AB Volvo

Press Information

Volvo - six months ended June, 2000

First six months	2000	1999
Net sales, SEK M	63 996	60 977
Operating income, excluding items affecting comparability, SEK M	3 811	3 403
Items affecting comparability, SEK M*	-	26 695
Operating income, SEK M	3 811	30 098
Income after financial items, SEK M	4 318	30 537
Net income, SEK M	3 153	29 497
Income per share excluding items affecting comparability and gains on sales of shares during most recent 12-months period, SEK	13,30	12,50
Return on shareholders' equity, excluding items affecting comparability and gains on sales of shares, %	6,1	8,2

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

- **Final agreement pertaining to the acquisition of Renault's truck business, Renault VI/Mack, is signed.**

- **The first part of Volvo's repurchase of Company shares is implemented; SEK 11.6 billion distributed to Volvo's shareholders in July.**

- **The Volvo Group's net sales increased by 5%, to SEK 63,996 M, in the first half of 2000. A much weaker market for trucks in North America affected Volvo Trucks negatively. The trend of business in Asia and South America was favorable.**

- **Operating income in the first six months amounted to SEK 3,811 M, compared with SEK 3,403 M in the year-earlier period (excluding the sale of Volvo Cars). Income included surplus funds of SEK 683 M from SPP and a capital gain of SEK 610 M on sales of securities. Operating income of Volvo Trucks declined sharply in the second quarter, to SEK 31 M (859). Action program initiated.**

- **Aggressive product-renewal program in a number of Volvo's business areas during the first half of the year.**

Comments by the Chief Executive Officer

A final agreement with Renault covering our acquisition of Renault VI/Mack has now been reached. Assuming that the fair trade authorities involved approve the acquisition, the frameworks for the Group's future truck and bus operations are now largely in place. We are forming Europe's largest – and North America's second-largest – manufacturer of heavy trucks and will thereby be able to develop a more competitive line of products for our customers.

It is significant that we and RVI/Mack are forming the world's third-largest producer of diesel engines in the >9-liter class. This will make us more competitive in engine development, which is strategically important in view of the rapidly stiffening requirements pertaining to emissions.

The synergies with RVI/Mack will be considerable. After only two years we expect to achieve cost savings of approximately SEK 3.5 billion, half of this amount in procurement. Over a longer term, when the joint development program has a greater impact, we foresee additional savings of SEK 3 billion on an annual basis.

In addition to the fact that we are creating this effective combination of companies in Europe and North America, we are gaining access, through newly formed Mitsubishi Fuso Truck and Bus, to one of the very strongest truck and bus brand names in Asia. Volvo will own close to 20% of this company. This venture is strengthening our Asian operations substantially and we will be able to begin to match our largest competitors in the medium-heavy truck segment for the first time.

Asia is also where we are now seeing the most rapid economic growth. Group sales there increased by 49% in the first half of the year. Volvo Trucks' sales more than doubled. Volvo Construction Equipment's Asian-based production of excavators is also continuing to develop favorably. It is clear, however, that this increase in volume cannot compensate for the downturn in North America, where our customers are now feeling the effects of the increases in oil prices and interest rates during the past year.

Volvo Truck's earnings were strongly affected by the fact that we chose to adapt quickly to the new situation in North America involving sharply reduced demand, excess production and the risk of a price war. Demand continued to decline in the second quarter and we have now reduced the size of the organization by 1,000 persons and are producing at a rate in line with what we are selling. The cutbacks in North America have cost a great deal of money over the short term but we are convinced that this is the proper strategy for the coming year. It is gratifying to note that, based on our order bookings, we seem to be well able to maintain our market shares. We also have a much smaller number of cancellations than the industry as a whole. The prices of Volvo second-hand trucks have also held up well, compared with those of competitors.

In North America we are also in the midst of a product change in our vocational trucks segment. The new models are beginning to be produced in the third quarter, and full-scale production will be under way in the fourth quarter. This offers us substantial opportunities to improve our competitive position in the vocational trucks segment in the same way as when we introduced the VN truck for long-distance transports a few years ago.

The picture in Europe is more complex. Here, too, customers are feeling the effects of increases in interest rates and oil prices, and truck prices are depressed despite continuing very strong demand. Large fleet customers, in particular, have exerted pressure on prices.

Tryggve Sthen has been the new president of Volvo Trucks since June 1. He has managed Volvo CE very successfully during a period that was characterized by a combination of high growth and high profitability. In addition, the business area very successfully integrated Volvo's largest company acquisition up to now, the excavator division in Korea.Tryggve Sthen has now initiated measures to restore Volvo Trucks to profitability that are expected to yield results in the fourth quarter.

Volvo CE has succeeded very well in maintaining its profitability despite the weakening of the economy in North America. The business area recorded its best second quarter up to now in terms of sales, with very fine profitability. Sales of excavators and compact machines increased. The new wheel-loaders and motor graders – together with an ongoing cost-reduction program – contributed to the high margin.

Volvo Penta has developed well and is continuing to capture shares in the market for industrial and marine engines. The business area, which introduced a number of new products in the second quarter, reported its best quarter to date.

Volvo Buses is developing favorably and during the second quarter reported an operating margin that is beginning to approach our target. Its market share in Europe increased from 15% to 19%. Business in Great Britain, in particular, is developing well; new products were introduced there and the company has recaptured lost market shares. In June, Volvo Buses signed a joint-venture agreement with one of China's largest manufacturers of buses, SAIC, in Shanghai. The agreement pertains to the production of urban and commuter buses.

Volvo Aero's North American operation, The AGES Group, was affected negatively by the downturn in the after-sale market in the aviation industry, which has reduced earnings in an otherwise stable business.

Finance, our new business area that was formed at the turn of the year, is developing according to plan. As of June 30, the unit had a credit portfolio amounting to more than SEK 46 billion, of which approximately 75% is related to truck sales.

Except for Volvo Trucks' profits in the first half of the year, Group business is developing well. The program to restore Volvo Trucks to profitability has the highest priority. This work is being made easier by the fact that we can now discern the new structure for our truck operations. Assuming that the fair trade authorities involved give positive answers during the current year, we expect to be able to begin the integration of RVI/Mack in earnest during the first quarter of 2001

With major efforts in Asia, Europe and North America, Volvo is very well prepared to meet the global competition. As a consequence of this, the Group has also acquired greater maturity as a global enterprise. We look forward to working with all new employees in a truly effective and exciting group.

Leif Johansson

Important events and structural transactions

Volvo and Renault conclude agreement

In April of this year AB Volvo and Renault announced an agreement in principle whereby Volvo is acquiring 100 percent of the shares of Renault's truck business, Renault VI/Mack, in exchange for 15% of AB Volvo's shares. This agreement in principle has now been confirmed in a final agreement, which was signed by the parties on July 18.

As a result of the transaction, Volvo is becoming Europe's largest – and the world's second-largest – truck manufacturer, with a strong global market presence and a virtually doubled volume of business. Combined sales of Volvo and Renault VI/Mack in 1999 amounted to approximately 151,000 heavy trucks and 13,000 medium-heavy trucks. The companies combined have approximately 28 percent of the market for heavy trucks in Western Europe, and about 24 percent of the North American market. (See pages 21-22 for additional information on the acquisition of Renault VI/Mack.)

As reported earlier, Renault VI's bus operations, organized in the Irisbus company that is owned jointly with Iveco, are not included in the transaction. Nor is Renault's holding in Nissan Diesel, the Japanese company.

The agreement between Volvo and Renault is conditional on the receipt of the necessary approvals by the American fair trade authorities and the European Union's competition authority.

Volvo's Board of Directors has implemented the repurchase of 9.8 percent of the Company's shares this year and intends to increase its holding to 10 percent through purchases in the open market shortly. After Volvo has received the necessary approvals from fair trade authorities, these shares will be transferred to Renault in payment for the Renault VI/Mack shares. Volvo then intends to repurchase additional shares in order to be able to deliver the remaining 5 percent of Volvo's shares to Renault.

The acquisition of Renault VI/Mack is expected to be completed around the end of the current year.

Volvo's repurchase of Company shares

On April 26, 2000, shareholders at the Annual General Meeting of AB Volvo authorized the Board of Directors to vote to repurchase Company shares with the objective of being able to continuously adapt Volvo's capital structure to the Company's capital requirements, as well as to be able to offer shares in connection with the fulfillment of commitments related to current incentive programs within Volvo, or in connection with the financing of company acquisitions.

On May 18, 2000 the Board of Directors of AB Volvo approved the acquisition of a maximum of 10 percent – or 44,152,088 – of Volvo's shares by inviting the Company's shareholders to tender their shares to Volvo for SEK 264 in cash for each Series A share and SEK 271 in cash for each Series B share, equal to a premium of approximately 30 percent.

The application period for accepting the repurchase offer extended from June 5 through June 30, 2000. In all, 43,285,237 shares, of which 13,628,789 were Series A shares and 29,656,448 were Series B shares, were tendered. Thus the offer was accepted by shareholders representing 98.0% of the share capital and 98.3% of the voting rights, and consisted of 9.8% of the total number of Volvo shares.

Because the offer was not accepted by 100% of the shareholders, the Board of Directors of AB Volvo today voted to acquire, on one or more occasions, a maximum of 866,851 of the Company's shares, including a maximum of 231,705 Series A shares and a maximum of 635,146 Series B shares, on the OM Stockholm Exchange. The acquisitions are to be effected as soon as possible, and not later than the next Annual General Meeting. The shares are to be acquired at a price per share within the range of prices recorded on each date. Volvo today owns 13,628,789 of the Company's Series A shares and 29,636,448 of the Series B shares.

Following the repurchase of 10% of its outstanding shares, the number of Volvo shares outstanding will be 397,368,797, of which 124,744,450 will be Series A shares and 272,624,346 will be Series B shares. After the transfer of the repurchased shares to Renault, the number of outstanding Volvo shares will be unchanged, compared with the number prior to the repurchase program.

In all, slightly more than SEK 11.6 billion has been transferred to Volvo's shareholders. Payment for the shares repurchased was made on July 18, 2000.

New presidents of Volvo Trucks and Volvo Construction Equipment

Tryggve Sthen, formerly president of Volvo Construction Equipment, was named president of Volvo Trucks, effective June 1. He succeeds Karl-Erling Trogen, who will continue as a member of Volvo's Executive Committee with responsibility for matters involving synergies and integration, as well as corporate responsibility for certain developing markets, including China and India.

Tony Helsham, formerly president of Volvo CE Korea, has been named president of Volvo Construction Equipment and a new member of Volvo's Executive Committee, effective June 5, 2000.

Agreement on new bus company in China

At the end of the second quarter Volvo Buses and Shanghai Automotive Industry Corporation (SAIC), a Chinese vehicle manufacturer, signed an agreement covering the establishment in Shanghai of a joint-venture company to produce and sell city and intercity buses. SAIC is one of China's leading automotive companies.

SAIC's current production of approximately 2,500 buses a year constitutes the basis for the new company's operations. Volvo already has a strong position in China where long-distance buses are concerned. Back in 1994, Volvo established joint venture company Xian Silver Bus Company, together with Xian Aircraft Industry Group. Xian Silver Bus is leading within the market segments for so-called luxury tourist buses. The agreement with SAIC represents an important step for Volvo in the growing market for city buses.

The share capital of the new company amounts to USD 54 M, and the total investment amounts to USD 97 M. Ownership of the company will be shared equally by SAIC and Volvo Buses.

The Volvo Group in the first half of 2000

Net sales

Net sales of the Volvo Group in the first half of 2000 amounted to SEK 63,996 M, an increase of 5% compared with sales in the first six months of 1999.

All business areas showed increases in net sales. The increases in Buses and Marine and Industrial power systems were around 20%. Volvo Trucks' net sales in the first half-year amounted to SEK 30,910 M, which was some more than in the year-earlier period. However, the declining market in North America continued to affect Trucks' adversely and net sales in the second quarter declined by nearly 5%, compared with the second quarter of 1999. The growth for the Group as a whole declined slightly during the second quarter and net sales amounted to SEK 33,450 M (33,905).

Sales increased in all of Volvo's market areas in the first half of the year, compared with first-half 1999 sales. However, the Group's net sales in North America declined by 5%, and sales in Western Europe by 3%, in the second quarter. The decrease in the second quarter was attributable primarily to Trucks. Sales of Construction Equipment in its market areas also declined slightly in the second quarter but, despite this, were the second-highest in the company's history. The favorable trend of business in Asia continued and the Group’s sales rose by 49%, from a low level, in the first half of 2000. Volvo Trucks, in particular, experienced the economic recovery in Asia and its sales there more than doubled. The recovery in Eastern Europe and South America is also continuing and the Group’s sales in those regions increased by 27% and 13%, respectively during the first six months of the year.

The percentage of net sales attributable to Asia, Eastern Europe and South America, which continued to rise, amounted to 13% of total net sales. The comparable figure for the first six months in 1999 was 10%.

Operating income

Group operating income in the first half of the year amounted to SEK 3,811 M (1999: SEK 3,403 M, excluding the sale of Volvo Cars), of which SEK 2,386 M (2,145) was attributable to the second quarter. Operating income in the second quarter included SEK 683 pertaining to Volvo's surplus funds in SPP, a swedish insurance company. (See also page 19). It also included SEK 145 M pertaining to a favorable adjustment of income from the sale of Volvo Cars and SEK 610 M (including SEK 400 in the second quarter) in gains realized from the sale of the remaining securities portfolio in Volvia. Operating income was charged with provisions of approximately SEK 160 M for changes in Trucks' engine development program, among other items. The adjustment of the income from the sale of Volvo Cars pertain to not required costs that were reserved in connection with the sale, for restructuring measures in the Group. Operating income in the second quarter of the preceding year included a capital gain of SEK 180 M in Construction Equipment in connection with the sale of a marketing company.

All business areas except Trucks reported higher operating income in the first half of 2000, compared with the year-earlier period. This also applies when income is adjusted to reflect the surplus funds from SPP, except in the case of Aero which, however, during the second quarter reported income on the same level as in the corresponding period of 1999.

Volvo Trucks' income declined sharply, to SEK 31 M (859) in the second quarter. Operating income included surplus funds from SPP and a charge in a corresponding amount for reserves pertaining to changes in Trucks' engine development program, among other items. The factors that had a negative impact on profitability in the first quarter – a smaller volume of business in North America, severe competition in Europe, changeover costs prior to the introduction of new products, higher product-development costs, and a weak euro – remained in the second quarter.

The Group's operating margin in the first half of 2000 was 6.0%, compared with 5.6% a year earlier; the second-quarter operating margin was 7.1% (6.3). Volvo CE's operating margin of 13.6% in the second quarter was among the highest in its industry.

Income from investments in associated companies

Income from investments in associated companies – primarily Scania, Bilia and Volvofinans – amounted to SEK 405 M (107). On March 14 the European Union 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 shareholding 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 shares.

Net interest income

Net interest income for the first six months of the year amounted to SEK 113 M (0). Net interest income increased – due primarily to lower borrowing costs, notable in Brazil – despite a reduction in average net financial assets. Net interest income in the second quarter amounted to SEK 2 M, compared with SEK 111 M in the first three months of the year. The decrease was attributable primarily to the fact that, effective in the second quarter, income in Volvo Treasury is being included in operating income of the Finance business unit, instead of in the Group's net financial income/-expense, as in the past. (See also page 20)

Taxes

Tax expense in the first half of 2000 amounted to SEK 1,150 M (985). The average tax rate was 27%, equal to the level during the first six months of 1999, adjusted for the gain on the sale of Volvo Cars. Tax expense consists of both current and deferred taxes.

Net sales by market area	**Second quarter**		**First six months**		**Change**
SEK M	**2000**	**1999**	**2000**	**1999**	**in %**
Western Europe	17 123	17 702	33 729	33 247	+1
Eastern Europe	908	770	1 722	1 352	+27
North America	11 141	11 906	20 814	20 182	+3
South America	1 297	1 079	2 352	2 073	+13
Asia	2 224	1 537	3 972	2 669	+49
Other countries	757	911	1 407	1 454	-3
Total	**33 450**	**33 905**	**63 996**	**60 977**	**+5**

Consolidated income statements **SEK M**	**Second quarter** **2000**	 **1999**	**First six months** **2000**	 **1999**
Net sales	**33 450**	**33 905**	**63 996**	**60 977**
Cost of sales	(26 844)	(26 951)	(51 405)	(48 279)
Gross income	**6 606**	**6 954**	**12 591**	**12 698**
Research and development expenses	(1 281)	(1 194)	(2 463)	(2 279)
Selling expenses	(2 454)	(2 234)	(4 751)	(4 356)
Administrative expenses	(1 173)	(1 308)	(2 402)	(2 515)
Other operating income and expenses	688	(73)	836	(145)
Items affecting comparability*	-	-	-	26 695
Operating income	**2 386**	**2 145**	**3 811**	**30 098**
Income from investments in associated companies	40	88	405	107
Income from other investments	81	189	91	190
Interest income and similar credits	443	400	943	1 008
Interest expenses and similar charges	(441)	(299)	(830)	(1 008)
Other financial income and expenses	(79)	15	(102)	142
Income after financial items	**2 430**	**2 538**	**4 318**	**30 537**
Taxes	(521)	(550)	(1 150)	(985)
Minority interests in net (income) loss	(23)	(48)	(15)	(55)
Net income	**1 886**	**1 940**	**3 153**	**29 497**

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

Condensed income statement - Finance **SEK M**	**Second quarter** **2000**	 **1999**	**First six months** **2000**	 **1999**
Net sales	**2 546**	**2 035**	**4 752**	**4 133**
Operating income	**698**	**191**	**1 096**	**358**
Income from associated companies	12	8	31	31
Income (loss) after financial items	**710**	**199**	**1 127**	**389**
Taxes	(190)	(57)	(323)	(113)
Net income	**520**	**142**	**804**	**276**

Consolidated gross and operating margin **%**	**Second quarter** **2000**	 **1999**	**First six months** **2000**	 **1999**
Gross margin	19.7	20.5	19.7	20.8
Research and development expenses in % of net sales	3.8	3.5	3.8	3.7
Selling expenses in % of net sales	7.3	6.6	7.4	7.1
Administrative expenses in % of net sales	3.5	3.9	3.8	4.1
Operating margin, excluding items affecting comparability	7.1	6.3	6.0	5.6
Operating margin	7.1	6.3	6.0	49.4

Consolidated balance sheets

SEK M	Volvo Group excl Finance 1) 000630	Volvo Group excl Finance 1) 991231	Finance 000630	Finance 991231	Volvo Group total 000630	Volvo Group total 991231
Assets						
Intangible assets	6 663	6 518	126	100	6 789	6 618
Property, plant and equipment	18 172	17 318	2 523	2 470	20 695	19 788
Assets under operating leases	3 891	1 611	10 713	10 726	14 604	12 337
Shares and participations	36 958	35 296	791	744	30 221	29 213
Long-term sales finance receivables	0	0	18 845	17 817	18 845	17 817
Long-term interest-bearing receivables	6 037	17 605	0	0	6 037	17 605
Other long-term receivables	2 150	2 337	154	147	2 304	2 484
Inventories	23 015	21 053	578	385	23 593	21 438
Short-term sales finance receivables	6	9	16 649	16 487	16 655	16 496
Short-term interest bearing receivables	13 859	1 012	-	-	13 859	1 012
Other short-term receivables	21 821	18 738	3 264	2 797	25 085	21 535
Marketable securities	21 333	17 990	3 473	2 966	24 806	20 956
Cash and bank	5 691	6 475	1 824	1 838	7 515	8 313
Total assets	**159 596**	**145 962**	**58 940**	**56 477**	**211 008**	**195 612**
Shareholders' equity and liabilities						
Shareholders' equity	97 866	97 692	7 528	6 827	97 866	97 692
Minority interests	565	544	0	0	565	544
Provision for post-employment benefits	2 245	2 118	15	12	2 260	2 130
Other provisions	9 608	9 861	5 621	4 971	15 229	14 832
Loans	21 448	12 206	42 327	41 139	63 775	53 345
Other liabilities	27 864	23 541	3 449	3 528	31 313	27 069
Shareholders' equity and liabilities	**159 596**	**145 962**	**58 940**	**56 477**	**211 008**	**195 612**

1) *The new business unit, Finance, is reported in accordance with the equity method. Internal receivables and liabilities related to the finance operations are excluded.*

Total assets of the Volvo Group as of June 30, 2000, amounted to SEK 211.0 billion, an increase of SEK 15.4 billion since December 31, 1999. Of the total increase, SEK 2.3 billion, excluding the effects of foreign exchange movements, was attributable to the Finance business area. The remaining portion of the increase was largely attributable to investments in fixed assets and shares, to larger amounts tied up in inventories and receivables and to an increase in liquid funds resulting from higher borrowing in the first quarter. The Group's total assets were SEK 2.9 billion smaller than at March 31, 2000. The decrease in liquid funds was offset in part by higher total assets in Finance, by the effects of foreign exchange movements and by larger amounts tied up in receivables.

Shareholders' equity increased by SEK 0.2 billion in the first half of 2000, including a decrease of SEK 1.2 billion since March 31. Net income in the first six months increased shareholders' equity by SEK 3.2 billion, while the dividend paid in the second quarter reduced it by SEK 3.1 billion.

Net financial assets as of June 30, 2000 amounted to SEK 23.2 billion. The change since year-end 1999 is specified in the accompanying table.

Change of Net financial assets*	**Second quarter**		**First six months**	
Beginning of period		**25,9**		**28,8**
Cash flow from operating activities	0,7		0,5	
Capital expenditures, net	(1,0)		(2,2)	
Operating cash flow, excluding Finance		**(0,3)**		**(1,7)**
Acquisition of shares in Scania		-		(1,3)
Dividend paid		(3,1)		(3,1)
Other		0,7		0,5
Total change		**(2,7)**		**(5,6)**
Net financial assets at 000630		**23,2**		**23,2**

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

Key ratios **12 month figures unless otherwise stated**	**July 99 – June 00**	**Jan – Dec 1999**
Income per share, SEK	13,30	73,00
Income per share, excluding items affecting comparability and gain on sales of shares, SEK	13,30	12,40
Return on shareholders' equity, %	6,1	34,9
Return on shareholders' equity excluding items affecting comparability and gain on sales of shares, %	6,1	8,0
Net financial assets at end of period, SEK billion	23,2	28,8
Net financial assets at end of period as percentage of shareholders' equity and minority interests	23,6	29,3
Shareholder' equity and minority interests as percentage of total assets, %	46,6	50,2
Shareholders' equity and minority interests excluding Finance, as percentage of total assets	61,7	67,3

Cash flow statements	**Volvo Group excl**				**Volvo Group**	
First six months		**Finance**		**Finance**		**total**
SEK billions	2000	1999	2000	1999	2000	1999
Operating income 1)	2,7	3,0	1,1	0,4	3,8	3,4
Depreciation and amortization	1,8	1,6	1,3	1,0	3,1	2,6
Other non-cash items	(0,7)	0,1	0,1	0,2	(0,6)	0,3
Change in working capital	(2,9)	(0,7)	(0,2)	0,2	(3,1)	(0,5)
Financial items and income taxes	(0,4)	(0,8)	(0,1)	0,2	(0,5)	(0,6)
Cash flow from operating activities	**0,5**	**3,2**	**2,2**	**2,0**	**2,7**	**5,2**
Investing activities						
Investments in fixed assets	(2,3)	(2,3)	(0,2)	(0,1)	(2,5)	(2,4)
Investments in leasing vehicles	0,0	(0,2)	(2,1)	(2,3)	(2,1)	(2,5)
Disposals of fixed assets and leasing vehicles	0,1	0,5	0,8	0,3	0,9	0,8
Sales finance receivables, net	0,0	0,0	(1,1)	(3,1)	(1,1)	(3,1)
Operating cash-flow	**(1,7)**	**1,2**				
Investments in shares, net	(1,4)	(9,4)	-	-	(1,4)	(9,4)
Loans to external parties, net	(0,4)	(0,6)	-	-	(0,4)	(0,6)
Acquired and divested operations, net	0,1	31,3	-	-	0,1	31,3
Cash flow after net investments	**(3,4)**	**22,5**	**(0,4)**	**(3,2)**	**(3,8)**	**19,3**
Financing activities						
Increase in bond loans and other loans					9,9	2,0
Dividends paid to AB Volvo's shareholders					(3,1)	(2,6)
					3,0	**18,7**
Translation difference on liquid funds					0,1	(0,2)
Increase/decrease in liquid funds					**3,1**	**18,5**

1) 1999 excluding gain on sale of Volvo Cars

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

The Volvo Group's cash flow

Excluding the Finance unit, the Volvo Group's operating cash flow was negative in the amount of SEK 1.7 billion in the first six months of the year, including a negative cash flow of SEK 0.3 billion in the second quarter. The negative figures are attributable primarily to larger amounts of working capital tied up in all business areas except Marine and Industrial power systems. The Group's total cash flow after net investments was negative in the amount of SEK 3.8 billion. Apart from the operating cash flow, the investment totaling SEK 1.3 billion in Scania shares in the first quarter of the year was the largest single item.

Financial review by business area

Net sales	**Second quarter**		**First six months**		**Change**	**12 months**	**Jan-Dec**
SEK M	**2000**	**1999**	**2000**	**1999**	**in %**	**rolling**	**1999**
Trucks	15 781	16 532	30 910	30 747	+1	63 173	63 010
Buses	4 556	4 275	8 394	6 963	+21	16 144	14 713
Construction Equipment	5 438	5 947	10 087	9 987	+1	18 982	18 882
Marine and Industrial power systems	1 725	1 540	3 310	2 770	+19	6 301	5 761
Aero	2 731	2 532	5 017	4 699	+7	10 271	9 953
Finance	2 546	2 035	4 752	4 133	+15	9 256	8 637
Other	3 158	2 966	6 245	5 623	+11	12 556	11 934
Eliminations	(2 485)	(1 922)	(4 719)	(3 945)	-	(8 645)	(7 871)
Volvo Group	**33 450**	**33 905**	**63 996**	**60 977**	**+5**	**128 038**	**125 019**

Operating income	**Second quarter**		**First six months**		**12 months**	**Jan-Dec**
SEK M	**2000**	**1999**	**2000**	**1999**	**rolling**	**1999**
Trucks	31	859	676	1 689	2 234	3 247
Buses	180	119	213	55	382	224
Construction Equipment	740	785	1 051	967	1 793	1 709
Marine and Industrial power systems	197	128	300	173	441	314
Aero	278	175	388	314	658	584
Finance	698	191	1 096	358	1 715	977
Other	262	(112)	87	(153)	(89)	(329)
Operating income*	**2 386**	**2 145**	**3 811**	**3 403**	**7 134**	**6 726**
Items affecting comparability	-	-	-	26 695	-	26 695
Operating income	**2 386**	**2 145**	**3 811**	**30 098**	**7 134**	**33 421**

**) Excluding items affecting comparability 1999, pertaining to gain on sale of Volvo Cars.*

Operating margin	**Second quarter**		**First six months**	
%	**2000**	**1999**	**2000**	**1999**
Trucks	0,2	5,2	2,2	5,5
Buses	4,0	2,8	2,5	0,8
Construction Equipment	13,6	13,2	10,4	9,7
Marine and Industrial power systems	11,4	8,3	9,1	6,2
Aero	10,2	6,9	7,7	6,7
Finance	27,4	9,4	23,1	8,7
Operating margin*	**7,1**	**6,3**	**6,0**	**5,6**
Operating margin	**7,1**	**6,3**	**6,0**	**49,4**

**) Excluding items affecting comparability 1999, pertaining to gain on sale of Volvo Cars.*

Trucks

Net sales by market area SEK M	Second quarter 2000	Second quarter 1999	First six months 2000	First six months 1999	Change in %
Europe	8 889	9 323	17 913	18 005	(1)
North America	4 763	5 713	9 228	10 244	(10)
South America	712	588	1 300	1 048	+24
Asia	977	443	1 672	724	+131
Other countries	440	465	797	726	+10
Total	**15 781**	**16 532**	**30 910**	**30 747**	**+1**

The total market for heavy trucks in North America continued to decline sharply during the second quarter while the markets in both Western and Eastern Europe continued to be stronger. In North America, the combination of the declining market and excessively large inventories of new trucks in the hands of other producers, further intensified the competitive situation and nearly all truck manufacturers have announced reductions in rates of production in North America. The markets in Asia are continuing to develop well, with those in Japan, Thailand and Malaysia, among others, showing solid improvement. Demand in Brazil has increased slightly, but from a low level.

Volvo delivered 41,750 (41,753) medium-heavy and heavy trucks during the first half of 2000, of which 21,524 (21,954) were delivered in the second quarter. Because production capacity in Europe was fully utilized, cabs were shipped from Volvo's plant in Curitiba, Brazil. Deliveries of trucks in Europe rose to 22,875 (22,174) units during the first six months of the year. Volvo delivered 11,426 trucks in the second quarter, approximately the same number as in the year-earlier period.

The number of trucks delivered in North America in the first six months of 2000 declined by 17%, to 13,118 (15,845). The number delivered in the second quarter was 6,694 (8,399). The number of trucks delivered in South America in the first half of the year increased to 2,046 (1,797), including 1,141 (908) in the second quarter, a gain of 26%. Deliveries to customers in Asia rose sharply, to 2,911 (1,121) trucks.

Volvo Trucks' total order bookings during the second quarter increased by 3%, to 19,242 (18,699). The number of orders booked in Western Europe in the second quarter of 2000 increased by 4%, and the number booked in Eastern Europe was 14% higher, compared with the 1999 period. Bookings in North America continued to be low during the second quarter.

As of June 30, 2000, the total backlog of orders amounted to 29,797 trucks, a decline of 18% compared with the figure on the same date in 1999. The decrease was due largely to the market situation in North America.

Volvo's share of the market for heavy trucks in Western Europe in the first five months of 2000 declined to 15.0% (15.4). The decrease was attributable in part to the production plants in Europe which – due to full utilization of capacity – were unable to increase their shipments to keep pace with the increase in the total market. As of June 30, Volvo's share of the market for Class 8 trucks in the United States was 9.9% (10.7). Through June, Volvo's share of the market in Brazil for trucks with a total weight of 15 tons or more amounted to 25.6% (26.6), representing a substantial recovery attributable to the strong acceptance of the Volvo NH truck that was introduced in 1999.

Volvo Trucks' net sales in the first half of 2000 amounted to SEK 30,910 M (30,747). of which SEK 15,781 M (16,532) was booked in the second quarter.

Operating income – which included SEK 31 M (859) in the second quarter – declined to SEK 676 M (1,689). The decrease was due in part to a smaller volume of business and depressed prices in North America. Operations in Europe were characterized by severe price competition despite growth in the total market. Unfavorable sales mix combined with a weak euro also had a negative impact on operating income. In addition, product-development costs were temporarily higher than usual, due to the development and introduction of a new medium-heavy truck (Volvo FL) in Europe and the development of a new vocational truck for North America that will be introduced in the autumn. Operating income in the second quarter included surplus funds of SEK 192 M from SPP. Income was charged with provisions of approximately SEK 160 M for changes in Trucks' engine development program, among other items.

Trucks' operating margin declined to 2.2% (5.5) in the first half of the year. The comparable figure for the second quarter was 0.2% (5.1).

An aggressive action program has been initiated to restore Volvo Trucks' long-term earning capacity. It consists largely of the following measures:

- A basic review of overhead costs in all divisions, which is expected to yield results in the autumn. This program also includes rationalization of administration and distribution functions and the renegotiation of contracts for purchased materials. Comprehensive measures (including reducing the number of employees by approximately 1,000) have already been taken in the U.S. to adapt production capacity and the cost base to current market conditions.
- Optimizing pricing by giving priority to profitable markets and product segments.
- A sharper focus on after-market business, with the objective of increasing sales.
- Product-development costs were also higher than normal during the spring. These costs are being reviewed and are expected to return to a normal level in the autumn.

The effects of the activities to increase profitability will begin to be felt during the latter part of the year.

Volvo expects the markets in Western and Eastern Europe, as well as in Asia, to continue to be strong during the remainder of the year, while a continuing downturn may be expected in North America. On the whole, the markets are expected to balance each other, with good volumes for the full year 2000.

A new medium-heavy truck, the Volvo FL, was introduced and very well received during the second quarter. It was developed for use in city distribution programs, service transports and light construction projects. The new Volvo FL shares substantial technology with the heavier Volvo trucks, including the same type of brake discs, electronic systems, instrumentation and an airbag at the operator's seat. The new engine program with electronically controlled fuel injection offers improved environmental characteristics and meets the new Euro 3 requirements.

Buses

Net sales by market area	**Second quarter**		**First six months**		**Change**
SEK M	**2000**	**1999**	**2000**	**1999**	**in %**
Europe	1 704	1 735	3 358	2 918	+15
North America	2 229	2 033	3 929	3 110	+26
South America	218	86	345	200	+73
Asia	261	268	528	524	+1
Other countries	144	153	234	211	+11
Total	**4 556**	**4 275**	**8 394**	**6 963**	**+21**

The total market for heavy buses increased slightly in the first half of the year, relative to the market in the first six months of 1999. The main increases were recorded in South America, Asia and Europe. Volvo delivered 5,404 (4,328) buses and bus chassis in the first half of 2000, 25% more than in the 1999 period. In all, 2,778 (2,506) buses and bus chassis were delivered in the second quarter. The percentage of deliveries of complete buses produced by Volvo was 47% (51) in the first half of the year.

In Europe, Volvo's share of a growing market increased to 19%, compared with 15% a year earlier. There was a notably favorable trend of business in Great Britain, where Volvo recaptured market shares with the help of new products, including double-decker buses.

As of June 30, 2000, the order backlog, calculated in units, was 2% higher than a year earlier. A favorable trend of business was noted in South America and Asia in particular.

Net sales increased to SEK 8,394 M (6,963), as a result of strong sales in both Europe and Mexico. Net sales in the second quarter amounted to SEK 4,556 M (4,275). Operating income in the first six months rose to SEK 213 M (55), due to increased sales, lower costs of purchased materials and generally unchanged overhead costs despite the higher sales. High utilization of capacity in Volvo Buses’ European industrial system also contributed to the improvement in earnings. Operating income included surplus funds of SEK 22 M from SPP in the second quarter. SEK 180 M (119) of the operating income was booked in the second quarter. Buses’ operating margin in the first half of the year was 2.5% (0.8). The comparable figure for the second quarter was 4.0% (2.8).

Two new plants for the production of complete buses were inaugurated during the first half of the year. The plant in Tultitlan, Mexico was opened in March and the factory in Wroclaw, Poland was inaugurated in May.

Construction Equipment

Net sales by market area SEK M	Second quarter 2000	1999	First six months 2000	1999	Change in %
Europe	2 783	3 017	5 252	5 243	+0
North America	1 643	1 998	2 988	3 179	(6)
South America	183	171	358	271	+32
Asia	624	561	1 123	939	+20
Other countries	205	200	366	355	+3
Total	**5 438**	**5 947**	**10 087**	**9 987**	**+1**

The total market for heavy construction equipment increased by about 6% in the first half of the year, compared with the same period a year earlier. The total market in Western Europe increased by approximately 15%, while the market in the NAFTA region decreased by around 10%. Volvo's other markets increased by slightly more than 10%. The total world market for compact equipment increased by approximately 10%, with increases of about 20% in both North America and Europe. The total market for construction equipment increased by about 5% in the second quarter.

Volvo CE's net sales rose to a record level of SEK 10,087 M (9,987) in the first six months of the year, with second-quarter sales amounting to SEK 5,438 M (5,947), the second-best quarter in the company's history.

Operating income amounted to SEK 1,051 M (967), of which SEK 740 M (785) was recorded in the second quarter. Operating income included surplus funds of SEK 147 M from SPP. Operating income in the second quarter of 1999 included a capital gain of SEK 180 M on the sale of Volvo CE's Spanish marketing company. The operating margin in the second quarter was 13.6% (13.1). The comparable figure for the first half of 2000 was 10.4% (9.7).

The continuing growth in sales of both excavators and compact machines contributed to the good results. Recently introduced generations of wheel loaders and motor graders also had a favorable impact on income. High utilization of capacity and an ongoing global program consisting of more than 700 different activities designed to reduce the cost of purchased materials by 5% was also a contributing factor.

The value of the order backlog as of June 30 was 12% higher than on the same date last year.

Parallel with the production in Canada, production of motor graders was begun at Volvo CE's plant in Pederneiras, Brazil, in the second quarter as part of the program of utilizing the company's global industrial structure to a greater degree.

Marine and Industrial power systems

Net sales by market area SEK M	Second quarter 2000	1999	First six months 2000	1999	Change in %
Europe	879	836	1 688	1 530	+10
North America	594	453	1 136	819	+39
South America	38	27	73	52	+40
Asia	182	177	347	291	+19
Other countries	32	47	66	78	(15)
Total	**1 725**	**1 540**	**3 310**	**2 770**	**+19**

The world market for marine engines, viewed as a whole, continued to grow during the first half of this year, notably in the sector that supplies engines to manufacturers of recreational craft in North America and Europe. All large engine manufacturers reported strong growth figures in the segment involving industrial engines used in generator systems. The total market in Europe increased, as did the markets in North America and Asia.

Volvo Penta continued to increase its share of the market in the segments for marine and industrial engines in North America and Europe. Sales of industrial engines in Asia, as well as in North America, continued to develop favorably. A number of substantial orders for industrial engines to be used in pumping stations in irrigation systems were received in Saudi Arabia.

Net sales amounted to SEK 3,310 M (2,770), of which sales totaling SEK 1,725 M (1,540) were recorded in the second quarter. Operating income, which was affected favorably mainly by the larger volume of sales, rose by 73%, to SEK 300 M (173), including SEK 197 M (128) in the second quarter. Operating income included surplus funds of SEK 41 M from SPP.

The operating margin for the first six months of 2000 was 9.1% (6.2), and the margin in the second quarter was 11.4% (8.3). Even excluding the surplus funds from SPP, the second quarter was the most profitable in Volvo Penta's history.

Volvo Penta launched a number of new products and services in June. A new 700 hp, 12-liter diesel engine; the D12-700, designed for recreational craft longer than 50 feet, was introduced along with two new gasoline-powered V8 engines: an 8.1-liter engine delivering 375 hp and 420 hp, and a 5.7-liter engine delivering 315 hp.

During the second quarter the Volvo Penta Concept Boat was displayed for the first time outside the company. Simply stated, all of the components in the Concept Boat are connected with each other electronically in a common network where they can exchange information. The advantage for the boat builder is an easier installation, and for the boat owner it means a more safe and easy way of owning a boat. The addition of "telematics" via a satellite or mobile telephone creates possibilities for other services provided by Volvo Penta Action Service, such as help with engines out of service, position determination, assistance in emergency and several other services.

The Volvo Penta Partner Network, which is Volvo Penta's Internet-based e-business and guarantee-processing service for dealers, was also introduced. With the Volvo Penta Partner Network, orders are processed and spare parts and accessories are delivered much more rapidly and efficiently, benefiting both dealers and end-customers. In less than two months, approximately 30% of the order processing has been changed over to the Volvo Penta Partner Network.

Aero

Net sales by market area	Second quarter		First six months		Change
SEK M	**2000**	**1999**	**2000**	**1999**	**in %**
Europe	1 172	1 159	2 168	2 221	(2)
North America	1 338	1 141	2 420	2 013	+20
South America	31	64	61	138	(56)
Asia	159	134	299	268	+12
Other countries	31	34	69	59	+17
Total	**2 731**	**2 532**	**5 017**	**4 699**	**+7**

Air traffic continued to increase throughout the world during the second quarter. All major regions of the world have shown increases of 7% or more. As expected, deliveries of large commercial aircraft are slightly below the record-high level of 1999. Total order bookings were higher than last year, however. As a result of excess capacity and higher fuel costs, many airlines continued to have major problems with their profitability despite the increase in number of passengers, and this is having a negative effect on Volvo Aero and other players in the after-sale market.

Volvo Aero's net sales increased by 7%, to SEK 5,017 M (4,699) in the first half of the year, of which SEK 2,731 M (2,532) was recorded in the second quarter. Operating income in the first six months of the year amounted to SEK 388 M (314). Adjusted for surplus funds of SEK 106 M from SPP, operating income amounted to SEK 282 M. The decrease was attributable primarily to Volvo Aero's subsidiary, The AGES Group, which was affected by the downturn in the after-sale market. Volvo Aero’s other business areas developed well. Operating income in the second quarter of 2000 amounted to SEK 278 M (175).

The AGES Group is implementing a number of measures to reduce costs at the same time that it is attempting to identify new business opportunities during the downturn in the after-sale market. Among other measures, the workforce is being reduced and a number of AGES' warehouses and related operations have been concentrated in Boca Raton, Florida, where the head office and main warehouse are located.

In May the Swedish Defense Materiel Administration and Volvo Aero concluded an agreement whereby Volvo Aero will be responsible for maintenance of the RM12 engines used in the Swedish Air Force's JAS

39 Gripen aircraft for the next five years. The Swedish Defense Materiel Administration chose Aero in an international purchasing.

Finance

Since January 1, 2000 the Finance business unit has consisted of Volvo's sales-financing operations, Volvo's insurance operations, Volvo Treasury and Danafjord, the Group's real estate company, as well as the associated company Volvofinans.

In the markets where Finance is offering financing, the degree of penetration in the new-truck segment was 27% in the first six months of the year, compared with penetration of 26% in the same period last year.

As of June 30, 2000, total assets amounted to SEK 58.9 billion, including SEK 46.2 billion in credit portfolio. Adjusted for the effects of foreign exchange movements, the credit portfolio increased 3% in the first half of the year. Approximately 74% of the credit portfolio pertained to truck-related financing, 13% to financing of construction equipment, and 10% to bus financing.

Operating income in the first six months of the year amounted to SEK 1,096 M (358), of which SEK 610 M pertained to the sale of Volvia's securities portfolio, and SEK 38 M to surplus fund from SPP. Operating income in the second quarter amounted to SEK 698 M (191), of which SEK 438 M pertained to the sale of securities and to surplus funds.

Effective in the second quarter, income from Volvo Treasury is included in operating income of the Finance unit. (See also page 20.) Finance's operating income in the first half of the year included SEK 67 M from Volvo Treasury.

Adjusted for the sale of securities, surplus funds from SPP and income from Volvo Treasury, Finance's operating income increased by 7%, compared with the first half of 1999.

Total reserves amounted to 3.0% of the credit portfolio, of which the reserve for residual-value risk amounted to 0.5%. Realized credit losses in the first half of the year amounted to SEK 139 M, compared with SEK 127 M in the year-earlier period.

AB Volvo (Parent Company)

AB Volvo's net sales in the first half of 2000 amounted to SEK 197 M (241). Income before tax amounted to SEK 428 M (18,002), including income of SEK 13 M (18,249) from shares and participations in Group companies, and income of SEK 464 M (38) from shares and participations in associated companies. Income included surplus funds of SEK 88 M from SPP.

Investments in property, plant and equipment amounted to SEK 4 M (1). Liquid funds as of June 30, 2000 amounted to SEK 2,911 M, as against SEK 6,287 M at December 31, 1999.

Net financial assets declined by SEK 4,221 M, to SEK 11,282 M, following the dividend paid to Volvo’s shareholders during the first half of the year, among other things.

Number of employees

The Volvo Group had 54,646 employees as of June 30, 2000, compared with 53,469 at December 31, 1999.

Göteborg, July 20, 2000

AB Volvo (publ)
Leif Johansson
President and Chief Executive Officer

This report has not been reviewed by AB Volvo's auditors.

Quarterly figures,

Volvo Group SEK M unless otherwise specified	2/1999	3/1999	4/1999	1/2000	2/2000
Net sales	**33 905**	**28 829**	**35 213**	**30 546**	**33 450**
Cost of sales	(26 951)	(23 255)	(27 967)	(24 561)	(26 844)
Gross income	**6 954**	**5 574**	**7 246**	**5 985**	**6 606**
Research and development expenses	(1 194)	(1 104)	(1 142)	(1 182)	(1 281)
Selling expenses	(2 234)	(2 130)	(2 379)	(2 297)	(2 454)
Administrative expenses	(1 308)	(1 214)	(1 062)	(1 229)	(1 173)
Other operating income and expenses	(73)	72	(538)	148	688
Operating income	**2 145**	**1 198**	**2 125**	**1 425**	**2 386**
Income from investments in associated companies	88	371	89	365	40
Income from other investments	189	8	(28)	10	81
Interest income and similar credits	400	386	418	500	443
Interest expenses and similar charges	(299)	(217)	(280)	(389)	(441)
Other financial income and expenses	15	(103)	92	(23)	(79)
Income after financial items	**2 538**	**1 643**	**2 416**	**1 888**	**2 430**
Taxes	(550)	(570)	(715)	(629)	(521)
Minority interests	(48)	(5)	(44)	8	(23)
Net income	**1 940**	**1 068**	**1 657**	**1 267**	**1 886**

Depreciations included above	1 381	1 325	1 277	1 534	1 597
Income per share, SEK	**4,40**	**2,40**	**3,80**	**2,90**	**4,20**
Average number of shares, million	441,5	441,5	441,5	441,5	441,5

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

Gross and operating margin

%	2/1999	3/1999	4/1999	1/2000	2/2000
Gross margin	20.5	19.3	20.6	19.6	19.7
Research and development expenses in % of net sales	3.5	3.8	3.2	3.9	3.8
Selling expenses in % of net sales	6.6	7.4	6.8	7.5	7.3
Administrative expenses in % of net sales	3.9	4.2	3.0	4.0	3.5
Operating margin	6.3	4.2	6.0	4.7	7.1

Net sales

SEK M	2/1999	3/1999	4/1999	1/2000	2/2000
Trucks	16 533	14 222	18 040	15 129	15 781
Buses	4 275	3 360	4 390	3 838	4 556
Construction Equipment	5 948	4 107	4 788	4 649	5 438
Marine and Industrial power systems	1 540	1 400	1 591	1 585	1 725
Aero	2 532	2 412	2 842	2 286	2 731
Finance	2 035	2 211	2 293	2 206	2 546
Other	2 964	2 884	3 429	3 087	3 158
Eliminations	(1 922)	(1 767)	(2 160)	(2 234)	(2 485)
Net sales	**33 905**	**28 829**	**35 213**	**30 546**	**33 450**

Operating income

SEK M	2/1999	3/1999	4/1999	1/2000	2/2000
Trucks	859	442	1 116	645	31
Buses	119	13	156	33	180
Construction Equipment	785	389	353	311	740
Marine and Industrial power systems	128	92	49	103	197
Aero	175	80	190	110	278
Finance	191	285	335	398	698
Other	(112)	(103)	(74)	(175)	262
Operating income	**2 145**	**1 198**	**2 125**	**1 425**	**2 386**

Operating margin

%	2/1999	3/1999	4/1999	1/2000	2/2000
Trucks	5,2	3,1	6,2	4,3	0,2
Buses	2,8	0,4	3,6	0,9	4,0
Construction Equipment	13,2	9,5	7,4	6,7	13,6
Marine and Industrial power systems	8,3	6,6	3,1	6,5	11,4
Aero	6,9	3,3	6,7	4,8	10,2
Finance	9,4	12,9	14,6	18,0	27,4
Other	(3,8)	(3,6)	(2,2)	(5,7)	8,3
Operating margin	**6,3**	**4,2**	**6,0**	**4,7**	**7,1**

Accounting for the surplus funds from SPP

During the mid-1990s and subsequent years, a surplus arose in the SPP insurance company because the yield from management of the ITP insurance program exceeded the rate of increase in the corresponding pension obligations. Through a resolution in December 1998, SPP divided, by company, the surplus that had accumulated up to and including 1998.

Based on a statement by The Urgent Issues committee of the Swedish Financial Accounting Standards Council, the surplus funds that were collected in SPP should be reported in companies, when their amounts can be valued in a reliable manner.

Basic rules governing how the surplus funds were to be refunded were established in the spring of 2000, and Volvo has reported the surplus funds in its accounts as of June 30, 2000. The discounted present value of the surplus funds has been reported as operating income in the income statement. The claims is reported as a long-term interest-bearing receivable in the balance sheet; however. the portion that is expected to be received within a year in shown as a short-term interest-bearing receivable.

Changes in the Volvo Group's financial reporting related to the new Finance unit

As of January 1, 2000, all of Volvo's operations in sales-financing, insurance, treasury and real estate were organized in a separate business unit, Finance. When presenting the Volvo Group's sales and operating income per segment, Finance is reported separately from the five business areas. Comparable figures for 1999 have been adjusted to reflect the new organization.

Income statements for Finance comprise Volvo's total sales-financing operations, Volvo's insurance operations, Danafjord, the Group's real estate company, the Volvofinans associated company and Volvo Treasury's income, as defined below.

Balance sheets and cash flow analyses for Finance comprise all of Volvo's sales-financing operations, Volvo's insurance operations, Danafjord, the Group real estate company and the Volvofinans associated company.

In connection with the formation of the Finance business unit, the principles for classification of income and expense in Volvo's insurance and real estate operations have also been adapted. As of January 1, 2000, financial income and expense in these operations are being reported in the Volvo Group 's operating income. Earlier, the items were included in the Group's net interest/expense. Comparable figures for 1999 have been adjusted in accordance with the new classification principle. As a result of the above, the definition of the Volvo Group's net financial assets has also been modified. As of January 1, 2000, the Group's net financial assets are calculated excluding the Finance business unit since financial income and expense in Finance is reported in Group operating income. At the beginning of 2000, as a result of the new definition, Volvo's net financial assets were reduced by SEK 2.2 billion.

Effective in the second quarter of 2000, Volvo Treasury's income is being reported as part of the operating income in Finance. Volvo Treasury's income includes interest income and similar credits, interest expense and similar charges, and overhead costs of Volvo Treasury's operations. However,Finance’s income excludes the effects of the equity capital base in Volvo Treasury. Based on the above definition. Volvo Treasury's income for the first half of 2000 amounted to SEK 67 M. Of this amount, SEK 108 M was reported under the Group’s net interest income in accordance with the earlier principle, and a deficit of SEK 41 M was reported among other financial revenue.

Trucks, units invoiced	**Second quarter 2000**	**Second quarter 1999**	**First six months 2000**	**First six months 1999**	**Change in %**
Europe	11,426	11,423	22,875	22,174	+3
Western Europe	10,418	10,525	20,960	20,844	+1
Eastern Europe	1,008	898	1,915	1,330	+44
North America	6,694	8,399	13,118	15,845	(17)
South America	1,141	908	2,046	1,797	+14
Asia	1,764	669	2,911	1,121	+160
Other markets	499	555	800	816	(2)
Total trucks	**21,524**	**21,954**	**41,750**	**41,753**	**0**

Volvo buses/bus chassis, units invoiced	**Second quarter 2000**	**Second quarter 1999**	**First six months 2000**	**First six months 1999**	**Change in %**
Europe	1,009	943	2,009	1,695	+18
North America	1,007	968	1,965	1,577	+25
South America	276	131	424	295	+44
Asia	297	254	825	509	+62
Other markets	119	210	181	252	(28)
Total, buses/bus chassis	**2,778**	**2,506**	**5,404**	**4,328**	**+25**

Volvo is acquiring Renault V.I. and Mack

At the end of April 2000 AB Volvo and Renault concluded an agreement in principle whereby Volvo is acquiring Renault's truck operations consisting of Renault V.I. and Mack. The final agreement was signed on July 18. It is expected that the purchase can be completed at the end of this year, at the earliest, assuming that the necessary approvals are granted. Volvo's purchase does not include Renault V.I.'s bus operations or its shareholding in Nissan Diesel.

Improved conditions for a profitable growth

With the acquisition, Volvo will become the largest manufacturer of heavy trucks in Europe, and the second-largest in the world, which creates a volume base for more aggressive product development and coordinated purchasing, as well as a stronger global presence.

As a result of the acquisition, Volvo will virtually double its sales volume and will achieve market shares of approximately 28% and 24%, respectively, in Western Europe and North America. Volvo's and Renault VI/Mack's combined sales in 1999 amounted to approximately 151,000 heavy trucks and 13,000 medium-heavy trucks.

The acquisition of Renault VI/Mack is an aggressive step within the framework of Volvo's growth strategy. Volvo's and the RVI Group's truck operations complement each other well in terms of both products and markets. The respective makes do not principally share the same customer base. Renault VI supplements Volvo's global presence in a good way. Renault is strong in Southern Europe and North Africa, Volvo has its strongest foothold in Northern and Central Europe. Mack will double the volume of Volvo's business in North America and the two companies are strong in different transport/product segments.

In the engine sector, the volume of heavy diesel engines (>8 liter volume) will virtually double, which offers economies of scale and thereby improved conditions for the substantial investments that are required for engine development and production equipment. The larger volume is essential in order to be able to continue to produce engines with a continously added customers value and also meet the future very severe legislation governing emissions.

Apart from a stronger market presence and a broader line of products, the acquisition of Renault VI/Mack also offers opportunities for substantial benefits of coordination in the areas of purchasing and driveline operations (engine, gearbox and other driveline components). The gradual integration of the two companies and their product programs will involve a step-by-step changeover to common product platforms. This means that it will be possible to avoid unnecessary duplication of investments, and that production costs can be reduced at the same time that each company's product program can be developed while maintaining the identity and unique properties associated with each brand name.

It is estimated that the gains from coordination will amount to approximately SEK 3.5 billion annually after two years, with purchasing accounting for half of this amount, driveline operations for a fourth, and miscellaneous operations such as assembly, distribution and support services accounting for the remainder. Over the longer term it is estimated that additional savings of SEK 3 billion per year can be realized as the degree of integration increases.

Renault VI

Renault was founded in 1898 in connection with Louis Renault's production of the "Type A" passenger car. The company was nationalized in 1945 and the business was diversified over a number of years at the same time that it expanded across national borders. Following financial problems in 1984, the company began a return to its core business and became profitable again in 1987. Between 1990 and 1993 Volvo and Renault cooperated in the manufacturing field via cross ownership. This cooperation ceased in 1993. In the years that followed Renault was partially privatized and at the end of 1999 the French Government owned approximately 44% of the company's share capital.

Renault VI (Renault Véhicules Industriel), the name covering Renault's operations in the field of commercial vehicles, accounts for 17% of the Renault Group's sales. Renault VI has approximately 23,000 employees, including 6,200 in Mack.

Renault VI's product line comprises vehicles under the Renault and Mack brand names that are used for all types of commercial transport; these products range from light trucks – used for distribution in metropolitan areas – and specialized vehicles to heavy trucks used in long-distance traffic. The company's strategy has traditionally been to optimize industrial and commercial operations in the North American market mainly through Mack, with comparable operations in the European market being optimized under the Renault name. Comprehensive steps were taken in 1999 to coordinate the two operations by coordinating research and development programs, as well as purchasing.

In 1999 Renault VI's financial services in Europe were coordinated in joint-venture companies in five European countries and total financing and service solutions were offered under the "Evergo Composit" name.

Renault VI and Mack combined have 2,100 sales locations and service centers throughout the world. Renault VI/Mack has truck factories in France, Spain, the United States and Canada. There are also assembly operations in the Czech Republic, Australia and Venezuela.

Renault VI's products

Renault VI's line of products in the heavy-truck segment (more than 16 tons total weight) consists of the Magnum series of trucks designed for long-distance transport. The Magnum series has powerful engines and offers a high degree of comfort in the operator's cab. In its most powerful version, the Magnum offers a 480-hp engine made by Mack. The product line also includes the Premium, a model with a simpler configuration that is designed for medium-long and long distances. The third model in the heavy-truck segment is the Kerax, a versatile, rugged truck used for short-distance transports, primarily in the contracting and service fields. Renault VI's product line also includes the development and production of military vehicles.

Early in 2000, in the medium-heavy segment (6 to 16 tons total weight), Renault VI introduced its new Midlum model, a versatile truck designed for urban transports. The Mascot model, for use in a large number of lighter applications, was introduced in the light-truck segment in 1999.

Mack's products

Mack Trucks, Inc., founded by the brothers Jack and Gus Mack in 1900, has focused on vehicles for commercial use from the start. Mack has been owned by Renault VI since 1990. Mack is one of the strongest brands in North America, and has a 13.1% share of the market for Class 8 trucks in the United States. Mack's product line includes heavy and medium-heavy trucks, military vehicles and specialized commercial vehicles.

In 1999, in the heavy-truck segment, Mack introduced the Vision model, designed for long-haul operations. The Vision is characterized by good aerodynamics and operating economy, and by the greatest possible comfort for the operator. The CH/CL series offers a simpler model for regional-to-long-distance transports. Nearly all of Mack's heavy trucks are equipped with Mack's 12-liter six-cylinder diesel engine. Mack is unique in the North American market with its concept of selling virtually all of its trucks with a drive line of its own manufacture. Other companies, including Volvo, are attempting to increase the percentage of trucks sold with their own drivelines.

In the medium-heavy class, Mack offers the Mid-Liner model for use in urban distribution operations and other short-to-long-distance transports. The Mid-Liner is equipped with a 6-liter diesel engine made by Renault.

Financial effects

Volvo and Renault VI/Mack had combined pro forma total sales of SEK 178 billion in 1999. Pro forma income in 1999, including amortization of goodwill but excluding items affecting comparability as well as synergy gains, amounted to SEK 8 billion. The number of vehicles delivered, pro forma, in 1999 amounted to 151,000 heavy trucks and 13,000 medium-heavy trucks.

The price for Volvo's acquisition of Renault VI/Mack will amount to SEK 14 billion, which was the average value of 15% of Volvo's Series A and Series B shares during the ten trading days immediately preceding announcement of the transaction.

For Volvo, the acquisition will involve goodwill amounting to approximately SEK 10 billion that will be amortized over 20 years. Income per share of the Volvo Group in 1999 amounted to SEK 12.40. Including Renault VI/Mack pro forma, Volvo's income per share in 1999 increases to SEK 13.10 (including amortization of goodwill but excluding items affecting comparability and the effects of synergies).