

Six months ended June 30, 1999



Volvo
Trucks
Buses
Construction
Equipment
Marine and
industrial
engines
Aero

Internet address
www.volvo.com

E-mail address
info@vhk.volvo.se

Exchange listings
Stockholm
London
Frankfurt am
Main
Düsseldorf
Hamburg
USA (Nasdaq)
Brussels
Antwerp
Tokyo

Share prices/
"B" shares
Six months 1999
Highest:
SEK 246.50
Lowest:
SEK 217.00

Nasdaq symbol
Volvy

Market value
June 30, 1999
SEK 108.6 billion

Dividend
SEK 6.00

Effective return
"B" shares
Six months 1999
35%

Publication
dates

Interim report,
nine months 1999
October 20, 1999

Report on 1999
operations
February 2000

Annual report
1999
March 2000

	1999	1998	Excluding Cars 1998
First six months			
Net sales, SEK M	60,977	101,706	53,801
Operating income, excluding items affecting comparability, SEK M	3,319	4,697	2,857
Items affecting comparability, SEK M ¹⁾	26,695	(1,150)	(1,150)
Operating income, SEK M	30,014	3,547	1,707
Income after financial items, SEK M	30,537	6,109	
Net income, SEK M	29,497	4,475	
Income per share, excluding items affecting comparability and gain on sales of shares during most recent 12-months period, SEK	12.90	13.40	
Return on shareholders' equity, excluding items affecting comparability and gain on sales of shares, %	8.7	10.3	

1) Items affecting comparability during the first-half of 1999 pertain to gain on the sale of Volvo Cars and during the first-half of 1998 provisions for restructuring costs of SEK 240 M in Volvo Buses and SEK 910 M in Volvo Construction Equipment.

Comments by the Chief Executive Officer

Demand for Volvo's products during the second quarter of 1999 continued to be strong. Sales rose during the first half of 1999 compared with the first half of 1998, and were also higher, excluding acquisitions. We are thereby meeting our target of a 10% annual rate of growth. Operating income increased in all business areas except Buses. The Group's operating margin in the second quarter increased to 6.2%. The improvement in Marine and industrial engines and in Aero was most striking.

Volvo Trucks, which is Volvo's single largest business area, showed a strong first-half result. The renewal of the product program has been very well received and Trucks has thereby been able to benefit from the continuing strong market for heavy trucks in Europe and North America. Production capacity is being expanded in North America, where Trucks is improving its competitiveness through an expanded service network. Volvo trucks are now being assembled in the plant in India and preparations to establish manufacturing operations in China are continuing.

Volvo Buses converted its first-quarter loss to a profit. However, much remains to be done to take advantage of the opportunities being offered by the acquisitions in recent years, notably in North America. The work of integrating the operations and correcting the remaining profitability problems is now being intensified. Parallel with this, a strategic shift toward a higher percentage of complete buses is being pursued. The concentration of parts of the European production of buses in Poland is proceeding on schedule.

Volvo Construction Equipment, which had a weak first quarter in terms of earnings, reported strong income in the April–June period. It is especially gratifying that Volvo CE, in addition to strong cultivation of the market, also successfully conducted and implemented a comprehensive restructuring- and integration program following the acquisition of Samsung's construction equipment division. The work of integrating the South Korean business in the Volvo Group has been carried out with great precision. The production plant in South Korea is becoming a strong and efficient center for Volvo's production of excavators and the plant is now being prepared to also handle other Volvo CE products. After only a short period, the acquisition has already met our expectations and it will help Volvo to be well equipped for the coming recovery in the Asian economies.

Volvo Penta reported the greatest improvement in operating margin, a result of consistent marketing programs and an intensive focus on costs. The business area's strategic orientation as an enhancer of Volvo's diesel engine know-how, and thereby broadening the Group's customer base, is successful. Volvo Penta today is carrying out a strong program of expansion in the North American market for marine engines in particular. At the same time, there is increasing interest in industrial engines in Asia and Volvo Penta, as a partner in a joint venture, is now building a plant in China for the assembly and distribution of diesel engines and generator equipment.

Volvo Aero's sales and profitability have improved considerably, notably in the commercial aircraft engine sector. As a result of the acquisition of majority interests in The AGES Group in the U.S. and in the former Norsk Jetmotor (now Volvo Aero Norge), plus joint-venture agreements with Boeing and others, Volvo Aero has taken another step towards becoming one of the world's leading partners in the area of

Cover photo:

The Volvo NH12 truck built in, and for, South America.

The Volvo NH12 truck, which is produced in Volvo Trucks' plant in Curitiba, Brazil, was introduced in June 1999. The NH12, which is intended primarily for the South American market, is the latest model based on Volvo Trucks' global platform.

components and services for commercial aviation. Volvo Aero is thereby filling a strategically important role in the Group by expanding the range of our contacts in the transport vehicle industry in an ever-broader global perspective.

A not insignificant part of our work during the spring involved the final stages of the sale of Volvo Cars to Ford. This has taken place in a constructive atmosphere. The rules governing the jointly owned company that is to develop, protect and administer our common brand name have now been set and we are looking forward to working together to ensure that the values that Volvo represents – quality, safety and concern for the environment – remain strong and intact.

Parallel with this, there is the process of setting the course for the continuing growth and orientation of the Volvo Group. Most of the industries in which we are active are today in a consolidation phase. Increasingly larger and stronger units are being formed to increase the global competitiveness. Volvo is participating actively in discussions of the future structure of the transport vehicle industry. It is from this perspective, and against the background of the considerable advantages that cooperation – combined with a carefully crafted product and brand name strategy – can offer, that our acquisition of Scania shares should be viewed. But there are many opportunities, and we have a number of alternative approaches. Today we also have the financial strength that is required to participate in the formation of even more efficient units – through our own investments and organic growth, through acquisitions, or in cooperation with our associates in the industry. Overshadowing everything, however, is the fact that Volvo, based on its own experience, expertise and resources, is building a world-class business, with profitability that offers shareholders a good return on their invested funds. I know that, as part of this work, Volvo's employees are firmly determined to reinforce our already strong positions as the best partner for the market's most demanding buyers of products and services that are used to transport people and goods.



Leif Johansson



During the second quarter Volvo Penta received an order for 1,400 engines from the NNW Group, which includes the Swedish Nimbus company and the Nidelv and Windy companies in Norway. The contract is worth approximately SEK 120 M and extends over a period of two years.

Volvo Group – First six months of 1999

- *Continuing strong growth in sales in all business areas during the second quarter. Net sales of the Volvo Group in the first half of 1999 amounted to SEK 60,977 M, an increase of 13% excluding Volvo Cars.*
- *Operating income excluding items affecting comparability amounted to SEK 3,319 M (2,857), including SEK 2,104 M in the second quarter. The substantial increase during the second quarter is primarily an effect of larger volumes of business in both Volvo Trucks and Volvo Construction Equipment. Volvo's other business areas also developed favorably.*
- *Volvo increased its stake in Scania to 20.3% of the voting rights and 21.5% of the capital.*

Important events and structural transactions during the second quarter

Volvo increased its holding in Scania

During the second quarter Volvo increased its holding in Scania to 20.3% of the voting rights in the company and 21.5% of the capital. Because Volvo owns more than 20%, Scania is reported as an associated company. The acquisition value of Volvo's shareholding in Scania is SEK 9,355 M, equal to SEK 217 per share, and the market value of the shareholding at June 30, 1999 was SEK 10,147 M.

Volvo Aero concluded an agreement with Boeing and acquired Jet Support Corporation

In April, Volvo Aero concluded an agreement with Boeing, the aircraft manufacturer, whereby Volvo's subsidiary, The AGES Group, is acquiring exclusive rights to market and sell new spare parts for commercial Boeing and McDonnell Douglas aircrafts on consignment, initially for types of aircraft that are no longer being manufactured. Boeing and The AGES Group will share revenues under terms of the agreement, which covers a five-year period, with an option for extension.

As a consequence of the agreement with Boeing, Volvo Aero simultaneously acquired the business of Jet Support Corporation, an American company. The acquired unit will strengthen the sales organization within The AGES Group and be responsible for warehouse operations.

Volvo increased its stake in Volvo Aero Norge

In June Volvo Aero acquired an additional 11% of the shares of Volvo Aero Norge AS (formerly Norsk Jetmotor AS). As a result Volvo Aero, following its acquisition of a 67% interest in the company in the first quarter, now owns 78%. The seller was Snecma, the French aircraft engine manufacturer. The remaining shares are held by Pratt & Whitney in the U.S.

Volvo Construction Equipment divested marketing companies

As part of Volvo CE's strategy, which is to organize its sales mainly via independent dealers rather than under its own auspices, the company divested its marketing unit in Spain during the second quarter of 1999. The sale resulted in a capital gain of SEK 180 M, which is included in the operating income. Also parts of the operations in France were divested.

Other acquisitions and divestments earlier in the year

On March 31, 1999, the sale of Volvo Cars to Ford Motor Company was finalized.

In March Volvo Construction Equipment divested SuperPac, a Canadian business, and 65% of Mecalac, a French company.

During the first quarter Volvo Aero increased its holding in The AGES Group from 57% to 86%.

Income and financial position

Net sales of the Volvo Group in the first half of 1999 amounted to SEK 60,977 M, a further increase in the growth rate to 13%, compared with sales in the year-earlier period, adjusted for the sale of Volvo Cars. Excluding acquired and other divested companies, as well as the effects of movements in foreign exchange rates, the increase was 9%. All business areas reported increases of more than 10% in net sales, compared with the preceding year. Company acquisitions produced the increase in sales in Volvo Buses.

During the first six months of the year Volvo delivered 41,750 medium-heavy and heavy trucks, an increase of 2%, and 4,330 buses and bus chassis, a decrease of 4% compared to previous year.

The higher net sales were attributable to operations in Western Europe (plus 18%) and North America (plus 22%), which combined account for 87% of the Group's total sales. In South America and Eastern Europe sales declined by 38% and 22%, respectively – although from relatively low levels. In Asia, a recovery was discernible, due largely to Volvo CE's acquisition in South Korea. Sales in Asia were 4% higher than in the year-earlier period.

Group operating income in the first half of 1999 amounted to SEK 30,014 M (3,547). Operating income included SEK 26,695 M from the sale of Volvo Cars to Ford. Operating income in the first half of 1998 was charged with SEK 1,150 M pertaining to restructuring costs in Buses and Construction Equipment.

Excluding the effects of the sale of Volvo Cars, plus the restructuring costs, operating income increased by SEK 462 M to SEK 3,319 M (2,857). Larger volumes and a favorable marketing mix in Trucks, together with the positive effects of foreign exchange movements, compensated for increased costs of product development, selling and administration. Operating income includes a capital gain of SEK 180 M in Construction Equipment in connection with the sale of the marketing companies.

The operating margin, excluding items affecting comparability and the sale of Volvo Cars, increased to 5.4% (5.3). All business areas except Volvo Buses reported higher operating income and higher operating margins than in the first half of 1998. However, Buses recovered during the second quarter and converted its first-quarter operating loss to a profit in the second quarter of SEK 123 M.



In April Volvo introduced four new "mini" excavators in the 2.5-ton to 4.5-ton classes.

The positive trend of operating income in all business areas contributed to second-quarter operating income for the Group as a whole that improved by SEK 889 M, compared with the first quarter, and amounted to SEK 2,104 M. The operating margin was 4.5% in the first quarter, and 6.2% in the second quarter.

Income from investments in associated companies amounted to SEK 107 M (235) and consisted primarily of income from investments in Scania, Bilia and Volvofinans.

Income from other shares and participations of SEK 190 M (2,177) consisted primarily of the dividend from Scania during the period when Volvo's holding was less than 20%. Income in the first half of the preceding year included a gain of SEK 2,090 M from the sale of Pharmacia & Upjohn shares.

Net interest income in the first half of the year amounted to SEK 86 M (293), of which SEK 144 M was attributable to the second quarter. High costs of borrowing in Brazil and local financing at high rates of interest for the expansion in South Korea, as well as low interest rates in Europe, had a negative impact on net interest income. Increased interest-bearing assets, due mainly to the sale of Volvo Cars, had a positive impact on net interest income. However net interest income was affected negatively since the market value of financial investments declined as a result of rising interest rates during the second quarter.

Tax expense, which amounted to SEK 985 M (1,630) consisted mainly of current taxes. Based on a decision by the Council of Advance Rulings, the sale of Volvo Cars does not give rise to a taxable capital gain. This decision is being appealed by the Swedish National Tax Board.

Net income amounted to SEK 29,497 M (4,475) and the return on shareholders' equity, excluding items affecting comparability and a gain on the sale of shares, was 8.7% (10.3).

The Group's total assets as of June 30, 1999 were SEK 22.9 billion lower than at December 31, 1998. During the second quarter the remaining net financial receivables from Volvo Cars were settled, in which connection external borrowing was amortized. Excluding the sale of Volvo Cars, as well as other acquisitions and divestments during the first six months of 1999, the Group's total assets increased by SEK 8.2 billion, of which SEK 4.7 billion pertained to Volvo's sales-financing operation for commercial products.

Liquid funds are invested with low risk-exposure in a manner that preserves Volvo's financial freedom of action.

Shareholders' equity increased by SEK 26.7 billion. Net income contributed SEK 29.5 billion, and a change in the method of accounting for deferred taxes provided SEK 1.3 billion. Shareholders' equity was reduced by SEK 2.6 billion in dividends to AB Volvo's shareholders, and by SEK 1.5 billion attributable to translation differences.

First six months

Consolidated income statements			Excluding Cars 1998
SEK M	1999	1998	
Net sales	60,977	101,706	53,801
Cost of sales	(47,777)	(77,732)	(41,468)
Gross income	13,200	23,974	12,333
Research and development expenses	(2,279)	(4,844)	(2,042)
Selling expenses	(4,352)	(8,913)	(4,111)
Administrative expenses	(3,021)	(3,745)	(2,577)
Other operating income and expenses	(229)	(1,775)	(746)
Items affecting comparability ¹⁾	26,695	(1,150)	(1,150)
Operating income	30,014	3,547	1,707
Income from investments in associated companies	107	235	
Income from other investments	190	2,177	
Interest income and similar credits	1,124	979	
Interest expenses and similar charges	(1,038)	(686)	
Other financial income and expenses	140	(143)	
Income after financial items	30,537	6,109	
Taxes	(985)	(1,630)	
Minority interests in net (income) loss	(55)	(4)	
Net income	29,497	4,475	

1) Items affecting comparability during the first-half of 1999 pertain to gain on the sale of Volvo Cars and during the first-half of 1998 provisions for restructuring costs of SEK 240 M in Volvo Buses and SEK 910 M in Volvo Construction Equipment.

Condensed income statement			Excluding Cars 1998
Sales finance, SEK M	1999	1998	
Net sales	3,673	4,350	2,642
Operating income	160	214	106
Income from investments in associated companies	31	61	50
Income after financial items	191	275	156
Taxes	(91)	(119)	(83)
Minority interests in net (income) loss	9	(3)	3
Net income	109	153	76

Gross and operating margin, Volvo Group			Excluding Cars 1998
%	1999	1998	
Gross margin	21.6	23.6	22.9
Research and development expenses in % of net sales	3.7	4.8	3.8
Selling expenses in % of net sales	7.1	8.8	7.6
Administrative expenses in % of net sales	5.0	3.7	4.8
Operating margin, excluding items affecting comparability	5.4	4.6	5.3
Operating margin	49.2	3.5	3.2

Net sales by market area		First six months		Change
SEK billion	% of total	1999	1998 ¹⁾	in %
Western Europe	54.5	33.2	28.1	+18
Eastern Europe	2.3	1.4	1.8	(22)
North America	33.1	20.2	16.5	+22
South America	3.4	2.1	3.4	(38)
Asia	4.4	2.7	2.6	+4
Other countries	2.3	1.4	1.4	0
Total	100	61.0	53.8	+13

1) Excluding Cars.



In June Boeing and Volvo Aero concluded an agreement covering the sale of spare parts for aircraft engines.

The Volvo Group's cash flow after net investments amounted to SEK 19.4 billion. The Group's operating cash flow, excluding the sales-financing operations, amounted to SEK 1.3 billion during the first half of the year. The operating cash flow during the second quarter amounted to SEK 2.1 billion, due to the higher profitability and smaller amount of working capital tied up in operations. The cash flow during the first six months of 1999 was charged with SEK 0.4 billion related to implementation of restructuring measures that were approved in 1998. Dividends received and the purchase price in connection with the sale of Volvo Cars increased liquid funds by a total of SEK 33.9 billion, while the acquisition of Scania shares reduced liquid funds by SEK 9.4 billion.

Capital expenditures for property, plant and equipment amounted to SEK 2.4 billion, which was somewhat higher than the level of investments in commercial products in the year-earlier period.

Change of net financial assets, SEK billion

981231	14.8
Cash flow from operations	3.2
Capital expenditures	(2.4)
Investments in leasing assets	(0.2)
Disposals of tangible assets	0.5
Long term operational receivables, net	0.2
Operating cash flow, excluding sales financing	1.3
Dividend received and purchase price	33.9
Receivables from Ford	12.1
Sale of Volvo Cars	46.0
Acquisition of shares in Scania	(9.4)
Other acquisitions of companies and shares ¹⁾	(1.2)
Dividends paid to AB Volvo's shareholders	(2.6)
Other	(0.8)
990630	48.1

1) Including purchase price and net debt in acquired companies.

Financial review by business area

Trucks

The total market for heavy trucks in Western Europe and North America continued to increase during the first six months of 1999, compared with the corresponding period a year earlier. Demand in Asia, Eastern Europe and South America continued to be weak but, despite this, the world market for heavy trucks is expected to reach a record level in 1999.

Deliveries from Volvo Trucks during the first half of 1999 amounted to 41,750 vehicles, 2% more than in the comparable 1998 period. The total number of Volvo trucks delivered in Europe rose 10%, to 22,170, and deliveries in North America increased 12%, to 15,840. Deliveries in South America decreased by 48%, to 1,800 trucks, and deliveries in Asia decreased 53%, to 1,120 trucks. Volvo Trucks' deliveries in the other parts of the world during the first half of the year amounted to 820 trucks, 20% fewer than in the first six months of 1998.

Trucks

Net sales by market area, SEK M	First six months		Change in %
	1999	1998	
Europe	20,183	17,473	+16
North America	10,795	8,757	+23
South America	1,289	2,248	(43)
Asia	724	1,160	(38)
Other countries	748	769	(3)
Total	33,739	30,407	+11

Consolidated balance sheets	Volvo Group excl, sales financing		Sales financing ¹⁾		Volvo Group total	
	June 30, 1999	Dec 31, 1998	June 30, 1999	Dec 31 1998	June 30, 1999	Dec 31, 1998
	SEK M					
Assets						
Intangible assets	6,481	5,678	99	100	6,580	5,778
Property, plant and equipment	18,416	36,045	81	162	18,497	36,207
Assets under operating leases	1,538	1,817	9,190	20,468	10,728	22,285
Shares and participations	16,069	9,707	671	715	12,596	3,393
Long-term sales-finance receivables	49	171	14,363	24,375	14,412	24,546
Long-term interest-bearing receivables	14,466	3,293	3	20	14,469	3,313
Other long-term receivables	2,282	3,666	56	192	2,338	3,858
Inventories	20,850	31,876	316	252	21,166	32,128
Short-term sales-finance receivables	18	81	15,985	22,171	16,003	22,252
Short-term interest bearing receivables	1,328	1,422	-	-	1,328	1,422
Other short-term receivables	23,982	26,880	677	2,140	24,659	29,020
Marketable securities	33,287	6,850	500	318	33,787	7,168
Cash and bank	4,537	11,969	425	1,087	4,962	13,056
Total assets	143,303	139,455	42,366	72,000	181,525	204,426
Shareholders' equity and liabilities						
Shareholders' equity	94,722	68,056	4,144	7,029	94,722	68,056
Minority interests	529	804	-	56	529	860
Provision for post-employment benefits	2,221	2,906	4	30	2,225	2,936
Other provisions	12,983	21,886	1,786	3,301	14,769	25,187
Loans	3,319	5,909	34,412	58,321	37,731	64,230
Other liabilities	29,529	39,894	2,020	3,263	31,549	43,157
Total	143,303	139,455	42,366	72,000	181,525	204,426
Cash flow analysis¹⁾						
	Volvo Group excl sales financing		Sales financing		Volvo Group total	
	June 30, 1999	June 30, 1998	June 30, 1999	June 30, 1998	June 30, 1999	June 30, 1998
SEK billion						
Operating income excluding gain on sale of Volvo Cars	3.1	3.3	0.2	0.2	3.3	3.5
Depreciation and amortization	1.6	2.9	1.0	1.3	2.6	4.2
Change in working capital	(0.8)	(0.3)	(2.3)	(0.4)	(3.1)	(0.7)
Cash flow pertaining to financial items and income taxes	(0.7)	(0.3)	0.2	(0.1)	(0.5)	(0.4)
Cash flow from operations	3.2	5.6	(0.9)	1.0	2.3	6.6
Capital expenditures	(2.4)	(4.6)	0.0	0.0	(2.4)	(4.6)
Investments in leasing assets	(0.2)	(0.5)	(2.3)	(5.3)	(2.5)	(5.8)
Disposals of tangible assets	0.5	0.5	0.3	0.4	0.8	0.9
Investments in shares, net	(9.4)	3.1	-	-	(9.4)	3.1
Long-term receivables, net	(0.2)	0.5	(0.5)	(5.0)	(0.7)	(4.5)
Acquisitions and sales of companies	31.3	(2.2)	-	-	31.3	(2.2)
Remaining after net investments	22.8	2.4	(3.4)	(8.9)	19.4	(6.5)
Change in loans, net					1.9	9.5
Dividends paid to AB Volvo's shareholders					(2.6)	(2.2)
Change in liquid funds, excluding translation differences					18.7	0.8
Translation differences in liquid funds					(0.2)	-
Change in liquid funds					18.5	0.8

1) Sales-finance operations are reported in accordance with the equity method. Internal receivables and liabilities related to the sales-finance operations are excluded.

1) In the cash flow analysis, the effects of large acquisitions and divestments of subsidiaries have been 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 have also been excluded, since these effects do not affect cash flow.

Volvo's share of the market in the heavy-truck class in Western Europe at the end of May amounted to 15.4% (15.8). The company's share of the market in the corresponding class (Class 8) in the United States was 11.1% (12.0). Volvo's share of the market in Brazil declined to 17.8% (23.1), due in part to a change of models. The new Volvo NH12 was launched in Brazil in June and was well received.

The order backlog as of June 30, 1999 was 9% lower than on the same date in the preceding year.

Volvo Trucks' net sales during the first half of the year rose to SEK 33,739 M, an increase of 11% compared with first-half 1998 sales. Operating income amounted to SEK 1,884 M (1,438). The increase in income was attributable to a high level of deliveries and to improved margins. The operating margin was 5.6% (4.7).

During the first half of 1999, based on the favorable trend of sales in North America, Volvo Trucks began to expand production capacity in its plant at New River Valley, Virginia, in the U.S.

Buses

Net sales by market area, SEK M	First six months		Change in %
	1999	1998	
Europe	3,022	2,963	+2
North America	3,177	2,093	+52
South America	244	465	(48)
Asia	524	764	(31)
Other countries	212	180	+18
Total	7,179	6,465	+11

Buses

The total market for buses during the first six months of the year was smaller than in 1998, due primarily to weak markets in South America and Asia. The North American market continued to be stable and the European market reached nearly the same level as in the comparable 1998 period. The total market for heavy buses and coaches (more than 16 tons) in 1999 as a whole is expected to be somewhat smaller than in 1998.

Volvo delivered 4,330 buses and bus chassis (4,500) during the first half of the year, a decrease of 4%. Excluding the Nova BUS and MASA units that were acquired in 1998, deliveries declined by 16%.

The order backlog is 7% higher than on June 30, 1998.

Volvo Buses' net sales amounted to SEK 7,179 M (6,465), an increase of 11%. The increase was attributable in part to a higher percentage of complete buses, relative to the percentage of chassis. Net sales, adjusted to reflect acquisitions, decreased by 1%.

Operating income in the first half of 1999 amounted to SEK 56 M (1998: SEK 300 M before items affecting comparability), with SEK 123 M being generated in the second quarter. In addition to the decline in volume of business, income was affected by high product-development costs. The operating margin was 0.8% (4.6).

Production in Vienna, Austria, was shut down in April. The build-up of operations in Wroclaw, Poland, as well as the coordination of the acquired units, is developing favorably.

Construction Equipment

Net sales by market area, SEK M	First six months		Change in %
	1999	1998	
Europe	5,298	4,555	+16
North America	3,290	3,286	0
Other countries	1,577	1,236	+28
Total	10,165	9,077	+12

Construction Equipment

The total world market for construction equipment is estimated to have declined by 5% during the first half of 1999. The market in most countries in Western Europe developed favorably, while the North American market weakened. The Asian markets are recovering slowly, and the negative trend of the market for construction equipment in South America has slowed.

Following a weak first quarter, Volvo Construction Equipment's sales turned upward and rose to SEK 10,165 M (9,077) for the first six months as a whole. Excluding acquisitions and divestments, net sales rose 2%. Demand for Volvo CE's products continued to be strong in Europe, while demand in North America declined slightly.

Net sales	First six months		Change in %	July 1998– June 1999	Jan–Dec 1998
	1999	1998			
SEK M					
Trucks	33,739	30,407	+11	67,169	63,837
Buses	7,179	6,465	+11	15,000	14,286
Construction Equipment	10,165	9,077	+12	20,557	19,469
Marine and industrial engines	2,770	2,520	+10	5,181	4,931
Aero	4,699	4,226	+11	9,057	8,584
Other	6,324	5,296	+19	12,800	11,772
Eliminations	(3,899)	(4,190)	–	(7,734)	(8,025)
Volvo Group excluding Cars¹⁾	60,977	53,801	+13	122,030	114,854
Cars	–	50,453			103,798
Eliminations	–	(2,548)			(5,716)
Volvo Group	60,977	101,706			212,936

1) Excluding divested and acquired units the total change was +10%.

Operating income	First six months		July 1998– June 1999	Jan–Dec 1998
	1999	1998		
SEK M				
Trucks	1,884	1,438	3,507	3,061
Buses	56	300	141	385
Construction Equipment	974	861	1,662	1,549
Marine and industrial engines	173	121	147	95
Aero	314	235	606	527
Other	(82)	(98)	(399)	(415)
Operating income excluding Cars¹⁾	3,319	2,857	5,664	5,202
Cars ²⁾	–	1,840	1,968	3,808
Operating income¹⁾	3,319	4,697	7,632	9,010
Items affecting comparability	26,695	(1,150)	25,514	(2,331)
Operating income	30,014	3,547	33,146	6,679

1) Excluding items affecting comparability.

2) For the period July 1998–June 1999 Volvo Cars is included for six months.

Operating margin	First six months	
	1999	1998
%		
Trucks	5.6	4.7
Buses	0.8	4.6
Construction Equipment	9.6	9.5
Marine and industrial engines	6.3	4.8
Aero	6.7	5.6
Operating margin excluding Cars¹⁾	5.4	5.3
Cars	–	3.6
Operating margin¹⁾	5.4	4.6
Items affecting comparability	43.8	(1.1)
Operating margin	49.2	3.5

1) Excluding items affecting comparability

Operating income amounted to SEK 974 M (1998: SEK 861 M before items affecting comparability), which included a capital gain of SEK 180 M on the sale of Volvo CE's Spanish marketing company. The operating margin amounted to 9.6% (9.5). Operating income during the second quarter of 1999 amounted to SEK 791 M. Adjusted for the capital gain, this was the best-ever quarterly result for Volvo Construction Equipment.

Factors contributing to the favorable trend include continuing good growth in the dumper business as well as strong demand in the "compact" segment, where Volvo's new mini-excavators and compact wheel loaders have been well received. The business acquired in South Korea is also developing positively and the restructuring of Volvo's excavating machine operations is entering its final phase. During the spring the plant in South Korea was also made ready to produce Volvo's articulated haulers for the Asian market.

Marine and industrial engines

Net sales by market area, SEK M	First six months		Change in %
	1999	1998	
Europe	1,530	1,484	+3
North America	819	671	+22
South America	52	69	(25)
Asia	291	226	+29
Other countries	78	70	+11
Total	2,770	2,520	+10

Marine and industrial engines

The total market for both marine and industrial engines continued to be stable during the first half of 1999.

Volvo Penta's net sales increased 10%, to SEK 2,770 M, compared with the year-earlier period. Sales of marine engines were higher in both Europe and North America, but demand in Asia declined slightly. Sales of industrial engines continued to develop well, notably in Asia, compared with sales in the preceding year. Volvo Penta increased its shares of the markets for both marine and industrial engines in Europe and North America.

The positive trend of sales and continued lower overhead costs as a result of the ongoing restructuring program contributed to the increase in operating income from SEK 121 M in the first half of 1998 to SEK 173 M in the first six months of 1999. The operating margin amounted to 6.3% (4.8).

In China, construction of a plant for the assembly and distribution of diesel engines and generator equipment was started within the framework of the joint venture with Wuxi Diesel Engine Works. The investment in the joint-venture company amounts to nearly SEK 80 M, of which Volvo Penta is contributing 70%.

Aero

Net sales by market area, SEK M	First six months		Change in %
	1999	1998	
Europe	2,221	2,331	(5)
North America	2,013	1,676	+20
South America	138	70	+97
Asia	268	115	+133
Other countries	59	34	+74
Total	4,699	4,226	+11

Aero

Air traffic throughout the world increased by 5.5% during the first four months of 1999, compared with the corresponding period of 1998. The growth in passenger traffic was greatest in Asia (+8.1%) and Europe (+7.5%).

Volvo Aero's net sales increased by 11%, to SEK 4,699 M (4,226), due primarily to higher sales in Commercial Aircraft Engines and in The AGES Group. Operating income rose to SEK 314 M (235), which was attributable to improved profitability in Commercial Aircraft Engines, where the new subsidiary, Volvo Aero Norge, also contributed to earnings. The operating margin rose to 6.7% (5.6).

Sales-financing

The sales-financing business continued to expand during the first half of the year. Total assets, excluding Volvo Cars and the effects of foreign exchange movements, increased by SEK 4.7 billion, to SEK 42.4 billion, compared with assets as of December 31, 1998. The increase was attributable primarily to the North American market. Net income from sales-financing operations – excluding Volvo Cars – amounted to SEK 109 M, compared with SEK 76 M in the preceding year.

New millennium

Volvo has a comprehensive program throughout the Group to adapt to the year 2000. Despite additional tasks, most of the computer environments, applications and embedded systems have been corrected and tested. The work remaining is expected to be completed by the end of the third quarter.

While Volvo is working actively to ensure that suppliers and other important business partners are taking necessary measures prior to the changeover to the year 2000, Volvo's ability to achieve full control is limited. The program of contingency planning is therefore important and is proceeding, in part, through the establishment of preparatory organizations in the various Volvo companies. These organizations consist of both operating groups – whose job is to correct problems that may arise in work places – and management groups that are responsible for supervising the work and deciding how available resources are to be allocated in the event of possible problems.

Parent Company (AB Volvo)

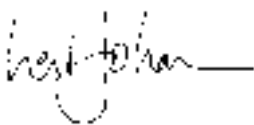
AB Volvo's net sales in the first half of 1999 amounted to SEK 241 M (306). Income before taxes amounted to SEK 18,002 M (4,534), which includes income of SEK 18,249 M (4,819) from shares and participations in Group companies. Capital expenditures for property, plant and equipment amounted to SEK 1 M, unchanged from the year-earlier period. Liquid funds as of June 30, 1999 amounted to SEK 20,690 M, compared with SEK 1,876 M at December 31, 1998. After June 30, 1999, the interest-bearing net receivable amounted to SEK 32,391 M, after having amounted to a debt of SEK 7,444 M at December 31, 1998.

Number of employees

As of June 30, 1999, the Volvo Group had 52,700 employees. This is a decrease of 27,100 since year-end 1998, which is due primarily to the sale of Volvo Cars.

The report covering operations during the first three quarters of 1999 will be released October 20, 1999.

Göteborg, July 15, 1999



Leif Johansson
President and Chief Executive Officer



The Volvo brand name

Volvo Trademark Holding AB was formed in connection with AB Volvo's sale of Volvo Car Corporation to Ford Motor Company. The new company is owned equally by AB Volvo and Volvo Car Corporation and its Board of Directors consists of Volvo's Chief Executive Officer, Leif Johansson, and the Chief Executive Officer of Ford, Jacques Nasser.

The company's basic task is to maintain and maximize the value of the Volvo brand name, in part by coordinating use of the name and through rules establishing standards of quality.

The company is responsible for the registration, maintenance and protection of the brand name. It is supervised by a committee containing three representatives from each of the joint owners. In the course of daily operations, however, the brand name will be administered by each of the owners separately.

Volvo Car Corporation holds rights to use the "Volvo" brand name on passenger cars, minivans carrying up to ten passengers, light trucks with a payload of not more than 1,500 kilograms, sport utility vehicles, and other vehicles that are used exclusively for commercial purposes and whose gross weight does not exceed 5,400 kilograms (12,000 pounds).

The Volvo Group continues to hold rights to use the brand name for trucks, buses, construction equipment, marine and industrial engines, aviation and space equipment, and for all other products except those specified above as pertaining to Volvo Car Corporation.

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

Quarterly figures

Volvo Group					
SEK M unless otherwise stated	2/1998	3/1998	4/1998	1/1999	2/1999
Net sales	52,867	48,614	62,616	27,072	33,905
Cost of sales	(40,717)	(37,306)	(48,838)	(21,063)	(26,714)
Gross income	12,150	11,308	13,778	6,009	7,191
Research and development expenses	(2,472)	(2,468)	(2,792)	(1,085)	(1,194)
Selling expenses	(4,528)	(4,533)	(5,596)	(2,120)	(2,232)
Administrative expenses	(1,991)	(1,993)	(2,353)	(1,474)	(1,547)
Other operating income and expenses	(438)	(693)	(345)	(115)	(114)
Items affecting comparability	(1,150)	0	(1,181)	26,695	0
Operating income	1,571	1,621	1,511	27,910	2,104
Income from investments in associated companies	136	105	104	19	88
Income from other investments	2,098	(15)	2,364	1	189
Interest income and similar credits	552	170	353	667	457
Interest expenses and similar charges	(438)	(216)	(473)	(725)	(313)
Other financial income and expenses	(84)	13	(27)	127	13
Income after financial items	3,835	1,678	3,832	27,999	2,538
Taxes	(920)	(594)	(715)	(435)	(550)
Minority interests	(21)	(1)	(37)	(7)	(48)
Net income	2,894	1,083	3,080	27,557	1,940
Depreciation and amortization included above	2,264	2,286	3,143	1,188	1,381
Income per share, SEK	6.50	2.50	7.00	62.40	4.40
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.

Volvo Group excluding Cars					
SEK M	2/1998	3/1998	4/1998	1/1999	2/1999
Net sales	29,246	26,530	34,523	27,072	33,905
Cost of sales	(22,615)	(20,677)	(27,160)	(21,063)	(26,714)
Gross income	6,631	5,853	7,363	6,009	7,191
Research and development expenses	(1,087)	(1,057)	(1,166)	(1,085)	(1,194)
Selling expenses	(2,094)	(2,188)	(2,630)	(2,120)	(2,232)
Administrative expenses	(1,392)	(1,436)	(1,639)	(1,474)	(1,547)
Other operating income and expenses	(262)	(266)	(489)	(115)	(114)
Items affecting comparability	(1,150)	0	(500)	26,695	0
Operating income	646	906	939	27,910	2,104

Gross and operating margin excluding Cars					
%	2/1998	3/1998	4/1998	1/1999	2/1999
Gross margin	22.7	22.1	21.3	22.2	21.2
Research and development expenses in % of net sales	3.7	4.0	3.4	4.0	3.5
Selling expenses in % of net sales	7.2	8.2	7.6	7.8	6.6
Administrative expenses in % of net sales	4.8	5.4	4.7	5.4	4.6
Operating margin, excluding items affecting comparability	6.1	3.4	4.2	4.5	6.2
Operating margin	2.2	3.4	2.7	103.1	6.2

Operating income, excluding items affecting comparability					
SEK M	2/1998	3/1998	4/1998	1/1999	2/1999
Trucks	802	500	1,123	917	967
Buses	225	45	40	(67)	123
Construction Equipment	564	273	415	183	791
Marine and industrial engines	96	32	(58)	45	128
Aero	141	114	178	139	175
Other	(32)	(58)	(259)	(2)	(80)
Operating income	1,796	906	1,439	1,215	2,104

Operating margin, excluding items affecting comparability					
%	2/1998	3/1998	4/1998	1/1999	2/1999
Trucks	5.0	3.4	6.0	5.8	5.4
Buses	5.5	1.4	0.9	(2.4)	2.8
Construction Equipment	11.4	5.9	7.2	4.4	13.1
Marine and industrial engines	7.0	2.8	(4.6)	3.7	8.3
Aero	6.2	5.6	7.7	6.4	6.9
Other	(1.2)	(2.1)	(6.9)	(0.1)	(2.4)
Operating margin	6.1	3.4	4.2	4.5	6.2

Key ratios			July 1998– June 1999	Jan–Dec 1998
12 month figures unless otherwise stated				
Income per share, SEK			76.30	19.60
Income per share, excluding items affecting comparability and gain on sales of shares, SEK			12.90	14.40
Return on shareholders' equity, %			43.9	13.7
Return on shareholders' equity excluding items affecting comparability and gain on sales of shares, %			8.7	10.3
Net financial assets at end of period, SEK billion			48.1	14.8
Net financial assets at end of period as percentage of shareholders' equity and minority interests			50.5	21.5
Shareholders' equity and minority interests as percentage of total assets			52.5	33.7
Shareholders' equity and minority interests excluding sales financing, as percentage of total assets			66.5	49.4

Trucks, units invoiced			
	First six months		Change in %
	1999	1998	
Europe	22,170	20,110	+10
Western Europe	20,840	18,090	+15
Eastern Europe	1,330	2,020	(34)
North America	15,840	14,110	+12
South America	1,800	3,470	(48)
Asia	1,120	2,370	(53)
Other markets	820	1,030	(20)
Total trucks	41,750	41,090	+2

Volvo buses/bus chassis, units invoiced			
	First six months		Change in %
	1999	1998	
Europe	1,700	1,970	(14)
North America ¹⁾	1,580	880	(80)
South America	290	750	(61)
Asia	510	700	(27)
Other markets	250	200	+25
Total, buses/ bus chassis	4,330	4,500	(4)

1) Figures for the first six months of 1999 include 460 units sold through MASA, part of the Volvo Group as of the fourth quarter of 1998. The first quarter of 1999 includes 240 units pertaining to Nova BUS, part of the Volvo Group as of the second quarter of 1998.

Change in accounting principles pertaining to deferred taxes

Volvo has reported deferred tax receivables pertaining to so-called temporary differences and loss carryforwards to the degree that these items could be offset against deferred tax liabilities in the same tax area. Effective in 1999, Volvo is adapting its accounting policies to generally accepted international and Swedish accounting practice and deferred tax receivables will thereby be reported, subject to that it is probable that the amounts can be offset against future taxable income. The change in accounting results in a deferred tax receivable as of January 1, of SEK 1.3 billion that is largely attributable to so-called temporary differences and is reported as a corresponding increase in shareholders' equity.

Definitions of key ratios

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

Return on shareholders' equity is calculated as net income divided by average shareholders' equity.

Net financial assets/net debt is calculated as liquid funds, short-term receivables and long-term interest-bearing receivables reduced by short-term and long-term interest-bearing liabilities. Net debt does not include net debt in Volvo's sales finance companies, since interest expense in these liabilities is charged against operating income and does not affect consolidated net interest expense.

Operating margin is calculated as operating income divided by net sales.

VOLVO

AB Volvo (publ)

SE-405 08 Göteborg, Sweden
Telephone +46 31 66 00 00
www.volvo.com

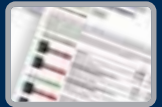
Welcome to Shareholder and Investor service

www.volvo.com/investors. This is an Internet site for Volvo shareholders and analysts who follow developments within Volvo, as well as for others who are interested in the Group. The site, which is being developed continuously, currently offers the following information.

Financial reports

The latest quarterly reports are published here at the same time that they appear in other media.

The reports are available in both Swedish and English. You also have access to annual reports and earlier interim reports.



Financial statistics

This section shows the financial development of the Group as a whole, and of the individual business areas. Statistics cover 11-year periods – and the most recent eight quarters for some areas.



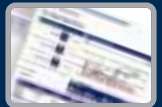
Operating statistics

Volvo Trucks' sales figures, distributed annually by weight classes – and by market areas annually, quarterly and monthly. Registration statistics in selected countries, distributed by weight classes, annually and monthly.



Stock statistics

The current trend of Volvo share prices on the Stockholm Stock Exchange and the NASDAQ exchange in the U.S. is shown, as well as share-price history as far back as 1935. The section also contains information on share issues, share ownership, etc, plus the possibility to simulate own investments.



Events & presentations

Video and telephone conferences recorded in connection with such important events as General Meetings, financial-information reports and press conferences can be accessed live on the screen. There is also a calendar showing events arranged by Volvo.



Market coverage

A compilation of the financial market's average forecasts of Volvo's future net income, income per share and dividends. The market's recommendations with respect to Volvo's shares are also shown. Data prepared by I/B/E/S, London.



Investor relations contacts

Addresses and telephone numbers to Volvo Investor relations department.

