to provide health care and other benefits for retired employees who meet minimum age and service requirements. The plans are generally contributory, with retiree contributions being adjusted periodically, and contain other cost-sharing features such as deductibles and coinsurance. The estimated cost for health-care benefits is recognized on an accrual basis in accordance with the requirements of SFAS 106, "Employers' Accounting for Post-retirement Benefits Other than Pensions."

The costs for other benefits include the following components

	1998	1999	2000
Service costs	46	35	45
Interest costs	77	60	76
Amortization, net	12	(5)	(4)
Net post-retirement benefit expense	**135**	**90**	**117**

An increase of one percentage point per year in health-care costs would change the accumulated post-retirement benefit obligation as of December 31, 1999 by approximately 65, and the net post-retirement benefit expense by approximately 6. A decrease of 1% would decrease the accumulated value of obligations by about 57 and reduce costs by approximately 5. In 2000, an increase of 1% would increase the accumulated value of obligations by about 81 and increase costs by about 7; a decrease of 1% would reduce the accumulated value of obligations by about 70 and cut costs by about 6.

Calculations made as of December 31, 2000 show an annual increase of 8% in the weighted average per capita costs of covered health-care benefits; it is assumed that the percentage will decline gradually to 5% in 2010 and then remain at that level.

The discount rates used in determining the accumulated post-retirement benefit obligation as of December 31, 1998, 1999 and 2000 were 6.75%, 7.5% and 7.5%, respectively.

J. SPP surplus funds. In the mid-1990s and later years surpluses arose in the SPP insurance company since the return on the management of ITP pension plan 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 an income amounting to 683 was included in the Group's income statement under Swedish GAAP during 2000. In accordance with US GAAP, the surplus funds should be recognised in the income statement when they are settled.

K. Software development. Software development, used in the Group's operations, is conducted in Volvo IT. In Volvo's accounts, these expenditures are expensed as incurred. In accordance with Statement of Position (SOP) 98–1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" such expenditures should be capitalized and amortized over the useful lives of the projects. In Volvo's accounting in accordance with U.S. GAAP, SOP 98–1 is applied as of January 1999. The new accounting principle should not be applied retroactively.

L. Entrance fees, aircraft engine programs. In connection with its participation in aircraft engine programs, Volvo Aero in certain cases pays an entrance fee. In Volvo's accounting these entrance fees are capitalized and amortized over 5 to 10 years. In accordance with U.S. GAAP, these entrance fees are expensed as incurred.

Comprehensive income	1998	1999	2000
Net income in accordance with U.S. GAAP	9,432	31,690	3,127
Other comprehensive income, net of tax			
Translation differences	1,173	(1,389)	966
Unrealized gains on securities (SFAS 115):			
Unrealized gains (losses) arising during the year	(186)	(419)	(3,787)
Less: Reclassification adjustment for gains included in net income	(2,655)	(43)	(1)
Adjustment for pensions and similar commitments (minimum liability)	452	(54)	(132)
Other	(141)	(8)	(119)
Other comprehensive income, subtotal	(1,357)	(1,913)	(3,073)
Comprehensive income in accordance with U.S. GAAP	**8,075**	**29,777**	**54**

Supplementary U.S. GAAP information

Classification. In accordance with SFAS 95, "cash and cash equivalents" comprise only funds with a maturity of three months or less from the date of purchase. Some of Volvo's liquid funds (see Notes 19 and 20) do not meet this requirement. Consequently, in accordance with SFAS 95, changes in this portion of liquid funds should be reported as investing activities.

Parent Company AB Volvo

Corporate registration number 556012-5790.

Board of Directors' report

In January 2000, Volvo increased its holdings in Scania to 45.5% of share capital and 30.6% of the voting rights. As a result of the European Commissions's decision in March, not to approve AB Volvo's proposed acquisition of Scania, it was not possible to complete the acquisition.

On January 2, 2001 Volvo acquired all the shares of Renault's truck operations – Mack and Renault V.I. – in exchange for 15% of AB Volvo's shares. During 2000, AB Volvo repurchased 10% of the Company's outstanding shares through an offer to repurchase shares held by Volvo's shareholders and, to a minor extent, through additional purchases in the open market. Volvo's repurchase of its own shares transferred a total of SEK 11.8 billion to AB Volvo's shareholders. These shares have been transferred to Renault S.A. as partial payment and the remaining 5% will be transferred after additional repurchases.

Volvo and Mitsubishi have signed an agreement setting forth the terms for Volvo's acquisition of 19.9% of the shares of Mitsubishi Motors' truck and bus company, Mitsubishi Fuso Truck & Bus Company.

Income from investments in Group companies includes group contributions received in the net amount of 928 (1,416; 4,887). Income from other shares and participations include dividend from Scania AB of 637 (180; –).

The book value of shares and participations in Group companies amounted to 39,729 (33,528; 45,193), of which 39,314 (33,321; 45,188) pertained to shares in wholly owned subsidiaries. The corresponding shareholders' equity in the subsidiaries (including equity in untaxed reserves but excluding minority interests) amounted to 63,636 (55,594; 53,202).

Shares and participations in non-Group companies included 679 (24,028; 1,058) in associated companies that are reported in accordance with the equity method in the consolidated accounts. The portion of shareholders' equity in associated companies accruing to AB Volvo totaled 616 (24,669; 1,383). Shares and participations in non-Group companies included listed shares in Scania AB, Mitsubishi Motors Corporation, Bilia AB, Deutz AG and Henlys Group Plc with a book value of 28,501. The market value of these holdings amounted to 21,676 at year-end. No write-downs were deemed necessary since the decline is not considered permanent.

Financial net assets/debt amounted to –5,178 (15,503; –7,444).

AB Volvo's risk capital (shareholders' equity plus untaxed reserves) amounted to 63,785 corresponding to 76% of total assets. The comparable figure at year-end 1999 was 93%.

Income statements

SEK M		1998	1999	**2000**
Net sales		625	459	**377**
Cost of sales		(625)	(459)	**(377)**
Gross income		–	–	**–**
Administrative expenses	Note 1	(318)	(550)	**(393)**
Other operating income and expenses	Note 2	(176)	(38)	**93**
Operating income		(494)	(588)	**(300)**
Income from investments in Group companies	Note 3	26,705	18,728	**1,558**
Income from investments in associated companies	Note 4	(4)	(11)	**(166)**
Income from other shares and participations	Note 5	35	195	**663**
Interest income and similar credits	Note 6	341	564	**266**
Interest expenses and similar charges	Note 6	(760)	(570)	**(353)**
Other financial income and expenses	Note 7	(277)	72	**(44)**
Income after financial items		25,546	18,390	**1,624**
Allocations	Note 8	(686)	(227)	**(133)**
Taxes	Note 9	(816)	384	**(117)**
Net income		24,044	18,547	**1,374**

Balance sheets

SEK M		Dec 31, 1998	Dec 31, 1999	**Dec 31, 2000**
Assets				
Non-current assets				
Rights	Note 10	39	26	**13**
Total intangible assets		39	26	**13**
Property, plant and equipment	Note 10	40	24	**30**
Total tangible assets		40	24	**30**
Shares and participations in Group companies	Note 11	45,193	33,528	**39,729**
Long-term receivables with Group companies		643	680	**761**
Other shares and participations	Note 11	2,131	27,596	**28,587**
Other long-term receivables		100	12,640	**148**
Total financial non-current assets		48,067	74,444	**69,225**
Total non-current assets		48,146	74,494	**69,268**
Current assets				
Short-term receivables from Group companies		29,043	1,726	**1,590**
Other short-term receivables	Note 12	68	287	**13,071**
Short-term investments in Group companies		1,872	6,280	**–**
Cash and bank accounts		4	7	**7**
Total current assets		30,987	8,300	**14,668**
Total assets		79,133	82,794	**83,936**
Shareholders' equity and liabilities				
Shareholders' equity	Note 13			
Share capital (441,520,885 shares, par value SEK 6)		2,649	2,649	**2,649**
Legal reserve		7,241	7,241	**7,241**
Total restricted equity		9,890	9,890	**9,890**
Retained earnings		25,951	47,346	**50,994**
Net income		24,044	18,547	**1,374**
Total unrestricted equity		49,995	65,893	**52,368**
Total shareholders' equity		59,885	75,783	**62,258**
Untaxed reserves	Note 14	1,167	1,394	**1,527**
Provisions				
Provisions for pensions	Note 15	291	293	**309**
Other provisions	Note 16	119	128	**117**
Total provisions		410	421	**426**
Non-current liabilities	Note 17			
Liabilities to Group companies		9,010	3,023	**4,230**
Total non-current liabilities		9,010	3,023	**4,230**
Current liabilities				
Loans from Group companies		765	788	**14,168**
Trade payables		36	122	**38**
Other liabilities to Group companies		6,946	1,068	**1,109**
Other current liabilities	Note 18	914	195	**180**
Total current liabilities		8,661	2,173	**15,495**
Total shareholders' equity and liabilities		79,133	82,794	**83,936**
Assets pledged		–	–	**–**
Contingent liabilities	Note 19	80,018	104,742	**133,856**

Cash flow statements

SEK M	1998	1999	2000
Operating activities			
Operating income	(494)	(588)	**(300)**
Depreciation and amortization	19	19	**17**
Other items not affecting cash	0	0	**(49)**
Changes in working capital:			
Increase (–)/decrease (+) in receivables	(270)	893	**207**
Increase (+)/decrease (–) in liabilities and provisions	287	(888)	**(636)**
Dividends received and Group contributions	8,565	24,270	**2,735**
Interest and similar items received	339	491	**148**
Interest and similar items paid	(768)	(684)	**(330)**
Other financial items	23	72	**7**
Income taxes paid	8	(460)	**(147)**
Cash flow from operating activities	7,709	23,125	**1,652**
Investing activities			
Investments in fixed assets	(72)	(2)	**(10)**
Disposals of fixed assets	4	12	**0**
Shares and participations in Group companies, net	(6,122)	15,441	**(6,264)**
Shares and participations in non-Group companies, net	(1,093)	(25,517)	**(1,209)**
Balance after net investments	426	13,059	**(5,831)**
Financing activities			
Increase (+)/ decrease (–) in loans	717	(8,566)	**14,434**
Increase (+)/ decrease (–) in provisions for pensions and similar commitments	(5)	2	**16**
Dividend to AB Volvo's shareholders	(2,208)	(2,649)	**(3,091)**
Repurchase of own shares	–	–	**(11,808)**
Change in liquid funds	(1,070)	1,846	**(6,280)**
Liquid funds at January 1	5,511	4,441	**6,287**
Liquid funds at December 31	4,441	6,287	**7**

Notes to cash flow statements

Shares and participations in Group companies, net			
Investments	(6,761)	(1,431)	(6,675)
Disposals	639	16,872	411
Net investments in shares and participations in Group companies	**(6,122)**	**15,441**	**(6,264)**

Proceeds received from the sale of Volvo Personvagnar Holding AB resulted in a positive cash flow of 382 (16,136; –).
Other investments and sales of shares in Group companies are shown in Note 11, page 85

Shares and participations in non-Group companies, net			
Investments	(1,125)	(25,518)	(1,328)
Disposals	32	1	119
Net investments in shares and participations in non-Group companies	**(1,093)**	**(25,517)**	**(1,209)**

Investments pertained mainly to shares in Scania AB, 1,328 (23,023; –), and Mitsubishi Motors Corporation, – (2,343; –).
Other investments and sales of shares in non-Group companies are presented in Note 11, pages 85-86.

Increase/decrease in loans			
New loans	778	2,363	14,434
Amortization	(61)	(10,929)	–
Change in loans, net	**717**	**(8,566)**	**14,434**

Liquid funds
Liquid funds include cash and bank balances and marketable securities in Volvo Treasury before offsetting against loans from the same company.
The offset amount was at year-end – (–; 2,565).

Notes to financial statements

Amounts in SEK M unless otherwise specified. The amounts within parentheses refer to the two preceding years; the first figure is for 1999 and the second for 1998.

The accounting principles applied by Volvo are described on pages 53–56. Reporting of Group contributions is in accordance with the pronouncement of the Swedish Financial Accounting Standards Council issued in September 1998. Group contributions are reported among Income from investments in Group companies. Surplus funds in SPP are accounted for in accordance with a statement issued in August 1999 by a special committee of the Swedish Financial Accounting Standards Council.

Intra-Group transactions

Of the Parent Company's sales, 253 (258; 623) were to Group companies and purchases from Group companies amounted to 249 (266; 235).

Employees

The number of employees at year-end was 122 (124; 169). Wages, salaries and social costs amounted to 187 (183; 179). Information on the average number of employees as well as wages, salaries and other remuneration is shown on pages 70–71.

Fees to auditors

Fees and other remuneration paid to external auditors for the fiscal year 2000 totaled 42 (15; 5), of which 4 (5; 2) for auditing, distributed between PricewaterhouseCoopers, 4 (5; 1) and others, 0 (0; 1), and 38 (10; 3) related to non-audit services from PricewaterhouseCoopers.

Note 1 Administrative expenses

Administrative expenses include depreciation of 17 (19; 19) of which 4 (5; 6) pertained to machinery and equipment, 0 (1; 0) to buildings and 13 (13; 13) to rights in the Volvo Ocean Race.

Note 2 Other operating income and expenses

Other operating income and expenses include surplus funds of 89 (–; –) from SPP as well as profit-sharing payments to employees in the amount of 0 (1; 1). In 1998 expenses of 118 for a liability suit pertaining to the former Group company Centro-Morgårdshammar's products in the U.S. were included.

Note 3 Income from investments in Group companies

Of the income reported, 589 (996; 22,615) pertained to dividends from Group companies. Dividends for 1998 included anticipated dividend from Volvo Personvagnar Holding AB of 17,670. Group contributions received totaled a net of 928 (1,416; 4,887). Write-downs of shareholdings amounted to 372 (910; 908). Income in 2000 included an additional capital gain of 382, pertaining to the sale of shares in Volvo Personvagnar Holding AB to Ford Motor Company in 1999 and a gain of 30 for the sale of shares in Eddo Restauranger AB to Amica AB.

Income in 1999 included a gain on sales of shares of 17,784 in Volvo Personvagnar Holding AB. Group-internal transfers resulted in a net loss of 558, which primarily was attributable to capital loss on the sale of shares in Försäkringsaktiebolaget Volvia 596, and a gain on the sale of Volvo Penta Italia SpA, 35.

Income in 1998 included a gain on Group-internal sale of shares in Danafjord AB, of 44 and a gain of 67 pertaining to shareholder contribution to Volvo Holding Danmark A/S consisting of a noncash issue of shares in Volvo Personvogne Danmark A/S.

Note 4 Income from investments in associated companies

Dividends from associated companies that are reported in the Group accounts in accordance with the equity method amounted to 49 (42; 41). Divestments resulted in a net loss of 187 which was attributable to capital loss from sale of shares in AB Volvofinans 224, a gain from sale of shares and put options in Bilia 31 and a gain from sale of participations in Blue Chip Jet HB 6. The participation in Blue Chip Jet HB amounted to a loss of 28 (53; 45).

Note 5 Income from other shares and participations

Of the income reported, 662 (194; 2) pertained to dividends from other companies. The dividend from Scania AB was 637 and Henlys Group Plc 23. Income in 1998 included a gain on sales of shares in OM Stockholm Exchange of 33.

Note 6 Interest income (expenses)

Interest income and similar credits amounting to 266 (564; 341) included interest in the amount of 141 (469; 325) from subsidiaries and interest expenses and similar charges totaling 353 (570; 760), included interest totaling 340 (543; 742) paid to subsidiaries.

Note 7 Other financial income and expenses

Exchange differences on borrowings and lendings, including forward contracts related to loans, amounted to 3 (60; –306). Since these loans are largely designed to hedge net assets in foreign currencies, most of the translation differences do not affect consolidated income. In 1998, unrealized exchange gains on long-term receivables and liabilities in foreign currencies were allocated to an exchange reserve. Exchange differences related to operations are included in Other operating income and expenses. Other financial income and expenses also include guarantee commissions from subsidiaries, unrealized losses pertaining to a hedge for a program of personnel options and costs for confirmed credit facilities as well as costs of having Volvo shares registered on various stock exchanges.

Note 8 Allocations

	1998	1999	2000
Provision to tax allocation reserve	(978)	(297)	(250)
Reversal of tax equalization reserve	89	62	114
Reversal of exchange reserve	199	4	–
Allocation to extra depreciation	4	4	3
Total	**(686)**	**(227)**	**(133)**

Note 9 Taxes

Taxes, –117 (384; –816) pertain to governmental income taxes –217 (–165; –816) as well as to reversed provisions of 100 (549; –) pertaining to governmental income taxes for preceding years.

Provision has been made for estimated tax expenses that may arise as a consequence of the tax audit carried out mainly during 1992. Claims for which provisions are not deemed necessary amount to 297 (288; 341), which is included in contingent liabilities.

Note 10 Intangible and tangible assets

Acquisition cost	Value in balance sheet 1998	Value in balance sheet 1999	Investments	Sales/ scrapping	Value in balance sheet 2000
Rights	52	52	–	–	52
Total intangible assets	**52**	**52**	**–**	**–**	**52**
Buildings	17	7	5	0	12
Land and land improvements	6	4	1	–	5
Machinery and equipment	54	53	4	(8)	49
Total tangible assets	**77**	**64**	**10**	**(8)**	**66**

Accumulated depreciation	Value in balance sheet 1998 [2]	Value in balance sheet 1999 [2]	Depreciation [1]	Sales/ scrapping	Value in balance sheet 2000 [2]	Book value in balance sheet 2000 [3]
Rights	13	26	13	–	39	13
Total intangible assets	**13**	**26**	**13**	**–**	**39**	**13**
Buildings	0	1	0	0	1	11
Land and land improvements	0	0	0	–	0	5
Machinery and equipment	37	39	4	(8)	35	14
Total tangible assets	**37**	**40**	**4**	**(8)**	**36**	**30**

The assessed value of buildings was 4 (2; 5) and of land 2 (2; 2). Investments in intangible and tangible assets amounted to – (–; 52) and 10 (2; 20) respectively. Capital expenditures approved but not yet implemented at year-end 2000 amounted to 1 (1; 1).

1. Including write-downs
2. Including accumulated write-downs
3. Acquisition value, less depreciation

Note 11 Investments in shares and participations

Holdings of shares and participations are specified on pages 90–91. Changes in holdings of shares and participations are shown below.

	Group companies			Non-Group companies		
	1998	1999	2000	1998	1999	2000
Balance December 31, previous year	39,868	45,193	33,528	1,051	2,131	27,596
Acquisitions/New issue of shares	3,131	704	855	1,049	25,518	1,335
Divestments	(1,101)	(12,605)	(12)	–	–	(316)
Shareholder contribution	4,203	1,146	5,730	76	–	–
Write-downs	(908)	(910)	(372)	(45)	(53)	(28)
Balance December 31, current year	**45,193**	**33,528**	**39,729**	**2,131**	**27,596**	**28,587**

Shares and participations in Group companies
Newly issued shares were subscribed for in VNA Holding Inc for 411, Volvo Truck & Bus Ltd, 211 and in Volvo China Investment Co Ltd for 194.

Group internal acquisitions were made in Volvo Aero Holding Norge AS and in Volvo Lastebiler og Busser Norge AS for 29, following which the companies were merged with A/S Masten and Volvo Norge AS.

Shares in Eddo Restauranger AB were acquired from AB Volvo Penta and Volvo Truck Corporation for 10, following which shares with a book value of 6 were sold to Amica AB. The remaining holding with a book value of 6 is then accounted for as shares in non-Group companies.

Shareholder contributions that increased the book values were made to VFHS Finans AB, 3,460, Volvo Bus Corporation, 1,054, Volvo Holding Sverige AB, 767, Volvo Aero Corporation, 302, Volvo Technology Transfer AB, 50, Volvo Business Services AB, 23, Volvo International Holding BV, 7 and to the newly formed company Volvo Mobility Systems AB, 7.

A shareholder contribution of 60 was made to Fortos Ventures AB. On December 31, 2000 the holding was written down by 104.

Write-downs were carried out at the end of the year on holdings in Volvo International Holding BV, 231, Volvo Penta UK, 28 and Volvo Aero Turbines UK, 9.

1999: Volvo Personvagnar Holding AB received a shareholder contribution of 135, after which the shareholdings, 10,892, were sold to Ford Motor Company. In connection with the sale, Volvo Car Finance UK Ltd., 431, and Volvo Car UK Ltd., 265, were sold to Volvo Personvagnar AB.

Volvo Construction Equipment North America Inc was acquired from Volvo Construction Equipment NV for 412, after which the holdings were used as a shareholder contribution to VNA Holding Inc. The value of VNA Holding Inc. further increased by 7 concerning shares in Volvo Information Technology North America Inc., which was presented as a shareholder contribution in 1998.

Holdings in Försäkringsaktiebolaget Volvia, book value 601, were sold to Volvia Holding AB.

Volvo Malaysia Sdn Bhd (formerly Federal Auto Industrial Sdn Bhd) was purchased from Federal Auto Holding Sdn Bhd for 26, after which a shareholders' contribution of 22 was presented, which increased the book value.

Shares in Volvo Penta Italia SpA were acquired from AB Volvo Penta and then sold to Volvo Holding Italia SpA.

The book value of Mexicana de Autobuses SA de CV was increased by accrued expenses of 10 in connection with the acquisition. Holdings were written down at the end of the year by 681.

Newly issued shares were subscribed for in Volvo Truck & Bus Ltd. for 202, in Volvo Holding Mexico SA de CV, 42, and in Volvo Aero Turbines UK Ltd. for 8.

Shareholder contributions that increased book values were made to Volvo Aero AB, 269, Volvo International Holding BV, 182, Volvo Information Technology AB, 75, Volvo Holding Sverige AB, 25, and Volvo Technology Transfer AB, 20.

Write-downs were carried out at the year-end on holdings in Volvo Information Technology AB 67, Volvo Holding Italia SpA, 49, Fortos Ventures AB, 38, Volvo Holding Danmark AS, 30, Volvo International Holding BV, 28, Volvo Holding Mexico SA de CV, 11 and Volvo Business Services AB, 6.

1998: Volvo Truck North America Inc. was acquired from Volvo Truck Corporation for 568 and Volvo Information Technology North America Inc. was acquired from Volvo Information Technology AB for 5. The companies were then conveyed to VNA Holding Inc. as a shareholder contribution and increased the book value in that company.

Shareholder contributions were made to Volvo Treasury AB with 1,550. December 31, 1998 the holding was written down by 854. Volvo Group Finance Europe BV was acquired for 1,003 from Volvo Treasury AB. Mexicana de Autobuses SA de CV was acquired for 764.

As part of the restructuring of the market companies in Great Britain, six companies were acquired internally in the Group for a total of 763, including Volvo Car Finance UK Ltd., Volvo Car UK Ltd. and Volvo Penta UK Ltd.

Certain restructuring was also carried out in Denmark, whereby Volvo Holding Danmark A/S was acquired for 1 and a shareholders' contribution of 46 was paid to increase the book value. Volvo Personvogne Danmark A/S was acquired for 20, after which shares with a net worth of 86 were transferred to Volvo Holding Danmark A/S as a shareholder contribution.

Additional shares in Group companies were acquired for 7. Danafjord AB, with a book value of 508, was sold to Sotrof AB.

Shareholder contributions, which increased book values were also made to Volvo Bus Corporation, 1,650, Volvo Aero AB, 172, Volvo International Holding BV, 70, Volvo Holding Italia SpA, 45, Volvo Business Services AB, 10 and to Volvo Holding Sverige AB, 1.

The holding in Volvo Information Technology AB was written down by 54.

Shares and participations in non-Group companies

At the beginning of 2000, AB Volvo increased its holdings in Scania by 1,328, to 30.6% of voting rights and 45.5% of share capital.

The remaining holding in Eddo Restauragner AB, 6 was transferred from shares in Group companies to non-Group companies.

Protorp Förvaltnings AB, with a book value of 12, has been liquidated.

Shares in Bilia AB with a book value of 29 were sold when Bilia repurchased some of its outstanding shares. Total shares in AB Volvofinans, with a book value of 253, were sold to the Group company Volvo Finance Holding AB.

10% of the participations in Blue Chip Jet HB, with a book value of 22, were sold to Försäkringsaktiebolaget Skandia and Volvo Car Corporation. The remaining participations (40%) were then written down by 28, corresponding to the share of the year's income.

1999: Shares in Scania AB were acquired during the year for a total of 23,023, equal to 43.5% of share capital and 28.6% of voting rights.

5% of the share capital and voting rights in Mitsubishi Motors Corporation was purchased for 2,343.

Newly issued shares in Henlys Group Plc were subscribed in the amount of 149.

Participations in the Blue Chip Jet HB were written down by 53, equal to the share of the year's income.

Share capital was increased by 5 in the newly formed company Volvo Trademark Holding AB.

Holdings in NLK Näringslivskredit AB were divested.

1998: Shares in Henlys Group Plc were acquired for 376 and in Deutz AG for 670. Participations in Blue Chip Jet HB were purchased from Pharmacia & Upjohn for 3 and capital contributions amounting to 76 that increased book value were made. The participations were written down by 45. The shares in OM Stockholm Exchange were sold.

Note 12 Other short-term receivables

	1998	1999	2000
Tax receivables	–	41	74
Accounts receivable	5	62	20
Prepaid expenses and accrued income	54	176	407
Other receivables	9	8	12,570
Total	**68**	**287**	**13,071**

Other receivables partained mainly to a receivable from Ford Motor Company, which was reclassified from long-term to short-term receivables during 2000. The reserve for doubtful receivables amounted to 5 (5; 6) at the end of the year.

Note 13 Shareholders' equity

	Restricted equity		Unrestricted	Total shareholders'
	Share capital	Legal reserve	equity	equity
December 31, 1997	**2,649**	**7,241**	**28,159**	**38,049**
Cash dividend	–	–	(2,208)	(2,208)
Net income 1998	–	–	24,044	24,044
December 31, 1998	**2,649**	**7,241**	**49,995**	**59,885**
Cash dividend	–	–	(2,649)	(2,649)
Net income 1999	–	–	18,547	18,547
December 31, 1999	**2,649**	**7,241**	**65,893**	**75,783**
Cash dividend	–	–	(3,091)	(3,091)
Repurchase of own share	–	–	(11,808)	(11,808)
Net income 2000	–	–	1,374	1,374
December 31, 2000	**2,649**	**7,241**	**52,368**	**62,258**

The distribution of share capital by class of shares is shown in Note 21 to the consolidated financial statements, on pages 65–66.

Note 14 Untaxed reserves

The composition of, and changes in, untaxed reserves:	Value in balance sheet 1998	Allocations 1999	Value in balance sheet 1999	Allocations 2000	Value in balance sheet 2000
Tax allocation reserve	978	297	1,275	250	1,525
Tax equalization reserve	176	(62)	114	(114)	–
Exchange reserve	4	(4)	–	–	–
Accumulated extra depreciation					
Machinery and equipment	9	(4)	5	(3)	2
Total	**1,167**	**227**	**1,394**	**133**	**1,527**

Note 15 Provisions for pensions

Provisions for pensions and similar benefits correspond to the actuarially calculated value of obligations not insured with third parties or secured through transfers of funds to pension foundations. The amount of pensions falling due within one year is included. AB Volvo has insured the pension obligations with third parties. Of the amount reported, 0 (0; 7) pertains to contractual obligations within the framework of the PRI (Pension Registration Institute) system.

In 1996, two Groupwide pension foundations for employees were formed to secure commitments in accordance with the ITP plan. The Volvo 1995 Pension Foundation pertained to pension funds earned through 1995 and the Volvo 1996 Pension Foundation pertained to funds earned beginning in 1996. During 2000 these two foundations merged into one foundation. Pension funds amounting to 0 (33; 10) have been transferred from AB Volvo to the Volvo Pension Foundation.

AB Volvo's pension costs in 2000 amounted to 70 (54; 63), after withdrawal from the Volvo Pension Foundation of 24 (30; –).

The accumulated benefit obligation of all AB Volvo's pension obligations at year-end 2000 amounted to 668, which has been secured in part through provisions for pensions and in part through funds in pension foundations. Assets in the Pension Foundation, marked to market, accruing to AB Volvo exceeded pension obligations by 15.

The accounting for surplus funds in SPP is shown in Note 22 to the consolidated financial statements, on pages 66-67.

Note 16 Other provisions

Other provisions comprise provisions for taxes in the amount of 68 (68; 68).

Note 17 Non-current liabilities

Long-term debt matures as follows:	
2002	3,104
2003	1,054
2004 or later	72
Total	**4,230**

Long-term liabilities to Group companies comprise loans of 3,104 (3,023;9,010) from Volvo Treasury.

Note 18 Other current liabilities

	1998	1999	2000
Tax liabilities	803	–	–
Wages, salaries and withholding taxes	29	37	30
Other liabilities	29	86	95
Accrued expenses and prepaid income	53	72	55
Total	**914**	**195**	**180**

No collateral is provided for current liabilities.

Note 19 Contingent liabilities

Of the contingent liabilities amounting to 133,856 (104,742; 80,018), 133,548 (104,415; 79,652) pertained to subsidiaries.

Guarantees for various credit programs are included in amounts corresponding to the credit limits. These guarantees amount to 130,691 (101,885; 74,837), of which guarantees on behalf of subsidiaries totaled 130,686 (101,863; 74,832). At the end of each year, the utilized portion amounted to 58,448 (41,296; 36,445) including 58,140 (40,969; 36,079) pertaining to subsidiaries.

Investments

Group holdings of shares and participations in non-Group companies	Registration number	Percentage holding [1]	Dec 31, 1999 Book value, SEK M [2]	Dec 31, 2000 Book value, SEK M
Shares in associated companies, equity method of accounting				
AB Volvofinans, Sweden	556069-0967	50	703	774
Bilia AB, Sweden [4]	556112-5690	39	596	570
Petro Stopping Centers Holding, LP, United States	–	29	233	210
Shanghai Sunwin Bus Corp., China	–	50	–	202
Blue Chip Jet HB, Sweden	969639-1011	40	197	165
Arrow Truck Sales, United States	–	50	175	134
Aviation Lease Finance, United States	–	49	42	125
Xian Silver Bus Corp., China	–	50	96	117
SM Motors Pte Ltd, Singapore	–	40	84	91
Arbustum Invest AB, Sweden	556543-4247	40	38	37
Merkavim Metal Works Ltd, Israel	–	27	16	21
Euromation AB, Sweden	556232-0134	55	–	17
Turbec AB, Sweden	556556-2096	50	18	13
Arabian Vehicle Truck Industry Ltd, Saudi Arabia	–	25	9	9
AVC Intressenter AB, Sweden	556506-8789	50	30	8
Harvest Technology Partners, LP, United States	–	20/23	11	8
Eddo Restauranger AB, Sweden	556088-6086	30	–	7
SPPL, France	–	46	–	5
Transport Financial Services, Canada	–	49/40	4	3
VKR-Kiinteistöt Oy Ab, Finland	–	20	3	3
Industrigruppen JAS AB, Sweden	556147-5921	20	1	1
OmniNova Technology AB, Sweden	556540-1691	35	0	0
Volvo Pakistan, Pakistan	–	50	0	0
Scania AB, Sweden [4]	556184-8564	46/31	23,173	–
Expar Incorporated, United States	–	–	6	–
Total shares and participations in associated companies [3]			**25,435**	**2,520**
Shares and participations in other companies				
Scania AB, Sweden [4]	556184-8564	46/31	–	24,051
Mitsubishi Motors Corporation, Japan [4]	–	5	2,343	2,344
Deutz AG, Germany [4]	–	11	670	670
Henlys Group Plc, Great Britain [4]	–	10	524	524
Other holdings			241	372
Total shares and participations in other companies			**3,778**	**27,961**
Book value in accordance with Group balance sheet			**29,213**	**30,481**

1 Where two percentage figures are shown, the first refers to share capital and the second to voting rights.
2 Associated companies are reported in accordance with the equity method. Other companies are reported at cost.
3 Volvo's calculated share of the net worth of associated companies amounts to 2,520 (25,435), of which shareholders' equity (incl. equity in untaxed reserves) 2,100 (7,292) and excess value 420 (18,143).
4 The market value of the holdings is shown on on page 62.

AB Volvo's holding of shares

AB Volvo's holding of shares and participations in non-Group companies	Registration number	Percentage holding[1]	Dec 31, 1999 Book value, SEK M	Dec 31, 2000 Book value, SEK M
Scania AB, Sweden [2]	556184-8564	46/31	23,023	24,351
Mitsubishi Motors Corporation, Japan [2]	–	5	2,343	2,344
Deutz AG, Germany [2]	–	11	670	670
Bilia AB, Sweden [2]	556112-5690	39	641	612
Henlys Group Plc, Great Britain[2]	–	10	524	524
AB Volvofinans, Sweden	556069-0967	50	253	–
Blue Chip Jet HB, Sweden	969639-1011	40	111	61
Protorp Förvaltnings AB, Sweden	556127-6881	–	12	–
Eddo Restauranger AB, Sweden	556088-6086	30	–	7
Other investments			19	18
Total book value, non-Group companies			**27,596**	**28,587**

AB Volvo's holding of shares and participations in Group companies	Registration number	Percentage holding	Dec 31, 1999 Book value, SEK M	Dec 31, 2000 Book value, SEK M
Volvo Lastvagnar AB, Sweden	556013-9700	100	8,420	8,420
Volvo Lastvagnar Komponenter AB, Sweden	556000-0753	100	–	–
Volvo Lastvagnar Sverige AB, Sweden	556411-6878	100	–	–
Volvo Kuorma ja Linja Autot Oy Ab, Finland	–	100	–	–
Volvo Poland Company Sp.Zo.O, Poland	–	100	–	–
Volvo Truck Latvia Sia, Latvia	–	100	–	–
Volvo Truck Czech S R O, Czech Republic	–	100	–	–
Volvo Truck Slovak, Slovakia	–	100	–	–
Volvo Ukraine LLC, Ukraine	–	100	–	–
Volvo do o Beograd, Yugoslavia	–	100	–	–
Volvo Trucks (Deutschland) GmbH, Germany	–	100	–	–
Volvo Europa Truck NV, Belgium	–	100	–	–
Volvo Trucks (Schweiz) AG, Switzerland	–	100	–	–
Volvo Truck España, SA, Spain	–	100	–	–
Volvo Trucks Canada Inc, Canada	–	100	–	–
Volvo Trucks de Mexico, Mexico	–	100	–	–
Volvo do Brasil Veiculos Ltda, Brazil	–	100	–	–
Volvo Peru Sociedad Anonima, Peru	–	100	–	–
Volvo Truck (Thailand) Co Ltd, Thailand	–	100	–	–
Volvo Truck East Asia (Pte) Ltd, Singapore	–	100	–	–
Volvo Truck Korea Ltd, South Korea	–	100	–	–
Volvo Truck Australia Pty Ltd, Australia	–	100	–	–
Volvo India Ltd, India	–	100	–	–
Volvo Bussar AB, Sweden	556197-3826	100	1,831	2,885
Säffle Karosseri AB, Sweden	556058-3485	100	–	–
Carrus Oy, Finland	–	100	–	–
Volvo Busse Deutschland GmbH, Germany	–	100	–	–
Expar Inc, United States	–	100	–	–
Prévost Car Inc, Canada	–	51	–	–
Volvo Bus Asia Pacific (Pte) Ltd, Singapore	–	100	–	–

1 Where two percentage figures are shown, the first refers to share capital and the second to voting rights.
2 The market value of the holdings is shown on page 62.

AB Volvo's holding of shares and participations in Group companies (cont.)	Registration number	Percentage holding	Dec 31, 1999 Book value, SEK M	Dec 31, 2000 Book value, SEK M
Volvo Construction Equipment NV, Beesd, The Netherlands	–	100	2,582	2,582
Volvo Wheel Loaders AB, Sweden	556310-1319	100	–	–
Volvo Construction Equipment Components AB, Sweden	556527-6820	100	–	–
Volvo Articulated Haulers AB, Sweden	556360-1615	100	–	–
Volvo Construction Equipment Customer Support AB, Sweden	556310-1301	100	–	–
Volvo Construction Equipment International AB, Sweden	556310-1293	100	–	–
Volvo Construction Equipment Europe Ltd, Great Britain	–	100	–	–
Volvo Construction Equipment Europe GmbH, Germany	–	100	–	–
Volvo Compact Service Equipment GmbH, Germany	–	100	–	–
Volvo Motor Graders, Ltd, Canada	–	100	–	–
Volvo Construction Equipment Australia Pty Ltd, Australia	–	100	–	–
AB Volvo Penta, Sweden	556034-1330	100	421	421
Volvo Penta Norden AB, Sweden	556127-7533	100	–	–
Volvo Penta Central Europe GmbH, Germany	–	100	–	–
Volvo Penta Benelux BV, The Netherlands	–	100	–	–
Volvo Penta España, SA, Spain	–	100	–	–
Volvo Penta Asia (Pte) Ltd, Singapore	–	100	–	–
Volvo Penta Japan Corporation (Kabushiki Kaisha), Japan	–	100	–	–
Volvo Aero AB, Sweden	556029-0347	100	2,284	2,586
Volvo Aero Engine Services AB, Sweden	556328-9171	100	–	–
Volvo Aero Support AB, Sweden	556413-0184	100	–	–
Volvo Aero Norge AS, Norway	–	78	–	–
VNA Holding Inc, United States	–	100	2,045	2,456
Volvo Trucks North America, Inc, United States	–	100	–	–
Volvo Construction Equipment North America Inc, United States	–	100	–	–
Volvo Penta of The Americas, Inc, United States	–	100	–	–
Volvo Aero North America Inc, United States	–	100	–	–
Volvo Treasury North America Inc, United States	–	100	–	–
The AGES Group, United States	–	86	–	–
Volvo Treasury AB, Sweden	556135-4449	100	3,044	3,044
Volvo Group Insurance Försäkrings AB, Sweden	516401-8037	100	182	182
Volvo Information Technology AB, Sweden	556103-2698	100	8	8
Fortos Ventures AB, Sweden	556004-2748	100	302	258
Volvo Group Credit Sweden AB, Sweden	556000-5406	100	486	486
Sotrof AB, Sweden	556519-4494	100	9,854	9,854
Volvo Technology Transfer AB, Sweden	556542-4370	100	86	136
Celero Support AB, Sweden	556039-1798	100	25	25
Volvo Holding Sverige AB, Sweden	556539-9853	100	26	793
VFHS Finans AB, Sweden	556579-4459	100	0	3,460
Volvo Holding Danmark AS, Denmark	–	100	104	104
Volvo Group Finance Europe BV, The Netherlands	–	100	1,003	1,003
Volvo Construction Equipment Korea Co., Ltd, South Korea	–	100	–	–
Volvo International Holding BV, The Netherlands	–	100	224	–
Volvo Penta UK Ltd, Great Britain	–	100	64	36
Mexicana de Autobuses, SA de CV, Mexico	–	100	93	93
Volvo Malaysia Sdn Bhd, Malaysia	–	100	48	48
Volvo Truck & Bus Ltd , Great Britain [1]	–	39	202	413
Volvo China Investment Co Ltd, China	–	100	–	194
Other holdings			194	242
Total book value, Group companies [2]			**33,528**	**39,729**

1 Combined with the part owned by Volvo Trucks the holding amounts to 100%.
2 AB Volvo's share of shareholders' equity in subsidiaries (including equity in untaxed reserves) was 63.636 (55,594).

Proposed disposition of unappropriated earnings

Group

As shown in the consolidated balance sheet at December 31, 2000, unrestricted equity amounted to SEK 71,885 M (82,490). Of this amount, SEK 49,000 is estimated to be appropriated to restricted equity.

AB Volvo	SEK M
Retained earnings	50,994
Net income 2000	1,374
Total	52,368

The Board of Directors and the President propose that the above sum be disposed of as follows:

	SEK M
To the shareholders, a dividend of SEK 8.00 per share	3,532
To be carried forward	48,836
Total	52,368

Göteborg, February 1, 2001

Lars Ramqvist

Per-Olof Eriksson Sören Gyll Tom Hedelius

Leif Johansson Finn Johnsson Sören Mannheimer

Lars-Göran Larsson Olle Ludvigsson Johnny Rönnkvist

Our audit report was issued on February 1, 2001

Olof Herolf
Authorized Public Accountant
PricewaterhouseCoopers

Olov Karlsson
Authorized Public Accountant
PricewaterhouseCoopers

Auditors' report for AB Volvo

We have audited the annual accounts and the consolidated accounts on pages 18–92 and the accounting records and the administration of the Board of Directors and the President of AB Volvo for the year 2000. These accounts and the administration of the Company are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration, based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes evaluating the accounting principles used and their application by the Board of Directors and the President, as well as evaluating the overall presentation of information in the annual accounts and consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the Company in order to determine the liability, if any, to the Company of any Board member, or the President. We also examined whether any Board member or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act, or the Company's Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts and consolidated accounts have been prepared in accordance with the Annual Accounts Act and, thereby, give a true and fair view of the Company's and the Group's financial position and results of operations in accordance with generally accepted accounting principles in Sweden.

We recommend to the general meeting of shareholders that the income statements and balance sheets of the Parent Company and the Group be adopted, that the profit of the Parent Company be dealt with in accordance with the proposal in the Board of Directors' Report, and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Göteborg, February 1, 2001

Olof Herolf
Authorized Public Accountant
PricewaterhouseCoopers

Olov Karlsson
Authorized Public Accountant
PricewaterhouseCoopers

Group Management

Leif Johansson
Born 1951. Master of Engineering. President of AB Volvo and Chief Executive Officer of the Volvo Group since 1997. With Volvo since 1997. Board Chairman: SAPA AB. Board member: Bristol-Myers Squibb Company, Federation of Swedish Industries and Swedish Metal Trades Employers' Association. Member of the Royal Swedish Academy of Engineering Sciences. Member of Volvo Board since 1997.

Holdings: 35,000 Volvo shares, including 30,000 Series B shares. 73,866 options.

Tryggve Sthen
Born 1952. Master of Engineering. President of Volvo Global Trucks since January 2001. President of Volvo Truck Corporation between June and December 2000. President of Volvo Construction Equipment Corporation 1998–2000. Member of Group Executive Committee since 1998. With Volvo since 1997.

Holdings: 30,721 options.

Lennart Jeansson
Born 1941. Master of Business Administration. Executive Vice President of AB Volvo since 1990 and Deputy CEO since 1995. Member of Group Executive Committee since 1986.

President of Volvo Car Corporation, 1990-1993. With Volvo since 1966.

Board Chairman: Stena AB.

Board member: Atlas Copco AB, Bilia AB and Stena Metall AB.

Holdings: 29,389 Volvo shares, including 28,575 Series B shares. 43,386 options.

Jan Engström
Born 1950. Master of Business Administration. President of Volvo Bus Corporation since January 1999. Member of Group Executive Committee since 1993. Senior Vice President of AB Volvo, responsible for economy and finance, 1993–1998. With Volvo since 1973.

Holdings: 1,148 Volvo shares, including 914 Series B shares. 27,817 options.

Arne Wittlöv
Born 1940. Master of Engineering. Hon. Dr. of Technology. Executive Vice President of AB Volvo since 1997. Member of Group Executive Committee since 1995; adjunct member since 1993. President of Volvo Aero AB 1993–1997. With Volvo since 1984.

Board Chairman: Natural Science Research Council. Vice Chairman: Royal Swedish Academy of Engineering Sciences.

Holdings: 4,342 Volvo shares, including 4,203 Series B shares. 31,765 options.

Tony Helsham
Born 1954. Bachelor of Engineering. President of Volvo Construction Equipment since 2000. Member of the Group Executive Committee since 2000. President and CEO of Euclid Hitachi Heavy Equipment 1995–1998. President of Volvo Construction Equipment Korea, 1998–2000. With Volvo since 1985.

Holdings: 8,268 options.

Staffan Jufors
Born 1951. Master of Business Administration. President of AB Volvo Penta since 1998. Member of Group Executive Committee since 1998. With Volvo since 1975. Board member. EBP AB, Sölvesborgs Stuveri and Hamn AB.
Holdings: 1,225 Volvo shares, including 194 Series B shares. 27,661 options.

Per Löjdquist
Born 1949. Senior Vice President of AB Volvo. Member of Group Executive Committee since 1997, responsible for corporate communications and investor relations. With Volvo since 1973. Board member: Västsvenska Handelskammaren, Aktiefrämjandet, BIORA AB and Nilörngruppen AB.
Holdings: 3,224 Volvo shares, including 50 Series B shares; 33,484 options.

Fred Bodin
Born 1947. Bachelor of Laws. President of Volvo Aero AB since 1997. Member of Group Executive Committee since 1993. General Counsel for Volvo Group, 1988–1997. With Volvo since 1981.
Holdings: 654 Volvo Series A shares. 29,137 options.

Eva Persson
Born 1953. Master of Laws. Senior Vice President of AB Volvo. Member of Group Executive Committee since 1997, responsible for legal, tax and security matters. With Volvo since 1988. Secretary to AB Volvo's Board since 1997.
Holdings: 329 Volvo shares, including 200 Series B shares. 27,323 options.

Lars Anell
Born 1941. Master of Business Administration. Senior Vice President of AB Volvo. Member of Group Executive Committee since 1994, responsible for brand management, environment and public affairs. With Volvo since 1994. Board Chairman: Umeå University and Foundation of Dag Hammarskjöld, Centre for International Youth Exchange (CIU). Board member: The Swedish Exhibition & Congress Centre.
Holdings: 262 Volvo shares, including 200 Series B shares. 37,840 options.

Karl-Erling Trogen
Born 1946. Master of Engineering. Senior Vice President of AB Volvo. Member of Group Executive Committee since 1994. President of Volvo Truck Corporation 1994–2000. President of Volvo Trucks North America, 1991–1994. With Volvo since 1971. Board member: Kalmar Industries AB, Wilson Logistics Holding AB.
Holdings: 12,350 Volvo Series B shares. 54,316 options.

Stefan Johnsson
Born 1959. Master of Business Administration. Senior Vice President of AB Volvo. Member of Group Executive Committee since 1998, responsible for economy, finance, strategic matters and business development. President of Volvo Group Finance Sweden, 1994–1998. With Volvo since 1987.
Holdings: 1,133 Volvo Series B shares. 28,706 options.

Salvatore L Mauro
Born 1960. Bachelor of Science in Accounting. President of Volvo Financial Services since 2001. Member of Group Executive Committee since 2001. President of Volvo Car Finance Europe 1999–2001. With Volvo since 1985.
Holdings: 153 American Depositary Receipts (ADRs) of AB Volvo.

Board of Directors and Auditors

Changes in Board of Directors and Management

Tryggve Sthen, President of Volvo Construction Equipment, was appointed President of Volvo Truck Corporation, as of June 1, 2000. He succeeds Karl-Erling Trogen, who will remain a member of Volvo's Group Executive Committee, with responsibility for synergy and integration issues as well as Group responsibility for certain developing markets, including India and China. Tony Helsham was appointed President of Volvo Construction Equipment and a member of the Volvo Group Executive Committee, effective June 5, 2000. Salvatore L Mauro was appointed President of Volvo Financial Services and a member of the Volvo Group Executive Committee, effective March 8, 2001. The Nominating Committee in Volvo has notified the Board of Directors that it intends to propose that Louis Schweitzer, Chairman and CEO of Renault SA, and Patrick Faure, Executive Vice President of Renault S.A., be elected to Volvo's Board.

Louis Schweitzer

Patrick Faure

Board members elected by Annual General Meeting

Lars Ramqvist
Chairman. Born 1938, Doctor of Philosophy, Hon. Dr. of Technology.
Board Chairman: Telefonaktiebolaget L M Ericsson and Skandia. Board member: Federation of Swedish Industries, AstraZeneca and Svenska Cellulosa Aktiebolaget SCA. Member of the Royal Swedish Academy of Sciences and the Royal Swedish Academy of Engineering Sciences.
Member of Volvo Board since 1998.
Holdings: 1,000 Volvo Series A shares.

Per-Olof Eriksson
Born 1938, Master of Engineering, Hon. Dr. of Technology.
Board Chairman: Svenska Kraftnät, Thermia AB and Odlander, Fredriksson & Co. Board member: Sandvik AB, AB Custos, Svenska Handelsbanken, SSAB Svenskt Stål AB, Preem Petroleum AB, Skanska AB, Assa Abloy, Stattum and the Federation of Swedish Industries. Member of the Royal Swedish Academy of Engineering Sciences.
Member of Volvo Board since 1994.
Holdings: 5,600 Volvo shares, including 3,600 Series B shares.

Sören Gyll
Born 1940.
Board Chairman: the Federation of Swedish Industries, Genesis IT-AB, Capedal AB and DHJ Media AB. Board member: AB SKF, Svenska Cellulosa Aktiebolaget SCA, Skanska AB, Oresa Ventures S.A. and Askus AB. Member of the Royal Swedish Academy of Engineering Sciences.
President of AB Volvo and Group Chief Executive Officer, 1992–1997.
Member of Volvo Board since 1992.
Holdings: 16,159 Volvo shares, including 3,548 Series B shares; 10,000 options.

Tom Hedelius
Born 1939, Master of Business Administration, Hon. Dr. of Economics.
Board Chairman: Svenska Handelsbanken and Bergman & Beving AB. Vice Chairman: Telefonaktiebolaget LM Ericsson and AB Industrivärden. Board member: Svenska Cellulosa Aktiebolaget SCA and SAS Representantskap.
Member of Volvo Board since 1994.
Holdings: 2,000 Volvo Series A shares.

Leif Johansson
Born 1951, Master of Engineering.
President of AB Volvo and Group Chief Executive Officer.
Member of Volvo Board since 1997.

Finn Johnsson
Born 1946, Master of Business Administration.
Board Chairman: MVI Ltd, Region Väst Handelsbanken, Wilson AB and Bilisten. Board member: Perstorps AB, Skanska AB, Thomas Concrete Group, Facile AB, Kalmar Industries AB, Industrivärden. President of Mölnlycke Health Care AB.
Member of Volvo Board since 1998.
Holdings: 2,000 Volvo Series B shares.

Sören Mannheimer
Born 1934, Bachelor of Laws.
Board Chairman: Lennart Wallenstam Byggnads AB and Chalmers University of Technology Foundation.
Board member: Swedish Exhibition & Congress Centre.
Member of Volvo Board, 1986–1994 and since 1994.
Holdings: 429 Volvo Series B shares.

Tom Hedelius **Lars Ramqvist** **Sören Gyll**

Sören Mannheimer **Lars-Göran Larsson** **Olle Ludvigsson**

Board members designated by employee organizations

Lars-Göran Larsson
Born 1947. Representative for organization of salaried employees (PTK). With Volvo since 1974.
Member of Volvo Board since 1994.
Holdings: 94 Volvo shares, including 50 Series B shares.

Olle Ludvigsson
Born 1948. Representative for plant trade union organizations (LO). With Volvo since 1968.
Deputy member of Volvo Board, 1983–1988; regular member since 1988.
Holdings: 11 Volvo Series B shares.

Johnny Rönnkvist
Born 1947. Representative for plant trade union organizations (LO). With Volvo since 1965.
Deputy member of Volvo Board since 1999.
Holdings: 160 Volvo shares, including 50 Series B shares.

Deputy members of the Board

Stellan Rosengren
Born 1960. Representative for organization of salaried employees (PTK). With Volvo since 1985.
Deputy member of Volvo Board since 1999.
Holdings: 150 Volvo Series B shares.

Berth Thulin
Born 1951. Representative for plant trade union organizations (LO). With Volvo since 1975.
Deputy member of Volvo Board since 1999. Deputy member of Volvo Wheel Loaders and Board member of Volvo Construction Equipment Customer Support AB.
Holdings: 100 Volvo Series B shares.

Secretary of the Board

Eva Persson
Born 1953. Master of Laws.
Senior Vice President, AB Volvo. Secretary to AB Volvo's Board since 1997.

Auditors

Olof Herolf
Authorized Public Accountant, PricewaterhouseCoopers.

Olov Karlsson
Authorized Public Accountant, PricewaterhouseCoopers.

Deputy Auditors

Olof Enerbäck
Authorized Public Accountant, PricewaterhouseCoopers.

Klas Brand
Authorized Public Accountant, PricewaterhouseCoopers.

Report on Board activities during 2000

In 2000, Volvo's Board of Directors consisted of seven members elected by shareholders at the Annual General Meeting, plus three members and two deputy members appointed by employee organizations. The President of AB Volvo is a member of the Board. During 2000, the Board held six regular meetings, in addition to which eight special meetings were held.

The Board has adopted procedures for its internal activities that contain rules pertaining to the number of Board meetings, matters to be handled at regular meetings of the Board and duties incumbent on the Chairman.

The Board has also issued written instructions specifying when and how information that is required to enable the Board to evaluate the Company's and Group's financial position, should be reported to the Board, as well as the distribution of work between the Board and the President, and the order in which the Executive Vice Presidents are to substitute for the President.

During the year, the Board reviewed the economic and financial position of the Company and Group on a regular basis. The Board also dealt regularly with matters involving divestments, acquisitions, the establishment of new operations, and matters related to investments in product renewal and product development in the Group's different business areas.

Finn Johnsson **Leif Johansson** **Per-Olof Eriksson**

Johnny Rönnkvist **Stellan Rosengren** **Berth Thulin**

Eleven-year summary

Consolidated income statements SEK M	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Net sales	**83,185**	**77,223**	**83,002**	**111,155**	**155,866**	**171,511**	**156,060**	**183,625**	**212,936**	**125,019**	**130,070**
Cost of sales			(66,143)	(85,840)	(115,092)	(128,529)	(121,249)	(138,990)	(163,876)	(99,501)	(104,548)
Gross income			**16,859**	**25,315**	**40,774**	**42,982**	**34,811**	**44,635**	**49,060**	**25,518**	**25,522**
Research and development expenses			(6,243)	(4,438)	(4,652)	(7,343)	(8,271)	(8,659)	(10,104)	(4,525)	(4,876)
Selling expenses			(8,717)	(11,480)	(15,737)	(17,418)	(14,895)	(17,160)	(19,042)	(8,865)	(10,140)
Administrative expenses			(4,151)	(6,131)	(7,711)	(7,399)	(6,685)	(7,018)	(8,091)	(4,791)	(4,974)
Other operating income and expenses			517	(1,146)	(3,262)	(1,657)	(1,087)	(3,141)	(2,634)	(611)	622
Items affecting comparability	(2,450)	–	(1,450)	(1,600)	0	1,215	0	0	(2,331)	26,695	0
Operating income (loss)	**(1,542)**	**(542)**	**(3,185)**	**520**	**9,412**	**10,380**	**3,873**	**8,657**	**6,858**	**33,421**	**6,154**
Income from investments in associated companies			120	(1,749)	5,861	2,119	314	2,929	444	567	444
Income from other investments			157	444	1,667	788	9,007	1,168	4,526	170	70
Interest income and similar credits			3,694	4,041	2,927	3,801	4,530	3,197	1,268	1,812	1,588
Interest expenses and similar charges			(4,906)	(5,458)	(3,572)	(3,686)	(3,114)	(2,699)	(1,315)	(1,505)	(1,845)
Other financial income and expenses			(629)	(440)	83	(354)	(407)	(76)	(162)	131	(165)
Income after financial items	**(327)**	**803**	**(4,749)**	**(2,642)**	**16,378**	**13,048**	**14,203**	**13,176**	**11,619**	**34,596**	**6,246**
Taxes [1]	(719)	(560)	138	(468)	(2,783)	(3,741)	(1,825)	(2,583)	(3,140)	(2,270)	(1,510)
Minority interests in net income	26	439	1,291	(356)	(365)	(45)	99	(112)	(42)	(104)	(27)
Net income	**(1,020)**	**682**	**(3,320)**	**(3,466)**	**13,230**	**9,262**	**12,477**	**10,481**	**8,437**	**32,222**	**4,709**

Consolidated balance sheets SEK M	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Intangible assets	318	373	298	2.284	4,545	5,626	2,277	3,284	5,778	6,618	6,925
Property, plant and equipment	18,327	17,232	18,377	25,922	25,991	25,094	26,458	30,793	36,207	19,788	22,231
Assets under operating leases [2]	1,570	1,317	1,753	2,235	2,205	2,847	4,968	13,501	22,285	12,337	14,216
Shares and participations	21,530	30,399	30,494	26,299	18,548	18,087	12,412	4,583	3,393	29,213	30,481
Inventories	18,316	16,705	18,368	21,390	23,380	23,929	23,148	27,993	32,128	21,438	23,551
Customer financing receivables	2,545	2,672	9,083	8,019	9,351	10,336	15,552	32,304	46,798	34,313	41,791
Interest bearing receivables	3,839	1,842	405	602	1,516	2,766	4,080	4,667	4,735	18,617	19,228
Other receivables [1]	18,067	17,429	16,469	26,323	28,597	26,708	25,603	27,087	34,197	24,019	26,352
Liquid funds	17,585	18,779	21,760	2,442	24,449	23,306	26,661	20,603	20,224	29,269	15,968
Assets	**102,097**	**106,748**	**117,007**	**134,516**	**138,582**	**138,699**	**141,159**	**164,815**	**205,745**	**195,612**	**200,743**
Shareholders' equity [1]	35,291	33,864	29,721	27,088	43,332	51,200	57,876	61,951	69,375	97,692	88,338
Minority interests	300	4,986	3,919	6,686	838	605	504	899	860	544	593
Provision for postemployment benefits	3,769	4,245	5,085	6,139	6,097	6,890	3,150	3,296	2,936	2,130	2,632
Other provisions [3]	–	–	11,653	14,235	13,914	14,602	14,988	19,657	25,187	14,832	14,941
Loans	31,151	31,980	42,641	42,675	33,551	28,166	31,886	41,217	64,230	53,345	66,233
Other liabilities [3]	31,586	31,673	23,988	37,693	40,850	37,236	32,755	37,795	43,157	27,069	28,006
Shareholders' equity and liabilities	**102,097**	**106,748**	**117,007**	**134,516**	**138,582**	**138,699**	**141,159**	**164,815**	**205,745**	**195,612**	**200,743**
Assets pledged	2,417	2,641	4,114	4,613	6,527	5,434	6,503	6,743	5,388	3,930	2,990
Contingent liabilities	3,270	4,691	6,808	8,656	7,581	7,450	6,188	5,406	6,737	6,666	6,789

1 Effective in 1997, adjustment was made to conform with the Swedish Financial Accounting Standard Council's recommendation, RR9, Income Taxes. See Note 1 to the consolidated financial statements.

2 Including company vehicles up to and including 1991.

3 Other provisions are included among other liabilities up to and including 1991.

Consolidated balance sheet excluding Financial Services SEK M	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Intangible assets					4,544	5,623	2,258	3,262	5,692	6,518	6,781
Property, plant and equipment					25,246	23,430	24,720	28,755	33,944	17,318	19,652
Assets under operating leases					0	0	49	1,366	1,817	1,611	4,245
Shares and participations					20,782	20,699	16,359	9,894	11,744	35,296	37,366
Inventories					23,047	23,813	23,042	27,756	31,883	21,053	22,998
Customer financing receivables					0	0	0	227	384	9	15
Interest bearing receivables					1,516	2,720	4,060	4,664	4,715	18,617	19,286
Other receivables					28,596	26,110	24,312	25,802	31,398	21,075	24,882
Liquid funds					21,811	20,637	23,170	16,605	15,439	24,465	10,958
Assets					**125,542**	**123,032**	**117,970**	**118,331**	**137,016**	**145,962**	**146,183**
Shareholders' equity					43,332	51,200	57,876	61,951	69,375	97,692	88,338
Minority interests					703	351	448	859	804	544	593
Provision for post-employment benefits					6,060	6,855	3,126	3,266	2,904	2,118	2,619
Other provisions					11,806	12,525	12,618	15,962	19,435	9,861	8,277
Loans					24,266	16,301	13,432	1,047	5,018	12,206	18,233
Other liabilities					39,375	35,800	30,470	35,246	39,480	23,541	28,123
Shareholders' equity and liabilities					**125,542**	**123,032**	**117,970**	**118,331**	**137,016**	**145,962**	**146,183**

Consolidated cash flow statements SEK bn	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Operating income [1]	(1.5)	(0.5)	(3.2)	0.5	9.4	10.4	3.9	8.7	6.9	6.7	6.2
Depreciation	3.0	3.1	3.1	3.8	5.1	5.6	5.4	6.8	9.6	5.2	6.3
Other items not affecting cash [2]								0.6	0.0	0.5	(0.8)
Change in working capital [2]	(0.5)	(0.4)	4.9	2.2	(1.4)	(4.4)	(1.9)	4.7	1.5	(1.0)	(3.3)
Financial items and income tax [2]								(0.4)	(2.0)	(1.7)	(0.4)
Cash flow from operating activities	**1.0**	**2.2**	**4.8**	**6.5**	**13.1**	**11.6**	**7.4**	**20.4**	**16.0**	**9.7**	**8.0**
Investments in fixed assets	(4.6)	(2.9)	(2.9)	(3.5)	(4.3)	(6.5)	(8.2)	(9.9)	(10.5)	(4.9)	(5.4)
Investments in leasing assets	(1.2)	(1.0)	(1.3)	(1.7)	(2.5)	(2.6)	(3.9)	(9.8)	(12.7)	(5.6)	(5.7)
Disposals of fixed assets and leasing assets	0.2	1.2	0.3	0.8	1.4	1.3	2.0	1.8	2.6	1.6	2.1
Customer financing receivables, net	(0.3)	(0.1)	(3.7)	1.9	(1.5)	(1.6)	(4.8)	(15.5)	(12.8)	(7.1)	(4.5)
Shares and participations, net	(5.4)	(7.2)	(0.2)	0.5	8.2	2.0	14.1	10.7	5.5	(25.9)	(1.6)
Loans to external parties, net	0.3	0.1	0.5	(0.2)	(0.9)	(0.9)	(1.9)	(0.4)	(0.3)	(3.2)	0.3
Acquired and divested subsidiaries and other business units, net	(1.0)	(0.2)	0.3	0.4	–	(4.4)	(0.9)	(1.3)	(5.6)	31.0	0.0
Cash flow after net investments	**(11.0)**	**(7.9)**	**(2.2)**	**4.7**	**13.5**	**(1.1)**	**3.8**	**(4.0)**	**(17.8)**	**(4.4)**	**(6.8)**
Increase (decrease) in loans [3]	7.9	1.3	3.2	(5.9)	(8.3)	1.5	6.8	5.6	19.5	16.3	8.1
Repurchase of own shares	–	–	–	–	–	–	–	–	–	–	(11.8)
Dividend to AB Volvo shareholders	(1.2)	(1.2)	(1.2)	(0.6)	(0.6)	(1.5)	(1.9)	(2.0)	(2.2)	(2.6)	(3.1)
Other	2.8	7.1	0.4	0.2	(1.3)	0.7	(5.0)	(5.9)	(0.2)	(0.1)	0.0
Change in liquid funds, excluding translation differences	**(1.5)**	**(0.7)**	**0.2**	**(1.6)**	**3.3**	**(0.4)**	**3.7**	**(6.3)**	**(0.7)**	**9.2**	**(13.6)**
Translation differences on liquid funds	–	–	1.8	1.3	(0.3)	(0.7)	(0.3)	0.3	0.3	(0.2)	0.3
Change in long-term securities holdings	0.6	1.9	0.9	–	–	–	–	–	–	–	–
Change in liquid funds	**(0.9)**	**1.2**	**2.9**	**(0.3)**	**3.0**	**(1.1)**	**3.4**	**(6.0)**	**(0.4)**	**9.0**	**(13.3)**

As from 1992 the effects of major acquisitions and divestments of subsidiaries as well as the distribution of the shares in Swedish Match in 1996 have been excluded from other changes in the balance sheet. Furthermore the effects of changes in exchange rates at translation of foreign subsidiaries have been excluded, since these effects do not affect cash flow.

1 1999, excluding gain on sale of Volvo Cars of SEK 26.7 billion.

2 Reported on a single line in 1990–1996.

3 Including pensions and similar commitments 1990–1991.

Consolidated cash flow statements excluding Financial Services SEK bn	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Operating income						10.1	3.5	8.1	6.1	5.7	4.8
Depreciation						4.8	4.4	5.0	6.4	3.1	3.8
Other items not affecting cash								0.3	(0.5)	0.2	(1.2)
Change in working capital						(3.5)	(1.8)	3.4	0.7	(1.7)	(3.0)
Financial items and income taxes								(0.5)	(2.3)	(1.7)	(0.8)
Cash flow from operating activities						**11.4**	**6.1**	**16.3**	**10.4**	**5.6**	**3.6**
Investments in fixed assets						(6.4)	(8.0)	(9.5)	(10.2)	(4.7)	(5.1)
Investments in leasing assets						(0.8)	(0.8)	(0.5)	(0.9)	(0.5)	(0.6)
Disposals of fixed assets and leasing assets						1.2	1.8	1.0	1.5	0.8	0.7
Customer-financing receivables, net						–	–	0.3	(0.3)	0.1	0.0
Operating cash flow						**5.4**	**(0.9)**	**7.6**	**0.5**	**1.3**	**(1.4)**

Exports from Sweden SEK M	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Volvo Group, total	32,182	31,881	30,344	36,130	43,330	56,059	54,589	58,569	64,401	52,719	46,251

Salaries, wages and other remuneration (including social costs) SEK M	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Volvo Group, total	17,865	17,654	16,857	19,489	24,156	27,248	25,997	26,951	30,064	19,832	21,510

Key ratios [4]	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Gross margin, % [1]			20.3	22.8	26.2	25.1	22.3	24.3	23.0	20.4	19.6
Research and development expenses as percentage of net sales [1]			7.5	4.0	3.0	4.3	5.3	4.7	4.7	3.6	3.7
Selling expenses as percent of net sales [1]			10.5	10.3	10.1	10.2	9.5	9.3	8.9	7.1	7.8
Administration expenses as percentage of net sales [1]			5.0	5.5	4.9	4.3	4.3	3.8	3.8	3.8	3.8
Operating margin, %	(2.3)	(1.1)	(3.8)	0.5	6.0	6.1	2.5	4.7	3.2	26.7	4.7
Return on shareholders' equity, %	neg	2.0	neg	neg	36.5	19.3	23.7	17.2	13.0	34.9	5.0
Interest coverage, times	0.9	1.1	0.2	0.6	5.5	4.6	5.5	5.8	9.6	23.1	4.5
Self-financing ratio, % [2]	19	82	122	148	247	151	73	115	78	108	89
Self-financing ratio excluding Financial Services, % [2]						190	87	181	108	127	72
Net financial assets/net debt, SEK M	(9,256)	(11,357)	(18,117)	(20,592)	(6,999)	201	10,672	16,956	12,232	28,758	9,392
Net financial assets/net debt as percentage of shareholders' equity and minority interests	(26.0)	(29.2)	(53.9)	(61.0)	(15.9)	0.4	18.3	27.0	17.4	29.3	10.6
Shareholders' equity and minority interests as percentage of total assets	34.9	36.4	28.8	25.1	31.9	37.4	41.4	38.1	34.1	50.2	44.3
Shareholders' equity and minority interests as percentage of total assets, excluding Financial Services [3]					35.1	41.9	49.4	53.1	51.2	67.3	60.8
Shareholders' equity as percentage of total assets	34.6	31.7	25.4	20.1	31.3	36.9	41.0	37.6	33.7	49.9	44.0
Excluding items affecting comparability and gain on sales of shares											
Operating margin, %	0.7	(1.1)	(2.1)	1.9	6.0	5.3	2.5	4.7	4.3	5.4	4.7
Return on shareholders' equity, %	3.6	neg	neg	4.1	24.2	14.7	8.1	10.4	9.7	8.0	5.0

1 Key ratios are stated in accordance with the new 1997 Annual Accounts Act. Figures for the years 1992 through 1996 have been adjusted to conform with the new principle.

2 As of 1999, Volvo's cash flow statement is presented in accordance with the Swedish Financial Accounting Standards Council's recommendation, Reporting of Cash Flow, RR7. Values in prior years are adjusted in accordance with the new presentation form.

3 Financial Services had a marginal effect on the percentage of risk capital and minority capital prior to 1994.

4 Effective in 1997, adjustment was made to conform with the Swedish Financial Accounting Standard Council's recommendation, RR9, Income Taxes. See Note 1, to the consolidated financial statements. Income per share is calculated as net income divided by average number of shares.

Volvo share statistics

Data per share (adjusted for issues and splits) [1]	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Income, SEK [1]	(2.60)	1.80	(8.60)	(8.90)	31.80	20.20	26.90	23.20	19.10	73.00	11:20
Dividend, SEK	3.10	3.10	1.55	1.55	3.40	4.00 [8]	4.30	5.00	6.00	7.00	8.00 [9]
Share price at year-end, SEK (B share)	41	63	69	108	140	136	151	213	186	220	156,50
Direct return, % (B share) [2]	7.6	4.9	2.3	1.4	2.4	2.9	2.9	2.3	3.2	3.2	5.1
Effective return, % (B share) [3]	(50)	61	13	60	32	0	30	46	(10)	22	(23)
Price/earnings ratio (B share) [4]	neg	36	neg	neg	4	7	6	9	9	3	14
EBIT multiple [5]	45	neg	neg	36	7	7	16	9	11	10	10
Payout ratio, % [6]	neg	176	neg	neg	11	20	16	22	31	10	71
Shareholders' equity, SEK [7]	91	87	77	70	98	110	125	140	157	221	222
Return on shareholders' equity	neg	2.0	neg	neg	36.5	19.3	23.7	17.2	13.0	34.9	5.0

Other share data	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Number of shareholders at year-end	169,100	170,500	163,800	147,300	182,700	206,700	176,800	225,500	210,600	238,000	230,000
Number of Series A shares outstanding at year-end, millions	25.3	25.3	25.3	25.3	142.2	142.2	142.2	138.6	138.6	138.6	124.7
Number of Series B shares outstanding at year-end, millions	52.3	52.3	52.3	52.3	301.9	321.4	321.4	302.9	302.9	302.9	272.6
Average number of outstanding shares, millions					415.9	458.9	463.6	452.5	441.5	441.5	421.7
Number of Series A shares traded in Stockholm during the year, millions	2.1	64.7	16.6	32.8	54.1	23.2	23.7	23.7	34.5	27.0	42.4
Number of Series B shares traded in Stockholm during the year, millions	13.2	34.5	169.7	465.5	363.3	363.3	316.4	362.7	371.3	479.6	391.2
Number of A and B shares traded in London during the year, millions	11.0	89.1	178.9	150.7	287.5	232.8	301.0	260.8	425.5	215.8	143.0
Number of shares traded in ADR, NASDAQ during the year, millions	1.9	9.9	9.4	11.5	19.0	73.5	83.0	51.8 [10]	50.5 [10]	54.9 [10]	16.0 [10]

1 Effective in 1997, adjustment was made to conform with the Swedish Financial Accounting Standard Council's recommendation, RR9, Income Taxes. See Note 1 to the consolidated financial statements. Income per share is calculated as net income divided by average number of shares.

2 Dividend in SEK per share divided by share price at year-end.

3 Share price at year-end, including dividend paid during the year, divided by share price at beginning of the year, including redemption 1997 and distribution of one share of Swedish Match 1996.

4 Share price at year-end divided by income per share.

5 Market value at year-end plus net financial debt and minority interests (or minus net financial assets and minority share), divided by operating income, before items affecting comparability.

6 Dividend divided by income per share.

7 Shareholders' equity divided by number of shares outstanding at year-end.

8 Plus one share of Swedish Match per Volvo share, price of SEK 21.74 (weighted average first ten trading days following listing).

9 Proposed by the Board of Directors.

10 Source: NASDAQ/Amex Online/Citibank.

The largest shareholders in AB Volvo, December 31, 2000 [1]	Number of shares	% of total votes [2]	Share capital, % [2]
Franklin-Templetons funds	24,596,938	1.5	5.6
Robur (funds of FöreningsSparbanken)	23,281,158	7.6	5.3
Investor	22,021,235	1.9	5.0
Renault S.A.	21,601,500	4.9	4.9
Försäkringsbolaget SPP (pension funds)	16,179,883	4.3	3.2
AMF Pensionsförsäkring AB (labor market insurance)	8,585,000	3.1	1.9
SEB fonder (savings funds)	8,380,524	2.9	1.9
Skandia (insurance group)	8,657,554	4.0	1.8
Nordea fonder (savings funds)	6,421,400	2.9	1.5
Svenska Handelsbanken pensionsstiftelse (pension funds)	5,897,000	3.5	1.3
Total		36.6	32.4

1 Following the repurchase of own shares, AB Volvo held 10% of the Company's shares on Dec 31, 2000. On Jan 2, 2001, the repurchased shares were transferred to Renault.

2 Based on all registered shares.

Distribution of shares, December 31, 2000

Volvo shareholder owning	Number of shareholders	% of total votes [2]	Share of capital, % [2]
1–1,000 shares	212,031	6.5	8.1
1,001–10,000 shares	13,365	5.4	7.5
10,001–100,000 shares	879	3.2	5.4
100,001–	239	84.9	79.0
Total	**226,514**	**100**	**100**

2 Based on all registered shares.

Business area statistics

Net sales SEK M		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Trucks	Western Europe		16,718	15,252	15,851	22.718	24,289	23,268	25,180	30,666	32,750	33,383
	Eastern Europe		528	518	599	948	1,299	1,721	2,274	3,089	2,265	3,158
	North America		5,714	6,933	11,817	13,951	13,069	8,510	12,206	17,659	22,303	17,201
	South America		1,606	484	3,188	4,780	4,641	2,759	3,832	3,777	2,190	3,111
	Asia		3,066	1,675	2,170	2,474	2,863	2,577	2,410	2,047	2,010	3,432
	Other markets		435	1,130	330	1,379	1,330	1,443	1,503	1,267	1,492	1,911
	Total	**27,492**	**28,067**	**25,992**	**33,955**	**46,250**	**47,491**	**40,278**	**47,405**	**58,505**	**63,010**	**62,196**
Buses	Western Europe		2,600	2,581	3,380	3,838	4,709	4,660	5,082	5,528	5,735	6,767
	Eastern Europe		12	3	62	102	34	80	190	366	226	182
	North America		2	1	43	34	736	1,575	2,314	5,574	6,871	7,723
	South America		522	728	897	1,005	1,087	853	1,002	910	469	732
	Asia		514	572	986	868	844	1,112	1,562	1,519	943	1,269
	Other markets		170	566	119	289	285	247	432	389	469	514
	Total	**3,927**	**3,820**	**4,451**	**5,487**	**6,136**	**7,695**	**8,527**	**10,582**	**14,286**	**14,713**	**17,187**
Construction Equipment [1]	Western Europe						4,199	7,163	7,836	9,557	9,901	10,029
	Eastern Europe						112	93	263	336	193	255
	North America						1,403	3,385	5,680	6,548	5,725	5,823
	South America						556	598	991	957	498	776
	Asia						339	937	1,036	1,092	1,903	2,484
	Other markets						307	628	847	882	662	626
	Total						**6,916**	**12,804**	**16,653**	**19,372**	**18,882**	**19,993**
Marine and Industrial Power Systems	Western Europe		1,563	1,478	1,541	1,753	2,065	2,048	2,219	2,725	2,986	3,204
	Eastern Europe		0	0	0	0	1	2	34	23	26	30
	North America		437	483	859	1,326	1,139	1,142	1,332	1,412	1,770	2,257
	South America		159	92	74	92	99	109	136	153	134	160
	Asia		406	407	434	464	458	486	643	476	692	794
	Other markets		20	82	78	107	116	98	102	142	153	154
	Total	**2,927**	**2,585**	**2,542**	**2,986**	**3,742**	**3,878**	**3,885**	**4,466**	**4,931**	**5,761**	**6,599**
Aero	Western Europe		2,473	2,146	2,281	2,400	2,590	2,950	3,682	4,231	4,560	4,651
	Eastern Europe		4	0	0	13	27	8	6	47	16	42
	North America		1,208	1,244	1,326	1,104	1,100	1,071	3,066	3,502	4,557	5,040
	South America		0	13	4	0	4	4	257	284	193	134
	Asia		11	6	5	66	66	89	264	336	491	701
	Other markets		4	9	11	5	3	21	201	184	136	145
	Total	**2,591**	**3,700**	**3,418**	**3,627**	**3,588**	**3,790**	**4,143**	**7,476**	**8,584**	**9,953**	**10,713**
Financial Services	Western Europe	981	1,113	1,144	1,177	1,798	4,758	5,384	4,461	5,465	6,300	6,240
	Eastern Europe							0	0	86	185	257
	North America						6	54	509	1,152	1,620	2,626
	South America							153	72	297	455	452
	Asia							0	0	0	1	0
	Other markets						206	44	52	224	76	103
	Total	**981**	**1,113**	**1,144**	**1,177**	**1,798**	**4,970**	**5,635**	**5,094**	**7,224**	**8,637**	**9,678**
Other and eliminations		7,597	6,161	7,302	9,086	8,439	2,580	645	536	1,952	4,063	3,704
Volvo Group excluding divested operations		**45,515**	**45,446**	**44,849**	**56,318**	**69,953**	**77,320**	**75,917**	**92,212**	**114,854**	**125,019**	**130,070**
Cars		39,569	37,022	44,598	58,158	73,598	83,340	83,589	96,453	103,798	–	–
Other divested operations and eliminations		(1,899)	(5,245)	(6,445)	(3,321)	12,315	10,851	(3,446)	(5,040)	(5,716)	–	–
Volvo Group total		**83,185**	**77,223**	**83,002**	**111,155**	**155,866**	**171,511**	**156,060**	**183,625**	**212,936**	**125,019**	**130,070**

Effective in 1997, the Volvo Group's accounting per market area reflects geographical definitions, based on an ISO standard. The figures for 1991–1996 have been adjusted to conform with the new principle.

1 Subsidiary in the Volvo Group as of July 1995. Net sales for the Construction Equipment business area in the years 1991 through 1995, calculated using the average exchange rate for the US dollar in each year, amounted to 8,273, 7,890, 9,665,12,084 and 13,684.

Operating income SEK M	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Trucks	1,114	941	(619)	585	4,051	5,020	783	1,707	2,815	3,247	1,414
Buses	53	(166)	71	313	318	405	331	550	385	224	440
Construction Equipment [1]	–	–	–	–	–	717	1,162	1,436	1,536	1,709	1,594
Marine and Industrial Power Systems	20	(113)	(76)	125	223	212	(27)	181	95	314	484
Aero	8	202	305	143	60	103	153	472	527	584	621
Financial Services	341	294	173	266	166	281	311	479	590	977	1,396
Other and eliminations	(35)	(103)	102	62	(62)	(193)	(429)	(678)	(567)	(329)	205
Volvo Group excluding divested operations	**1,501**	**1,055**	**(44)**	**1,494**	**4,756**	**6,545**	**2,284**	**4,147**	**5,381**	**6,726**	**6,154**
Cars	(957)	(1,597)	(1,691)	626	2,771	1,089	1,498	4,510	3,808	–	–
Other divested operations	364	–	–	–	1,885	1,531	91	–	–	–	–
Operating income excluding items affecting comparability	**908**	**(542)**	**(1,735)**	**2,120**	**9,412**	**9,165**	**3,873**	**8,657**	**9,189**	**6,726**	**6,154**
Items affecting comparability											
Trucks	(350)	–	(270)	–	–	–	–	–	(46)	–	–
Buses	(300)	–	–	–	–	–	–	–	(422)	–	–
Construction Equipment [1]	–	–	–	–	–	–	–	–	(910)	–	–
Marine and Industrial Power Systems	(50)	–	(108)	–	–	–	–	–	(158)	–	–
Aero	–	–	(44)	–	–	–	–	–	–	–	–
Other and eliminations	(50)	–	(221)	(1,600)	–	(1,817)	–	–	(114)	–	–
Volvo Group excluding divested operations	**(750)**	**–**	**(643)**	**(1,600)**	**–**	**(1,817)**	**–**	**–**	**(1,650)**	**–**	**–**
Cars	(1,700)	–	(807)	–	–	–	–	–	(681)	26,695	–
Other divested operations	–	–	–	–	–	3,032	–	–	–		–
Volvo Group total	**(2,450)**	**–**	**(1,450)**	**(1,600)**	**–**	**1,215**	**–**	**–**	**(2,331)**	**26,695**	**–**
Operating income excluding divested operations	**751**	**1,055**	**(687)**	**(106)**	**4,756**	**4,728**	**2,284**	**4,147**	**3,731**	**6,726**	**6,154**
Operating income, Volvo Group	**(1,542)**	**(542)**	**(3,185)**	**520**	**9,412**	**10,380**	**3,873**	**8,657**	**6,858**	**33,421**	**6,154**

1 Included in the Volvo Group as of mid-year 1995. Operating income for Volvo Construction Equipment in the years 1991 to 1995, calculated using the average rate for the US dollar for each year, amounted to (193), (436), 502, 1,621 och 1,679.

Operating margin %	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Trucks	4.1	3.4	(2.4)	1.7	8.8	10.6	1.9	3.6	4.8	5.2	2.3
Buses	1.3	(4.3)	1.6	5.7	5.2	5.3	3.9	5.2	2.7	1.5	2.6
Construction Equipment [1]	–	–	–	–	–	10.4	9.1	8.6	7.9	9.1	8.0
Marine and Industrial Power Systems	0.7	(4.4)	(3.0)	4.2	6.0	5.5	(0.7)	4.1	1.9	5.5	7.3
Aero	0,3	5,5	8,9	3,9	1,7	2.7	3.7	6.3	6.1	5.9	5.8
Financial Services	–	–	–	–	–	5.7	5.5	9.4	8.2	11.3	14.4
Volvo Group excluding divested operations	**2.5**	**1.7**	**(0.1)**	**2.7**	**6.8**	**8.5**	**3.0**	**4.5**	**4.7**	**5.4**	**4.7**
Cars	(2.4)	(4.3)	(3.8)	1.1	3.8	1.3	1.8	4.7	3.7	–	–
Operating margin, excluding items affecting comparability	**0.7**	**(1.1)**	**(2.1)**	**1.9**	**6.0**	**5.3**	**2.5**	**4.7**	**4.3**	**5.4**	**4.7**
Operating margin, total	**(2.3)**	**(1.1)**	**(3.8)**	**0.5**	**6.0**	**6.1**	**2.5**	**4.7**	**3.2**	**26.7**	**4.7**

1 Included in the Volvo Group as of mid-year 1995. Operating margin for Volvo Construction Equipment for the years 1991 to 1995 amounted to (2.3), (5.5), 5.2, 13.4 and 12.3.

Return on operating capital, excluding items affecting comparability %	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Trucks	21	12	neg	8	>25	>25	10	18	>25	>25	9
Buses	4	neg	5	18	22	18	12	17	8	4	6
Construction Equipment	–	–	–	–	–	>25	23	23	18	19	16
Marine and Industrial Power Systems	5	neg	neg	11	19	17	neg	14	7	>25	>25
Aero[1]	neg	12	22	11	5	13	19	>25	23	19	25
Cars	neg	neg	neg	4	21	8	12	>25	24	–	–

1 As of 1997, return on operating capital for Aero excludes The AGES Group.

Depreciation and amortization SEK M	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Trucks	523	532	594	704	839	937	1,023	1,252	1,493	1,375	1,478
Buses	78	95	70	88	65	99	121	136	218	280	320
Construction Equipment	–	–	–	–	–	143	302	394	996	475	579
Marine and Industrial Power Systems	58	30	95	36	58	70	68	71	67	77	77
Aero	178	208	214	216	209	219	231	215	224	333	410
Financial Services						45	59	71	95	134	145
Other	245	320	136	160	155	123	158	288	354	365	372
Volvo Group excluding divested operations	**1,082**	**1,185**	**1,109**	**1,204**	**1,326**	**1,636**	**1,962**	**2,427**	**3,447**	**3,039**	**3,381**
Cars	1,389	1,591	1,577	1,869	2,149	2,283	2,345	2,557	2,880	–	–
Other divested operations	150	13	0	152	1,025	953	206	–	–	–	–
	2,621	**2,789**	**2,686**	**3,225**	**4,500**	**4,872**	**4,513**	**4,984**	**6,327**	**3,039**	**3,381**
Assets under operating leases [1]	400	340	433	552	607	784	838	1,812	3,299	2,132	2,870
Volvo Group, total	**3,021**	**3,129**	**3,119**	**3 ,777**	**5,107**	**5,656**	**5,351**	**6,796**	**9,626**	**5,171**	**6,251**

1 Company vehicles included up to and including 1993.

Research and development expenses SEK M	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Trucks	1,525	1,870	2,258	1,365	1,399	1,760	2,078	2,051	2,301	2,524	2,709
Buses	213	256	251	240	265	306	343	434	617	576	614
Construction Equipment	–	–	–	–	–	221	555	627	715	786	844
Marine and Industrial Power Systems	178	180	166	154	148	177	183	213	270	287	368
Aero	150	163	194	196	160	150	155	205	248	216	238
Other	114	50	28	21	21	30	36	74	114	136	104
Volvo Group excluding divested operations	**2,180**	**2,519**	**2,897**	**1,976**	**1,993**	**2,644**	**3,350**	**3,604**	**4,265**	**4,525**	**4,877**
Cars	4,851	3,895	3,346	2,462	2,502	4,561	4,901	5,055	5,839	–	–
Other divested operations	30	–	–	–	157	138	20	–	–	–	–
Volvo Group total	**7,061**	**6,414**	**6,243**	**4,438**	**4,652**	**7,343**	**8,271**	**8,659**	**10,104**	**4,525**	**4,877**

Figures for years 1992 through 1996 have been adjusted to conform with the new Annual Accounts Act.

Number of employees at year-end Number	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Trucks	20,550	20,290	19,480	17,780	19,790	21,450	20,860	22,090	22,560	23,330	24,320
Buses	3,690	3,050	2,620	2,610	2,600	3,620	3,750	4,220	8,690	8,860	9,060
Construction Equipment	–	–	–	–	–	7,610	7,300	8,550	9,680	8,900	8,830
Marine and Industrial Power Systems	2,190	2,040	1,540	1,420	1,540	1,570	1,420	1,400	1,490	1,400	1,480
Aero	4,000	4,420	4,290	4,040	3,770	3,890	3,740	4,170	3,990	4,550	4,240
Financial Services	400	190	210	220	230	450	560	710	860	1,160	1,220
Other	4,340	4,020	3,530	3,130	2,120	2,370	3,090	3,840	5,190	5,270	5,120
Volvo Group, excluding divested operations	**35,170**	**34,010**	**31,670**	**29,200**	**30,050**	**40,960**	**40,720**	**44,980**	**52,460**	**53,470**	**54,270**
Cars	33,630	29,570	28,450	26,800	29,080	31,050	29,600	27,920	27,360	–	–
Other divested operations	–	–	–	17,640	16,420	7,040	10	–	–	–	–
Volvo Group, total	**68,800**	**63,580**	**60,120**	**73,640**	**75,550**	**79,050**	**70,330**	**72,900**	**79,820**	**53,470**	**54,270**

Capital expenditures SEK M	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Trucks	1,073	786	912	725	979	2,063	2,576	2,397	2,552	2,468	3,175
Buses	116	114	101	64	54	124	199	276	320	571	364
Construction Equipment	–	–	–	–	–	204	286	484	630	566	397
Marine and Industrial Power Systems	43	36	24	35	96	79	67	86	133	126	134
Aero	156	258	199	157	170	180	173	413	448	793	614
Financial Services						79	166	253	329	140	302
Other and corporate capital expenditures	159	267	117	412	227	317	250	410	512	508	444
Volvo Group [1]	**1,547**	**1,461**	**1,353**	**1,393**	**1,526**	**3,046**	**3,717**	**4,319**	**4,924**	**5,172**	**5,430**
Cars	3,051	1,413	1,562	2,072	1,596	2,540	4,425	5,544	5,625	–	–
Other divested operations	–	–	–	–	1,152	905	58	–	–	–	–
Volvo Group total	**4,598**	**2,874**	**2,915**	**3,465**	**4,274**	**6,491**	**8,200**	**9,863**	**10,549**	**5,172**	**5,430**
Assets under operating leases [1]	**900**	**700**	**888**	**1,000**	**1,255**	**1,655**	**2,369**	**3,290**	**4,816**	**5,578**	**5,709**
Divested operations	300	300	464	678	1,240	930	1,482	6,483	7,838	–	–
Volvo Group total [2]	**1,200**	**1,000**	**1,352**	**1,678**	**2,495**	**2,585**	**3,851**	**9,773**	**12,654**	**5,578**	**5,709**

1 Excluding divested operations. 2 Until 1996 including company vehicles.

Market area statistics

Net sales SEK M	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Western Europe		29,669	29,045	32,018	40,695	45,059	45,994	48,651	59,621	66,158	68,182
Eastern Europe		560	536	666	1,100	1,512	1,906	2,769	4,160	2,899	3,933
Europe total		**30,229**	**29,581**	**32,684**	**41,795**	**46,571**	**47,900**	**51,420**	**63,781**	**69,057**	**72,115**
North America		7,425	8,625	14,052	16,521	17,516	15,783	25,208	35,857	43,002	40,655
South America		2,303	2,296	4,102	5,859	6,289	4,455	6,510	6,636	3,942	5,182
Asia		4,119	2,932	3,693	4,013	5,128	5,290	5,936	5,490	6,028	8,765
Other markets		1,370	1,415	1,787	1,765	1,816	2,489	3,138	3,090	2,990	3,353
Volvo Group excl divested operations	**45,515**	**45,446**	**44,849**	**56,318**	**69,953**	**77,320**	**75,917**	**92,212**	**114,854**	**125,019**	**130,070**
Cars	39,569	37,022	44,598	58,158	73,598	83,340	83,589	96,453	103,798	–	–
Other divested operations and eliminations	(1,899)	(5,245)	(6,445)	(3,321)	12,315	10,851	(3,446)	(5,040)	(5,716)	–	–
Volvo Group total	**83,185**	**77,223**	**83,002**	**111,155**	**155,866**	**171,511**	**156,060**	**183,625**	**212,936**	**125,019**	**130,070**
of which, Sweden	10,240	10,034	10,573	12,625	13,099	10,748	10,029	10,762	12,278	14,040	15,670

Effective in 1997, The Volvo Group's accounting per market area reflects geographical definitions on an ISO standard.
The accounting for the years 1991–1996 has been adjusted to conform with the new principle.

Capital expenditures SEK M	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Sweden	577	1,081	1,004	970	824	1,962	2,333	2,558	2,622	1,789	2,453
Europe, excluding Sweden	693	192	230	264	279	421	608	609	913	966	985
North America	191	125	55	96	331	502	558	601	735	1,425	1,538
South America							3	414	371	512	237
Asia							3	102	230	441	187
Other markets	86	63	64	63	92	161	212	35	53	39	30
Volvo Group [1]	**1,547**	**1,461**	**1,353**	**1,393**	**1,526**	**3,046**	**3,717**	**4,319**	**4,924**	**5,172**	**5,430**
Cars	3,051	1,413	1,562	2,072	1,596	2,540	4,425	5,544	5,625	–	–
Other divested operations	–	–	–	–	1,152	905	58	–	–	–	–
Volvo Group total	**4,598**	**2,874**	**2,915**	**3,465**	**4,274**	**6,491**	**8,200**	**9,863**	**10,549**	**5,172**	**5,430**
Assets under operating leases [1]	**900**	**700**	**888**	**1,000**	**1,255**	**1,655**	**2,369**	**3,290**	**4,816**	**5,578**	**5,709**
Divested operations	300	300	464	678	1,240	930	1,482	6,483	7,838	–	–
Volvo Group total [2]	**1,200**	**1,000**	**1,352**	**1,678**	**2,495**	**2,585**	**3,851**	**9,773**	**12,654**	**5,578**	**5,709**

1 Excluding divested operations. 2 Until 1996 including company vehicles.

Employees Number	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Sweden	47,260	42,960	39,130	43,980	44,880	47,000	43,330	43,650	43,900	24,840	25,030
Europe, excluding Sweden	12,180	11,630	12,040	16,280	18,040	16,930	15,290	16,100	17,880	11,900	12,320
North America	5,720	5,320	5,540	6,950	6,100	7,860	6,900	8,450	12,100	11,880	11,410
South America	1,940	1,730	1,520	3,400	3,400	3,620	2,130	2,000	1,980	1,930	2,100
Asia	1,270	1,460	1,380	2,170	2,380	2,830	2,260	1,720	3,340	2,480	2,570
Other markets	430	480	510	860	750	810	420	980	620	440	840
Volvo Group total	**68,800**	**63,580**	**60,120**	**73,640**	**75,550**	**79,050**	**70,330**	**72,900**	**79,820**	**53,470**	**54,270**

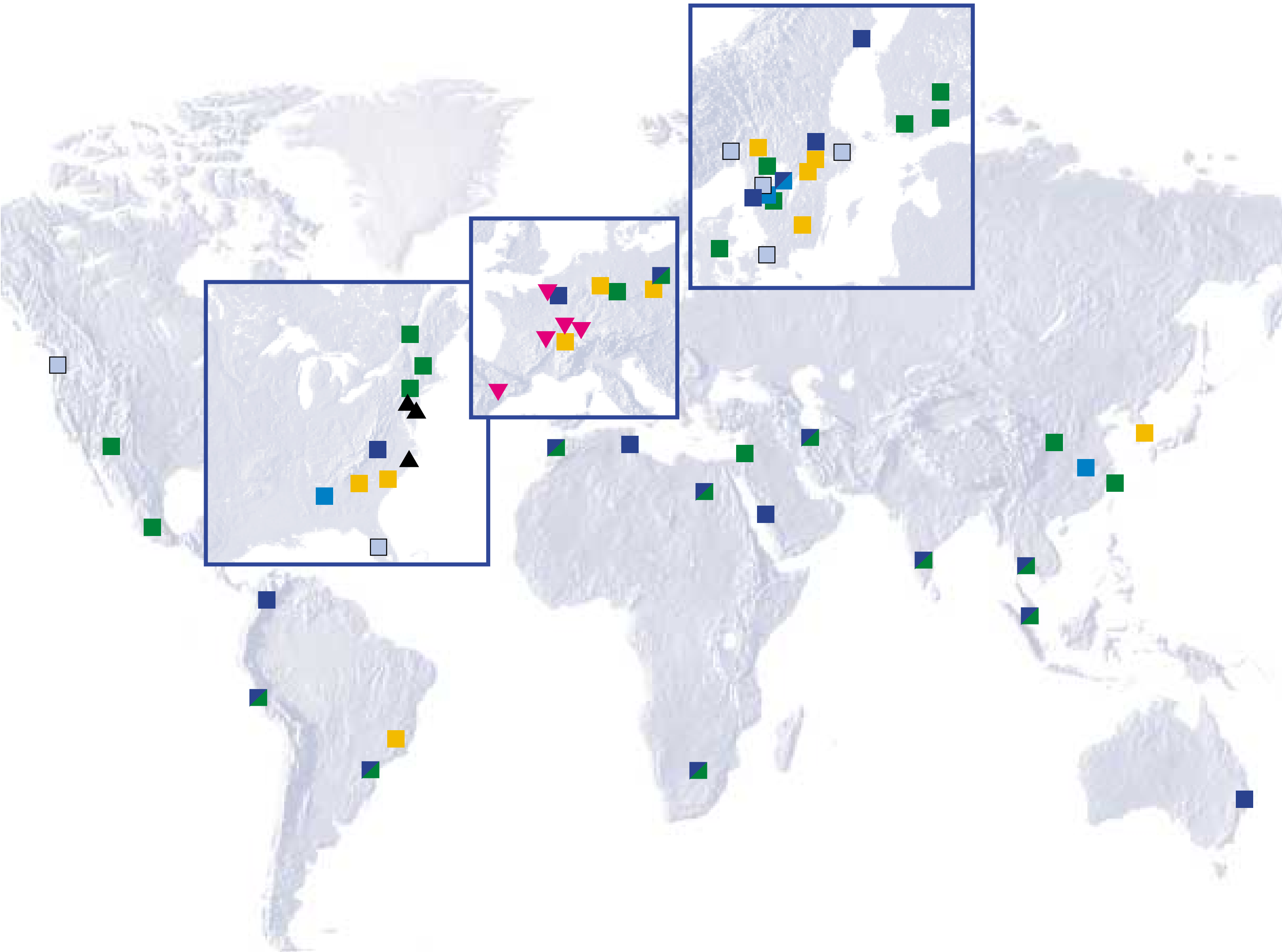
Volvo vehicles invoiced Number	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Heavy trucks	50,680	47,580	43,030	47,280	63,560	71,360	59,100	63,930	78,690	81,240	76,470
Medium-heavy trucks	5,040	6,180	5,100	3,950	4,940	5,130	4,580	5,050	4,590	3,850	5,360
Total trucks	**55,720**	**53,760**	**48,130**	**51,230**	**68,500**	**76,490**	**63,680**	**68,980**	**83,280**	**85,090**	**81,830**
Buses and bus chassis	**4,830**	**4,650**	**5,580**	**5,450**	**5,770**	**6,830**	**7,410**	**8,730**	**10,200**	**9,500**	**11,015**
Cars	**356,150**	**297,950**	**307,310**	**302,110**	**351,000**	**374,640**	**368,250**	**386,440**	**399,680**	**–**	**–**

		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Trucks	Total Europe	28,700	27,000	22,200	17,100	27,000	34,160	34,970	34,470	42,350	42,530	46,140
	Western Europe	27,980	25,800	21,250	16,240	25,450	32,330	32,310	31,040	37,810	39,630	42,050
	Eastern Europe	720	1,200	950	860	1,550	1,830	2,660	3,430	4,540	2,900	4,090
	North America	16,460	13,380	16,720	21,860	26,460	27,090	16,850	20,900	29,310	34,300	23,610
	South America	3,980	3,480	3,590	5,900	8,320	7,800	4,980	6,970	6,020	3,900	4,530
	Asia	4,610	8,100	4,120	4,840	4,830	5,270	4,850	4,710	3,760	2,720	5,560
	Other markets	1,970	1,800	1,500	1,530	1,890	2,170	2,030	1,930	1,840	1,640	1,990
	Total	**55,720**	**53,760**	**48,130**	**51,230**	**68,500**	**76,490**	**63,680**	**68,980**	**83,280**	**85,090**	**81,830**
Buses	Total Europe	2,970	2,430	2,360	2,610	3,040	3,570	3,840	4,190	3,860	3,630	3,994
	Western Europe	2,940	2,410	2,320	2,520	2,900	3,510	3,770	4,030	3,580	3,430	3,870
	Eastern Europe	30	20	40	90	140	60	70	160	280	200	124
	North America	30	–	10	30	10	340	750	1,110	2,730	3,640	3,869
	South America	1,070	1,340	1,780	1,320	1,630	1,510	1,460	1,350	1,510	710	980
	Asia	270	640	1,270	1,050	780	920	1,060	1,410	1,650	1,000	1,659
	Other markets	490	240	160	440	310	490	300	670	450	520	513
	Total	**4,830**	**4,650**	**5,580**	**5,450**	**5,770**	**6,830**	**7,410**	**8,730**	**10,200**	**9,500**	**11,015**

Effective in 1997, The Volvo Group's accounting per market area reflects geographical definitions based on an ISO standard. The accounting for the years 1991–1996 has been adjusted to conform with the new principle.

Environmental performance of Volvo production plants Absolute values related to net sales	1997	1998	1999	2000
Energy consumption (GWh;MWh/SEK M)	3,019; 16.6	3,045; 14.7	1,815; 14.5	1,656; 12.7
Water consumption (´000 m^3;m^3/SEK M)	11,692; 64.1	10,172; 49.0	6,730; 53.8	6,138; 47.2
NOx emissions (tons;kilos/SEK M)	644; 3.5	611; 2.9	478; 3.8	464; 3.6
Solvent emissions (tons;kilos/SEK M)	2,618; 14.4	1,823; 8.8	1,333; 10.7	1,422; 10.9
Sulphur dioxide emissions (tons)	98	63	77	90
Hazardous waste (tons)	17,877	18,593	15,596	17,170
Net sales, SEK M	182,293 [3]	207,539 [2]	125,019	130,070

1 Values are based on performance at plants excluding Cars. Comparison with prior years not possible due to differences in production structure, see Volvo's Environmental Report 2000.
2 Excluding MASA, VCE Korea, Nova BUS och Carrus Group, which were acquired during the year.
3 Excluding Champion Road Machinery.



North America

Volvo Trucks
New River Valley

Volvo Buses
St Claire
St Eustache
Schenectady
Roswell
Mexico City

Volvo Construction Equipment
Goderich
Asheville

Volvo Penta
Lexington

Volvo Aero
Boca-Raton
Seattle

South America

Volvo Trucks
Bogotá*
Lima
Curitiba

Volvo Buses
Lima
Curitiba

Volvo Construction Equipment
Pederneiras

Europe

Volvo Trucks
Umeå
Köping
Skövde
Göteborg
Ghent
Wroclaw

Volvo Buses
Säffle
Borås
Tampere
Turku
Vantaa
Aabenraa
Heilbronn
Wroclaw

Volvo Construction Equipment
Arvika
Eskilstuna
Hallsberg
Braås
Konz-Könen
Belley
Wroclaw

Volvo Penta
Vara
Skövde

Volvo Aero
Trollhättan
Bromma
Malmö
Kongsberg

Africa

Volvo Trucks
Casablanca*
Tunis*
Gaborone
Cairo

Volvo Buses
Casablanca*
Gaborone
Cairo*

Australia

Volvo Trucks
Brisbane

Asia

Volvo Trucks
Teheran*
Bangalore
Kuala Lumpur*
Bangkok*
Jedda*

Volvo Buses
Save*
Ceasarea*
Xian*
Shanghai*
Bangalore
Bangkok
Kuala Lumpur

Volvo Construction Equipment
Changwon

Volvo Penta
Wuxi

▼ Renault

Vénissieux
St Priest
Blainville
Bourg en Bresse
Villaverde

▲ Mack

Hagerstown
Winnsboro
Macungie

* Ownership ≤ 50%

Definitions

Capital expenditures
Capital expenditures include investments in property, plant and equipment, as well as in intangible assets. Investments pertaining to assets under operating leases are not included.

Investments in fixed assets included in the Group's cash flow statement include only capital expenditures that have reduced the Group's liquid funds during the year.

Equity ratio
Shareholders' equity divided by total assets.

Income per share
Net income divided by the weighted average number of shares outstanding during the period.

Interest coverage
Income divided by interest expense and similar charges. Income includes operating income, income from investments in associated companies, income from other investments and interest income and similar credits.

Net financial assets (net debt)
Cash and bank accounts, marketable securities and interest-bearing short- and long-term receivables reduced by short- and long-term interest-bearing loans and provisions for post-employment benefits. Net debt in Financial Services is not included since the interest expense on these liabilities is charged against operating income and does not affect consolidated interest net.

Operating cash flow, excluding Financial Services
Cash flow from operating activities with deductions for net investments in fixed assets and leasing assets.

Operating margin
Operating income divided by net sales.

Return on operating capital
Operating income divided by average operating capital. Operating capital consists of operating assets (tangible and intangible assets, receivables and inventories) reduced by non interest-bearing current liabilities. This ratio is used only for Volvo's business areas, not for the Group as a whole.

Return on shareholders' equity
Net income divided by average shareholders' equity.

Self-financing ratio
Cash flow from operating activities (see Cash flow statement) divided by net investments in fixed assets and leasing assets.

Share of shareholders' equity and minority interests
Shareholders' equity and minority interests divided by total assets.

Readers' guide

For your convenience, please find below a guide referring to different subjects in the annual report.

Annual General Meeting, April 25

The Annual General Meeting of AB Volvo will be held in Göteborg in Lisebergshallen (entrance from Örgrytevägen) on Wednesday, April 25, 2001 at 2:00 p.m.

Notice

Shareholders who wish to participate must:

be recorded in the share register maintained by VPC AB (Swedish Central Securities Depository) not later than April 12, 2001

give notice of intention to attend not later than 12:00 noon, Thursday, April 19, 2001

- by telephone, +46 31 66 00 00 beginning March 26
- by mail addressed to AB Volvo (publ), Legal Department, SE-405 08 Göteborg, Sweden
- by e-mail agm@volvo.com

When giving notice, shareholders should state their:
- name
- personal number (registration number)
- address and telephone number

Shareholders whose shares are held in the trust department of a bank or by a brokerage firm should request that the shares be temporarily reregistered in the shareholder's name several banking days prior to April 12, 2001.

April 30 has been proposed as the record date for payment of dividends, which are expected to be distributed on May 4.

Volvo's Nominating Committee

The following persons were named members of Volvo's Nominating Committee at the 2000 Annual General Meeting:

Thomas Halvorsen	The National Pension Insurance Fund, Fourth Fund Managing board
Bo Eklöf	Försäkringsbolaget SPP
William af Sandeberg	SEB Investment Management
Lars Ramqvist	Chairman of the Board of AB Volvo
Bengt Hane	Representative for shareholders with smaller holdings

The Nominating Committee is responsible for submitting to the Annual General Meeting the names of candidates to serve as members of the Board of Directors and as auditors and deputy auditors. The Committee also proposes the amount of the fees to be paid to the holders of these positions.

Publication dates

Volvo Annual Report 2000	March 26, 2001
Volvos Environmental Report 2000	March 26, 2001
Form 20-F U.S. GAAP 2000	April, 2001
Three months ended March 31, 2001	May 2, 2001
Six months ended June 30, 2001	July 24, 2001
Nine months ended September 30, 2001	October 24, 2001
Report on 2001 operations	February, 2002
Annual Report 2001	March, 2002

The reports shown in boldface type are available on www.volvo.com on date of publication and are also sent directly to all shareholders who have advised Volvo that they wish to receive Group financial information.

The above information can also be ordered from Celero Support AB, DDC, Dept 63356 ARUN, SE-405 08 Göteborg, Sweden. Telephone: +46 31-66 10 47.
Telefax: +46 31-66 20 20. E-mail: volvoinf@volvo.com

Historical and current time series reflecting the Volvo Group's financial development, market information and share data are published regularly on www.volvo.com

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