AB Volvo

Volvo Group - Report on 1999 operations

	1999	1998	Excluding Cars 1998
Net sales, SEK M	**125,019**	**212,936**	**114,854**
Operating income, excluding items affecting comparability, SEK M	**6,554**	**9,010**	**5,202**
Items affecting comparability, SEK M*	**26,695**	**(2,331)**	**(1,650)**
Operating income, SEK M	**33,249**	**6,679**	**3,552**
Income after financial items, SEK M	**34,596**	**11,619**	
Net income, SEK M	**32,222**	**8,437**	
Income per share, excluding items affecting comparability and gains on sales of shares, SEK	**12.40**	**14.00**	
Return on shareholders' equity, excluding items affecting comparability and gains on sales of shares, %	**8.0**	**9.7**	

** Items affecting comparability in 1999 pertain to the gain on sale of Volvo Cars. Such items in 1998 pertain to provisions for restructuring costs.*

Full-year 1999

- **Net sales of the Volvo Group in 1999 amounted to SEK 125.0 billion, an increase of 9%, excluding Volvo Cars.**
- **Operating income amounted to SEK 33.2 billion. Excluding items affecting comparability and Volvo Cars, operating income increased by SEK 1.4 billion, to SEK 6.6 billion.**
- **High pace in focusing on commercial vehicles. Volvo sold its passenger car operation to Ford Motor Company and made a bid for all of Scania's shares.**
- **The Board of Directors proposes a dividend of SEK 7.00 per share for 1999. Further on, the Board intends to propose the Annual General Meeting authorization for the Board regarding repurchase of Company shares.**

Fourth quarter 1999

- **Net sales amounted to SEK 35.2 billion, which exceeded sales in both the preceding quarters of 1999 and the year-earlier quarter, excluding Volvo Cars.**
- **The operating margin rose to 5.9% compared with 4.2% in the fourth quarter of 1998.**

Comments by the Chief Executive Officer

During 1999, as a result of the sale of Volvo Cars, we have focused operations on vehicles and equipment for commercial use, our strongest area. We have created a more homogeneous structure, and a fine base on which to continue to grow.
This is one of the most revolutionary changes in Volvo's history and has involved a comprehensive and largely difficult changeover for our organization - at the same time that a great deal of work has been devoted to improving ongoing operations.
Major efforts have been made, and we can say that they have begun to yield results. After only a year, the programs of improvement in the business areas have contributed to the same earnings per share, in the fourth quarter, as when Volvo Cars was part of the Group.

Strengthening the line of products offered customers
With added financial strength, we have also been able to proceed very aggressively to strengthen the Group. In August we made a bid for Scania and in December we concluded a comprehensive agreement with Mitsubishi. The objective is to create a larger and stronger industrial base from which we will develop and broaden the line of products we are offering customers.
The acquisition of Scania will yield savings over the short term. After three years we expect to reduce annual costs by between SEK 4 billion and SEK 5 billion, mainly by co-ordinating purchasing.
Even greater gains can be expected over the long term. By co-ordinating product development, we will be able to offer customers even more competitive products and to further increase our growth.

Improved operating margins
The economy in our most important markets was favorable in 1999. Viewed as a whole, the North American market was surprisingly strong. Demand was high in Western Europe as well. In contrast, the Asian market continued to be weak, although with some signs of recovery. The markets in South America and Eastern Europe declined sharply.
Operating under these conditions, the Group developed in line with its growth plans. Sales - calculated in number of trucks and construction equipment - set records, and total net sales of the Group rose by 9%. The trend of earnings also looks good. Construction Equipment, Marine and industrial engines and Aero reported their highest income to date. The Group's operating margin rose from 4.5% to 5.2%.

Strong fourth quarter
With the launching of the NH truck program in South America, Volvo Trucks took an important step toward completing its global platform for heavy trucks. Trucks' operating income for the full year increased by 28%, due mainly to increased sales and higher margins in North America. The fourth quarter, with an operating margin of 7.2%, was very strong.
Volvo Buses reported weak results for the year, but the trend of business turned upward during the final quarter. The program of co-ordinating acquired companies is beginning to yield results in the purchasing area. In contrast to the situation for the truck market, the market for construction equipment declined in North America and profitability in the industry as a whole was down. Despite this, Construction Equipment was able to increase its operating margin. The trend of business for excavators is highly promising and is strengthening the line of global products in an important manner.
Marine and industrial engines is gaining market shares in both North America and Western Europe and showed a considerable increase in income. Aero is showing stable growth. Both business areas had higher income in the fourth quarter, compared with the same period a year earlier.

The Group as a whole had a good fourth quarter, with an operating margin of 5.9%. Combined with anticipated high demand in Europe, this offers good prospects for 2000. The North American truck market is indeed expected to become weaker during the year, due in part to large inventories of used vehicles, but demand in Asia and South America is expected to increase.

In summary, I can conclude that during 1999 we have laid a strong foundation for future development, mainly through the Group’s new structure, with a concentration on operations with higher margins. Consequently, I am confidently looking forward to further developing the Group together with my colleagues. The acquisition of Scania is an important part of this development and we are awaiting a decision from the EU on this matter, not later than March 23.

Leif Johansson

The Volvo Group - 1999

Important events and structural transactions in the fourth quarter

Final agreement and closer co-operation between Volvo and Mitsubishi

In December 1999 Volvo and Mitsubishi Motors of Japan concluded a final agreement covering the formation of a marketing, product and industrial co-operation. Volvo also acquired slightly more than 48 million newly issued shares, corresponding to 5% of the voting rights and share capital in Mitsubishi Motors, for the equivalent of SEK 2.3 billion.

The agreement comprises the following main points:

- Mitsubishi Motors is forming a new truck and bus company in which Volvo will have a stake. As an initial step in the formation of this company, Mitsubishi will establish an internal division for its truck and bus operations, not later than April 1, 2000. In a second stage, this division will be converted into a separate subsidiary. Volvo has an option to acquire up to 19.9% of this company not later than December 31, 2001.

- Co-operation between Volvo and Mitsubishi in the truck and bus product areas, in which the first joint project will involve development of the next generation of medium-heavy trucks. This co-operation also pertains to the exchange of knowledge related to future technologies, and to co-operation in the area of components for heavy trucks. In addition, the companies intend to conduct regional co-operation in Asia, South America, Australia and New Zealand. The co-operation also covers increased sales exposure for Mitsubishi Canter trucks in Volvo's dealer network in Europe, in Germany as one example. The co-operation was begun in 1999.

Other important events and structural transactions earlier in 1999

At the end of January, AB Volvo reached an agreement with Ford Motor Company covering the sale of Volvo Cars to Ford. The sale was completed on March 31.

In March, Volvo Construction Equipment (Volvo CE) sold SuperPac in Canada and 65% of Mecalac in France. The marketing company in Spain and parts of Volvo CE's operations in France were divested during the second quarter in line with Volvo CE's strategy of organizing sales mainly through independent dealers rather than its own outlets.

In April, via The AGES Group, Volvo Aero concluded an agreement with Boeing, the aircraft manufacturer, covering the sale of Boeing's surplus spare parts. As a result of this agreement, Volvo Aero acquired the business of Jet Support Corporation, an American company.

During the first half of the year Volvo Aero increased its holding in The AGES Group from 57% to 86% and acquired 78% of the shares of Norsk Jetmotor AS, whose name was changed to Volvo Aero Norge AS following the acquisition.

In September it was announced that Henlys, the British bus manufacturer partly (10%) owned by Volvo, was acquiring Bluebird, an American bus manufacturer, for the equivalent of SEK 3.5 billion. Henlys thereby became the leading manufacturer of school buses in the North American market. New shares were issued in connection with the acquisition and in November Volvo subscribed for new Henlys shares in an amount equal to approximately SEK 149 M. In September Volvo also concluded an agreement to issue a convertible debenture loan of approximately SEK 2 billion to Henlys, which was paid out in October.

Volvo acquires Scania

On August 6, AB Volvo reached an agreement with Investor AB to acquire all Investor’s shares in Scania AB. Following the acquisition of these shares, and including its present holding of Scania shares, Volvo will hold shares equal to 73.3% of the share capital in Scania and 79.9% of the voting rights in the company.

Investor will receive SEK 315 per share in cash for 60% of the Scania shares it holds. For the remaining 40% of its holding, Investor has the choice of receiving SEK 315 per share or newly issued Volvo shares in the ratio of six Volvo shares for each five Scania shares. Investor has the right to receive, for Scania Series A shares, Volvo Series A or Series B shares, and for Scania Series B shares, Volvo Series B shares. If Investor chooses to receive a cash payment exclusively, Investor has declared that it intends to acquire Volvo shares in the open market in an amount equal to 40% of the cash payment received. Between August 6 and December 31, 1999, Investor acquired shares amounting to 5.4% of Volvo's share capital. Volvo's acquisition of Investor's holding of Scania shares is subject to receipt of the required approvals from the pertinent authorities.

In connection with Volvo's agreement with Investor, Volvo's Board of Directors voted to make a public offer to the other Scania shareholders[1] to tender their shares to Volvo. Under terms of the offer, Scania shareholders can choose between a cash payment of SEK 315 per share or newly issued Volvo shares in the ratio of six Volvo shares for each five Scania shares. For each five Scania Series A shares tendered, shareholders may choose between receiving six newly issued Volvo Series A or Series B shares, and for each five Scania Series B shares tendered, shareholders will receive six Volvo Series B shares. The public offer is also subject to Volvo's receipt of required approvals for the acquisition of Scania shares from the pertinent authorities.

The acceptance period for the shareholders in Scania has been extended through March 29, 2000. Assuming that no further extension is granted, the settlement is expected to begin on April 13, 2000.

The alternative whereby Investor and the other Scania shareholders could choose to receive payment in the form of newly issued Volvo shares required the approval of an Extraordinary General Meeting of Volvo shareholders. At such a meeting on September 29, 1999, shareholders approved the Board of Directors' proposal to issue the required number of shares, in which connection the right to subscribe for the new shares accrues exclusively to Scania shareholders, with subscribers having the right and obligation to pay for the new shares by tendering their Scania shares to Volvo.

The Extraordinary General Meeting also voted to increase the number of members of the Board of Directors by one, whereby Marcus Wallenberg, Investor's president, was elected to the Board. The vote, and Marcus Wallenberg's subsequent election as a Board member, requires that the conditions for Volvo's acquisition of Investor's holding of Scania shares be met.

During the fourth quarter Volvo increased its holding in Scania from 43.1% of the share capital to 43.5%, and from 28.5% of the voting rights to 28.6%. Following the end of the fiscal year Volvo has acquired additional Scania shares and presently holds 45.5% of Scania's share capital and 30.6% of the voting rights in the company.

Based on both earlier acquisitions of Scania shares and shares acquired following the end of the fiscal year, the average price - based on the assumption that outstanding shares will be acquired for SEK 315 per share - will amount to SEK 303 per share, equal to a total value of approximately SEK 60.5 billion for Volvo's acquisition of 100% of Scania's shares. Effective in June 1999, Scania has been reported as an associated company.

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[1] *Volvo's offer is not being made, directly or indirectly, in or to the United States of America, Australia, Japan or Canada and it may not be accepted in or from these countries. Accordingly, no offer is being made for Scania's American Depositary Receipts. The Volvo shares that may be exchanged for Scania shares in the offer have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), nor under the laws of any state of the United States of America and may not be offered, sold, resold or delivered, directly or indirectly, in or into the United States of America except pursuant to an exemption from the registration requirements of the U.S. Securities Act.*

Income and financial position

Net sales

Net sales of the Volvo Group for the full year 1999 amounted to SEK 125,019 M, compared with SEK 114,854 M in the preceding year - excluding Volvo Cars - an increase of 9%. Net sales were higher in Trucks, Buses, Marine and industrial engines, and Aero. Net sales of Construction Equipment were virtually unchanged, while the business area's volumes of business and total market shares increased, compared with the preceding year.

Adjusted for other companies divested and acquired, Volvo Group sales increased 8%. Trucks and Marine and industrial engines reported striking increases in sales, 9% and 17%, respectively. Adjusted for acquired and divested companies, Construction Equipment and Aero also reported a favorable trend of sales. Buses net sales were unchanged, after adjustments for acquired companies.

The increase in sales continues to be attributable primarily to established markets. Net sales in North America rose by 20%, and by 11% in Western Europe. These markets combined account for 87% of the Group's net sales. In Asia, demand for Volvo's products has gradually increased and sales have now recovered from the low level of 1998. Construction Equipment's acquisition in South Korea and larger volumes delivered by both Marine and industrial engines and Aero contributed to the increase. Demand in South America and Eastern Europe continued to weaken and sales in these markets fell by 41% and 30%, respectively.

Net sales of the Volvo Group in **the fourth quarter** amounted to SEK 35,213 M (34,523), exceeding sales in earlier quarters of the year as well as in the year-earlier quarter, excluding Volvo Cars. The increase was attributable primarily to Western Europe, while sales in North America levelled off slightly.

The number of Volvo trucks delivered in 1999 increased by 2%, to 85,090 (83,280) and the number of buses and bus chassis delivered decreased by 7%, to 9,500 (10,200). Construction Equipment sold more than 20,000 units for the first time.

Items affecting comparability

Items affecting comparability in 1999 included the gain of SEK 26,695 M on the sale of Volvo Cars to Ford Motor Company. In 1998, provision amounting to SEK 2,331 M was made for restructuring measures; of this amount, SEK 681 M pertained to Cars.

Operating income

Group operating income in 1999 amounted to SEK 33,249 M (6,679). Excluding items affecting comparability, operating income amounted to SEK 6,554 M (1998: 5,202, excluding Volvo Cars), an increase of SEK 1,352 M.

The improvement in income is attributable primarily to larger volumes of sales for the Group as a whole, to lower costs of materials and a favorable trend of prices for Trucks in North America, to the positive effects of structural changes that were taken, and to capital gains on the sale of companies in the Construction Equipment business area. Income was also affected positively by a favorable foreign exchange situation as well as by the reversal of reserves amounting to approximately SEK 240 M, which are considered to be no longer necessary in Trucks' sales-financing operations. These factors compensated for the decline in volume of business in Buses and for higher product development costs for the Group as a whole.

Excluding items affecting comparability, the operating margin was 5.2% (1998: 4.5%, excluding Volvo Cars). All business areas with the exception of Buses and Aero reported operating margins that were higher than the previous year; and all business areas except Buses are meeting Volvo's objective, an operating margin in excess of 5%.

Operating income in **the fourth quarter** of 1999 amounted to SEK 2,092 M (1998: SEK 1,439 M, excluding items affecting comparability and Volvo Cars). Of this amount, SEK 1,419 M was attributable to Trucks, a significant increase compared with earlier quarters of the year. Buses and Aero also reported strong operating income in the fourth quarter.

The increase relative to the fourth quarter of 1998 was due mainly to lower costs of sales and administration and to larger volumes of business. The operating margin in the fourth quarter was 5.9% (4.2).

Income from investments in associated companies
Income from investments in associated companies - mainly Scania, Bilia and Volvofinans - amounted to SEK 567 M (444). Income from the investment in Scania, after amortization of goodwill, amounted to SEK 467 M, see also page 19.

Income from other shares and participations
Income amounting to SEK 170 M (4,526) from other shares and participations pertained mainly to a dividend received from Scania. Income in 1998 included a gain of SEK 4,452 M on the sale of all Pharmacia & Upjohn, Inc. shares held by Volvo.

Net interest income
Net interest income amounted to SEK 484 M (126), of which SEK 175 M was booked in the fourth quarter. Larger interest-bearing assets, primarily as a result of the sale of Volvo Cars, had a favorable impact on net interest income. This was offset in part by the investment in Scania during the year. High costs of borrowing in Brazil and local financing of the acquisition in South Korea at high rates of interest, as well as low interest rates in Europe, had a negative effect on net interest income. Rising levels of interest rates during the second and third quarters, which resulted in a decline in the market value of financial investments, also had a negative effect.

Taxes
Tax expense amounted to SEK 2,270 M (3,140) and consisted largely of current taxes. Based on a ruling by Sweden's Supreme Administrative Court in December 1999, the sale of Volvo Cars did not give rise to a taxable capital gain.

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

Net income
Net income for the year amounted to SEK 32,222 M (8,437) and the return on equity, excluding items affecting comparability and gains on the sale of shares, was 8.0% (9.7).

Net sales by market area				**Change**
SEK M	**% of total**	**1999**	**1998***	**in %**
Western Europe	53	66 158	59 621	11
Eastern Europe	2	2 899	4 160	(30)
North America	34	43 002	35 857	20
South America	3	3 942	6 636	(41)
Asia	5	6 028	5 490	10
Other countries	3	2 990	3 090	(3)
Total	**100**	**125 019**	**114 854**	**9**

** Excluding Cars*

Consolidated income statements, SEK M	1999	1998	Excluding Cars 1998
Net sales	**125 019**	**212 936**	**114 854**
Cost of sales	(98 576)	(163 876)	(89 305)
Gross income	**26 443**	**49 060**	**25 549**
Research and development expenses	(4 525)	(10 104)	(4 265)
Selling expenses	(8 858)	(19 042)	(8 929)
Administrative expenses	(5 723)	(8 091)	(5 652)
Other operating income and expenses	(783)	(2 813)	(1 501)
Items affecting comparability*	26 695	(2 331)	(1 650)
Operating income	**33 249**	**6 679**	**3 552**
Income from investments in associated companies	567	444	
Income from other investments	170	4 526	
Interest income and similar credits	2 049	1 502	
Interest expenses and similar charges	(1 565)	(1 375)	
Other financial income and expenses	126	(157)	
Income after financial items	**34 596**	**11 619**	
Taxes	(2 270)	(3 140)	
Minority interests in net (income) loss	(104)	(42)	
Net income	**32 222**	**8 437**	

** Items affecting comparability in 1999 included income from the sale of Volvo Cars.*
In 1998 provision was made for restructuring costs.

Condensed income statements - Sales finance SEK M	1999	1998	Excluding Cars 1998
Net sales	**7 556**	**10 268**	**6 045**
Operating income	**594**	**470**	**243**
Income from associated companies	144	110	83
Income (loss) after financial items	**738**	**580**	**326**
Taxes	(250)	(295)	(187)
Minority interests	0	4	11
Net income	**488**	**289**	**150**

Gross and operating margin, Group, %	1999	1998	Excluding Cars 1998
Gross margin	21.2	23.0	22.2
Research and development expenses in % of net sales	3.6	4.7	3.7
Selling expenses in % of net sales	7.1	8.9	7.8
Administrative expenses in % of net sales	4.6	3.8	4.9
Operating margin, excluding items affecting comparability	5.2	4.2	4.5
Operating margin	26.6	3.1	3.1

Consolidated balance sheets	Volvo Group excl sales financing *		Sales financing		Volvo Group total	
SEK M	Dec 31, 1999	Dec 31, 1998	Dec 31, 1999	Dec 31, 1998	Dec 31, 1999	Dec 31, 1998
Assets						
Intangible assets	6 469	5 678	149	100	6 618	5 778
Property, plant and equipment	19 686	36 045	102	162	19 788	36 207
Assets under operating leases	1 542	1 817	10 795	20 468	12 337	22 285
Shares and participations	33 151	9 707	741	715	29 213	3 393
Long-term sales finance receivables	0	171	17 817	24 375	17 817	24 546
Long-term interest-bearing receivables	17 605	3 293	0	20	17 605	3 313
Other long-term receivables	2 337	7 484	147	192	2 484	7 676
Inventories	21 041	31 876	397	252	21 438	32 128
Short-term sales finance receivables	9	81	16 487	22 171	16 496	22 252
Short-term interest bearing receivables	1 012	1 422	-	-	1 012	1 422
Other short-term receivables	19 762	24 381	1 773	2 140	21 535	26 521
Marketable securities	20 507	6 850	449	318	20 956	7 168
Cash and bank	7 406	11 969	907	1 087	8 313	13 056
Total assets	**150 527**	**140 774**	**49 764**	**72 000**	**195 612**	**205 745**
Shareholders' equity and liabilities						
Shareholders' equity	97 692	69 375	4 679	7 029	97 692	69 375
Minority interests	544	804	0	56	544	860
Provision for post-employment benefits	2 126	2 906	4	30	2 130	2 936
Other provisions	12 733	21 886	2 099	3 301	14 832	25 187
Loans	13 405	5 909	39 940	58 321	53 345	64 230
Other liabilities	24 027	39 894	3 042	3 263	27 069	43 157
Shareholders' equity and liabilities	**150 527**	**140 774**	**49 764**	**72 000**	**195 612**	**205 745**

* *Sales-finance operations are reported in accordance with the equity method. Internal receivables and liabilities in the sales-finance operations have been excluded.*

The Group's total assets at December 31, 1999 amounted to SEK 195.6 billion, a reduction of SEK 10.1 billion compared with assets on the year-earlier date. The sale of Volvo Cars, as well as other changes in the composition of the Group reduced total assets by SEK 31.8 billion. Total assets were also reduced by SEK 0.3 billion as a result of foreign exchange movements, while total assets were increased in the amount of SEK 11.5 billion as a result of continuing expansion of the Group's sales financing of commercial products. The remaining increase, SEK 10.5 billion, was attributable primarily to investments in fixed assets and shares and to subscription for a convertible debenture loan issued by Henlys Group. During the fourth quarter, Group loans, excluding sales financing, increased by SEK 9.6 billion, due mainly to increased borrowing in preparation for the acquisition of Scania.

Shareholders' equity increased by SEK 28.3 billion during the year and amounted at year-end to SEK 97.7 billion. Net income provided SEK 32.2 billion, while the dividend to AB Volvo's shareholders and translation differences resulting from foreign exchange movements reduced equity by SEK 2.6 billion and SEK 1.4 billion, respectively.

The Volvo Group's net financial assets at December 31, 1999 amounted to SEK 31.0 billion (14.8). The increase of SEK 16.2 billion during the year is shown in detail in the following table.

Change in Net financial assets, SEK billion		
Dec 31, 1998		**14.8**
Cash flow from operating activities	6.4	
Net investments in fixed assets and leasing assets	(4.5)	
Operating cash flow, excluding Sales Financing		**1.9**
Dividend and purchase price received	33,9	
Receivable from Ford	12.1	
Sale of Volvo Cars		46.0
Acquisition of shares in Scania		(23.0)
Acquisition of shares in Mitsubishi Motors		(2.3)
Other acquisitions of companies and shares*		(2.0)
Dividends paid to AB Volvo's shareholders		(2.6)
Other		(1.8)
Dec 31, 1999		**31.0**

** Includes purchase price and net financial liabilities in acquired subsidiaries.*

Cash flow statement

SEK billions	Volvo Group excl sales financing Dec 31, 1999	Volvo Group excl sales financing Dec 31, 1998	Sales financing Dec 31, 1999	Sales financing Dec 31, 1998	Volvo Group total Dec 31, 1999	Volvo Group total Dec 31, 1998
Operating income, excluding gain on sale of Volvo Cars	6.0	6.2	0.6	0.5	6.6	6.7
Depreciation and amortization	3.1	6.4	2.1	3.2	5.2	9.6
Other non-cash items	0.2	(0.6)	0.3	0.6	0.5	0.0
Change in working capital	(1.2)	1.0	0.2	0.5	(1.0)	1.5
Financial items and income taxes paid	(1.7)	(2.1)	0.1	0.3	(1.6)	(1.8)
Cash flow from operating activities	**6.4**	**10.9**	**3.3**	**5.1**	**9.7**	**16.0**
Investing activities						
Investments in fixed assets	(4.8)	(10.4)	(0.1)	(0.1)	(4.9)	(10.5)
Investment in leasing vehicles	(0.5)	(0.9)	(5.1)	(11.8)	(5.6)	(12.7)
Disposals	0.8	1.5	0.8	1.1	1.6	2.6
Sales finance receivables, net	0.0	(0.1)	(7.1)	(12.7)	(7.1)	(12.8)
Operating cash flow	**1.9**	**1.0**				
Investments in shares, net	(25.9)	5.5	-	-	(25.9)	5.5
Loans to external parties, net	(3.2)	(0.3)	-	-	(3.2)	(0.3)
Acquired and divested operations, net	31.0	(5.0)	0.0	(0.6)	31.0	(5.6)
Cash flow after net investments	**3.8**	**1.2**	**(8.2)**	**(19.0)**	**(4.4)**	**(17.8)**
Financing activities					-	-
Increase in bond loans and other loans					16.3	19.5
Dividends paid to AB Volvo's shareholders					(2.6)	(2.2)
Other					(0.1)	(0.2)
					9.2	**(0.7)**
Translation difference on liquid funds					(0.2)	0.3
Increase/decrease in liquid funds					**9,0**	**(0,4)**

In the cash flow statement, the effects of major 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 they did not affect cash flow.

The Volvo Group's operating cash flow in 1999, excluding sales-financing, amounted to SEK 1.9 billion, which was SEK 0.3 billion lower than the pro forma operating cash flow, excluding Volvo Cars[1], in the preceding year. Operating cash flow was charged with SEK 0.8 billion pertaining to the implementation of restructuring measures that were approved, and for which provision was made, in 1998.

Net investments in fixed assets and leasing assets amounted to SEK 4.5 billion (5.1, excluding Volvo Cars).

The Volvo Group's total cash flow after net investments was negative in the amount of SEK 4.4 billion (1998: negative, 17.8). The net of acquired and divested operations provided SEK 31.0 billion, of which SEK 33.9 billion pertained to a dividend received and the purchase price in connection with the sale of Volvo Cars. Acquisitions of shares, mainly those of Scania and Mitsubishi Motors, reduced liquid funds by SEK 25.9 billion, and an increase in loans to external parties resulted in a negative cash flow of SEK 3.2 billion, of which the payment for the convertible debenture loan issued by Henlys was the largest single item. Continuing expansion of Volvo's sales financing of commercial products also resulted in a negative cash flow of SEK 8.2 billion.

Capital expenditures, fixed assets in 1999 amounted to SEK 5.2 billion (1998: 4.9, excluding Volvo Cars). Capital expenditures in Trucks, which amounted to SEK 2.5 billion (2.6), included measures to increase possible production capacity in the assembly plant in New River Valley in the United States, as well as in the Swedish plants that manufacture components. In addition, investments in engine production were made in Brazil, and marketing investments were made in Central and Eastern Europe.

Capital expenditures in Buses increased to SEK 0.6 billion (0.3), due primarily to the ongoing restructuring of the European industrial operations that involve concentration of production capacity in Wroclaw, Poland. Capital expenditures in Construction Equipment amounted to SEK 0.6 billion (0.6), and included completing the rebuilding of the plant in Asheville, in the U.S. The level of capital expenditures in Marine and industrial engines was unchanged, while capital expenditures in Aero rose substantially, due primarily to the agreement concluded with Boeing during the year.

The Group's liquid funds increased by SEK 9.0 billion during the year, to SEK 29.3 billion. The level of liquid funds is high as Volvo prepares to implement the agreement with Investor as well as the offer to the other Scania AB shareholders.

Key ratios	**1999**	**1998**
Income per share, SEK	73.00	19.10
Income per share, excluding items affecting comparability and gain on sales of shares, SEK	12.40	14.00
Return on shareholders' equity, %	34.9	13.0
Return on shareholders' equity excluding items affecting comparability and gain on sales of shares, %	8.0	9.7
Net financial assets at end of period, SEK billion	31.0	14.8
Net financial assets at end of period as percentage of shareholders' equity and minority interests	31.6	21.1
Shareholders' equity and minority interests as percentage of total assets	50.2	34.1
Shareholders' equity and minority interests excluding sales financing, as percentage of total assets	65.3	49.9

[1] *Volvo Group, excluding Volvo Cars in 1998. Volvo's cash flow from financial items in 1998 has also been adjusted to reflect the effects of the amount received for Volvo Cars and the amounts paid for shares in Scania in 1999.*

Financial review by business area

Net sales **SEK M**	**1999**	**1998**	**Change in %**
Trucks	69 549	63 837	9
Buses	15 160	14 286	6
Construction Equipment	19 295	19 469	(1)
Marine and industrial engines	5 761	4 931	17
Aero	9 953	8 584	16
Other	13 070	11 772	11
Eliminations	(7 769)	(8 025)	-
Volvo Group excl Cars*	**125 019**	**114 854**	**9**
Cars	-	103 798	-
Eliminations	-	(5 716)	-
Volvo Group	**125 019**	**212 936**	**-**

** Excluding divested and acquired units the total change was +8%.*

Operating income **SEK M**	**1999**	**1998**
Trucks	3 905	3 061
Buses	241	385
Construction Equipment	1 736	1 549
Marine and industrial engines	314	95
Aero	584	527
Other	(226)	(415)
Operating income excl Cars*	**6 554**	**5 202**
Cars	-	3 808
Volvo Group*	**6 554**	**9 010**
Items affecting comparability	26 695	(2 331)
Operating income	**33 249**	**6 679**

** Excluding items affecting comparability*

Operating margin **%**	**1999**	**1998**
Trucks	5.6	4.8
Buses	1.6	2.7
Construction Equipment	9.0	8.0
Marine and industrial engines	5.5	1.9
Aero	5.9	6.1
Operating margin excl Cars*	**5.2**	**4.5**
Cars	**-**	3.7
Operating margin*	**5.2**	**4.2**
Items affecting comparability	21.4	(1.1)
Operating margin	**26.6**	**3.1**

** Excluding items affecting comparability*

Trucks

Net sales by market area **SEK M**	**1999**	**1998**	**Change** **in %**
Europe	39 926	37 511	6
North America	23 515	18 714	26
South America	2 555	4 074	(37)
Asia	2 003	2 047	(2)
Other countries	1 550	1 491	4
Total	**69 549**	**63 837**	**9**

Note that Trucks' net sales per market that were reported earlier in Volvo's interim report covering operations in the first three quarters of 1999 have been adjusted. The adjusted amounts for the first three quarters are as follows: Europe, SEK 28,213 M; North America, SEK 17,479 M; South America, SEK 1,826 M: Asia, SEK 1,078 M; and Other countries, SEK 1,159 M.

The world market for heavy trucks in 1999 amounted to approximately 750,000 (665,000) units. The market was characterized by strong demand and sharp competition. Markets in Western Europe and North America continued to increase from a high level and the total number of trucks sold in both regions reached record levels, 237,000 (207,000) in Western Europe and 292,000 (236,000) in North America. Demand in the South American market continued to be weak during the year, while activity in Southeast Asia increased slightly, from a low level.

Volvo Trucks delivered 85,090 medium-heavy and heavy trucks in 1999, 2% more than in the preceding year. Deliveries in Western Europe totalled 39,630 (37,810) trucks and the company's share of the market in the heavy-truck class was 15.1% (15.2), based on preliminary figures. Trucks delivered 34,300 (29,310) units in North America. The rate of production in the United States was increased during the year to meet the very high demand, but the increase could not fully match the upturn in the market and Volvo's share of the market for heavy (Class 8) trucks in the U.S. declined slightly, from 11.5% to 10.7%. Demand in South America declined sharply. Trucks' deliveries in Brazil decreased during the year to 3,230 (4,090) units, and to 7,930 (12,070) units in the rest of South America and other parts of the world.

Trucks' net sales amounted to SEK 69,549 M (63,837).

Order bookings declined - from a very high level - toward the end of the year; as a result, the backlog of orders at December 31, 1999 was 21% lower than a year earlier. The decline was attributable to North America. In Europe the order intake continued to be on a high level and the order book was unchanged compared to December 31, 1998.

Trucks' operating income in 1999 rose to SEK 3,905 M (1998: 3,061, excluding items affecting comparability). The increase was attributable to larger volumes of sales in Western Europe and North America, to a favorable trend of prices in North America, and to lower costs of materials as a result of rationalization measures and lower prices for purchased materials. This could compensate for severe competition in Western Europe, investments in marketing in China and India and larger investments in product development. The operating margin rose to 5.6% (1998: 4.8%, excluding items affecting comparability) and the return on operating capital exceeded 25% (1998: >25%, excluding items affecting comparability).

Net sales in **the fourth quarter** amounted to SEK 19,794 M, compared with SEK 18,796 M in the year-earlier period. The increase was due primarily to a larger volume of sales in North America. Operating income in the fourth quarter amounted to SEK 1,419 M, an improvement of SEK 296 M compared with income in the fourth quarter of 1998. The improvement in income was due mainly to increased sales volume and a high rate of production in the European plants, and to lower selling and administrative costs.

The operating margin in the fourth quarter was 7.2% (6.0, excluding items affecting comparability).

Volvo Trucks produced 84,660 (84,770) medium-heavy and heavy trucks in 1999. Utilization of the industrial system continued to be high in both Europe and North America. As a result of the record-high demand, Trucks' production capacity in North America was fully utilized during the year. An investment of slightly more than SEK 300 M was therefore made in the plant in New River Valley and the number of shifts in the plant was increased in order to raise capacity. These measures will increase the possible capacity by 8,000 vehicles, to 38,000 on an annual basis. However, as a consequence of lower order booking at the end of the year the rate of production has been reduced and the plant's capacity is not being fully utilized at the present time. In all, in Trucks capital expenditures in fixed assets reached SEK 2,523 M (2,612) in 1999.

In January of the current year the new Volvo FH12 was named "Truck of the Year 2000." Volvo thereby became the first make to win the industry's most prestigious award for the fifth time. The FH12 is also the first truck model to win the title twice.

Buses

Net sales by market area			**Change**
SEK M	**1999**	**1998**	**in %**
Europe	6 166	5 894	5
North America	7 022	5 574	26
South America	550	910	(40)
Asia	951	1 519	(37)
Other countries	471	389	21
Total	**15 160**	**14 286**	**6**

The overall market for buses with a total weight of more than 16 tons was smaller in 1999, due mainly to lower demand in the unstable South American market. The total market in Western Europe and North America increased slightly but was characterized by severe competition. The market in Southeast Asia continued to be weak in 1999.

Volvo Buses' net sales increased to SEK 15,160 M (14,286). Excluding acquired units, net sales were virtually unchanged, compared with the preceding year. The number of buses and bus chassis delivered was 9,500 (10,200), of which 51% (38) were complete buses. Adjusted for the acquisitions of MASA and Nova BUS, the number of deliveries decreased by 17%, due mainly to the weak markets in South America and Asia. Volvo Buses' shares of the market in Western Europe decreased, due to the delayed introduction of double-decker buses in Great Britain.

At December 31, 1999, the order backlog was 12% higher than on the year-earlier date.

Operating income in 1999 amounted to SEK 241 M, compared with SEK 385 M - excluding items affecting comparability - in 1998. The lower operating income was due primarily to smaller volumes of business in Asia, to production problems in acquired units in North America in the early part of 1999, to costs of establishing operations in Poland, and to expanded operations in Mexico.

The operating margin declined to 1.6% (1998: 2.7%, excluding items affecting comparability), and the return on operating capital decreased to 4% (1998: 8%, excluding items affecting comparability).

Net sales in **the fourth quarter** of 1999, SEK 4,515 M (4,562), were virtually unchanged from fourth quarter 1998 sales. Operating income in the fourth quarter amounted to SEK 169 M (40), an improvement attributable to lower costs of product development, sales and administration.

The operating margin in the fourth quarter of 1999 was 3.7% (0.9, excluding items affecting comparability).

During the year Volvo produced 10,050 (10,230) buses and bus chassis, of which 48% were complete buses. The production system in Europe was utilized to a high degree during the year, while MASA and Nova BUS reported lower utilization of capacity due to low order bookings at the end of 1998. Capital expenditures for fixed assets in Volvo Buses reached SEK 586 M (320) in 1999.

Construction Equipment

Net sales by market area **SEK M**	**1999**	**1998**	**Change in %**
Europe	10 225	9 893	3
North America	5 982	6 645	(10)
South America	507	957	(47)
Asia	1 903	1 092	74
Other countries	678	882	(23)
Total	**19 295**	**19 469**	**(1)**

The world market for heavy construction equipment decreased slightly in 1999. The North American market, the largest in the world, declined by nearly 10%, while the market in Western Europe increased by approximately 15%. Total demand for heavy construction equipment in other markets decreased by approximately 5%. However, signs of recovery in Asia became increasingly clear, in South Korea among other countries and in particular during the second half of the year. The world market for light construction equipment increased by nearly 10%.

Construction Equipment sold more than 20,000 units in a single year for the first time. As a result, the company increased its share of the total market as well as its share in a number of product groups, including excavators, articulated haulers and compact wheel loaders.

Net sales, SEK 19,295 M (19,469), were virtually unchanged from the preceding year. The percentage of light construction equipment sold increased, while there was a weak decline in the heavy-equipment segment. Adjusted for divestments and acquisitions, sales rose 6%. Western Europe, which accounted for 52% (49) of Construction Equipment's total sales, continued to be the largest single market area. North America accounted for 31% (34) and Asia and the rest of the world for 17% of sales, unchanged from the preceding year.

At year-end 1999, the value of the order backlog was 20% higher than on the year-earlier date.

Operating income amounted to SEK 1,736 M (1998: SEK 1,549 M, excluding items affecting comparability), the highest ever for Construction Equipment, and the operating margin was 9% (8). Factors contributing to the positive trend of income included the restructuring of the excavator business, including closing down operations in Eslöv, Sweden and the fact that the operation in South Korea is making a positive contribution earlier than expected. A capital gains on the sale of companies and lower product costs also had a favorable impact on income.

The return on operating capital in 1999 increased to 19% (1998: 18%, excluding items affecting comparability).

Operating income in **the fourth quarter** amounted to SEK 365 M (415). The decrease compared with the year-earlier period was due mainly to lower sales in North America and reduced invoicing as a consequence of inventory adjustments in both dealer and production sectors. Despite this, the operating margin increased to 7.4% (7.2) in the fourth quarter.

During the year Construction Equipment completed the restructuring of its excavator business whereby Volvo's global center for excavators has now been established in South Korea. The launching of the new generation of Volvo excavators has now begun, and the excavators have been very well received in the market.

As part of the program to utilize the plant in South Korea as an industrial base for Construction Equipment's products in Asia, the company also began production of articulated haulers there at the end of 1999. Capital expenditures in fixed assets amounted to SEK 578 M (630), of which the greater part pertained to investments in connection with the changeover of production to handle new products, and to measures designed to increase capacity.

Marine and industrial engines

Net sales by market area SEK M	**1999**	**1998**	**Change in %**
Europe	3 012	2 748	10
North America	1 770	1 412	25
South America	134	153	(12)
Asia	692	476	45
Other countries	153	142	8
Total	**5 761**	**4 931**	**17**

The world market for marine engines increased slightly in 1999, compared with 1998, due to the strong economy in North America. The market for marine engines in Europe strengthened increasingly during the latter part of the year and demand for the year as a whole was on a level with that in 1998. Demand for marine engines in Asia continued to be weak in 1999 and there are no signs of recovery in the near future. The world market for industrial engines continued to grow in 1999 and the trend in Europe was notably strong.

Net sales in 1999 increased by 17%, to SEK 5,761 M (4,931), due primarily to strong sales of marine engines in Europe and North America. Volvo Penta's sales of industrial engines developed favorably, in Asia and Europe in particular, due in part to a sharp increase in demand for generator equipment during the second half of the year.

The value of the order backlog at December 31, 1999 was 35% higher than at the end of 1998.

Operating income amounted to SEK 314 M (1998: 95, excluding items affecting comparability) and the operating margin increased to 5.5% (1.9). Strong growth in sales in all markets, combined with lower operating costs - notably in Europe - contributed to the sharp improvement in trend of income.

The return on operating capital exceeded 25% (7, excluding items affecting comparability).

As a result of the strong trend of business, net sales in **the fourth quarter** of 1999 rose 25%, to SEK 1,591 M, compared with the fourth quarter of 1998, and operating income improved to SEK 49 M, compared with a loss of SEK 58 M in the year-earlier period.

Compared with the preceding year, utilization of capacity was high in both the American and Swedish plants. In China approximately SEK 40 M was invested in construction of a plant for the assembly of Volvo Penta industrial engines.

Aero

Net sales by market area **SEK M**	**1999**	**1998**	**Change** **in %**
Europe	4 576	4 278	7
North America	4 557	3 502	30
South America	193	284	(32)
Asia	491	336	46
Other countries	136	184	(26)
Total	**9 953**	**8 584**	**16**

Air traffic throughout the world increased by 6.4% during the first eleven months of 1999, compared with growth of 2.6% in the corresponding period of 1998. The greatest growth, 9.6% and 7.7%, respectively, occurred in Asia and Europe.

Volvo Aero's sales increased to SEK 9,953 M, 16% higher than in 1998. Strong demand for commercial aircraft engines was the primary factor contributing to the increase. During the year Commercial Engines received substantial orders from General Electric and GE Capital Aviation Services, among other customers. Sales were also higher in Volvo Aero's American company, The AGES Group.

Aero's operating income in 1999 rose to SEK 584 M (527), despite greater pressure on prices throughout the aviation industry. The improvement in income was due primarily to larger sales of components in Commercial Engines, where Volvo Aero Norge AS, which was acquired during the year, contributed SEK 75 M. The profitability in the Commercial Engine Services and Land & Marine Gas Turbines units continued to be low.

At December 31, 1999, the value of the order backlog was 4% higher than at year-end 1998.

Net sales in **the fourth quarter** increased to SEK 2,842 M (2,314). Operating income in the fourth quarter amounted to SEK 190 M (178). The favorable trend of business in Volvo Aero Norge AS and in other operations within Commercial Engines were important in terms of both sales and income.

Sales financing

The expansion of the sales financing business continued in 1999. The increase was attributable largely to operations in North America, Great Britain, France and Spain. Total assets amounted to SEK 49.8 billion, an increase of SEK 11.5 billion, excluding Volvo Cars.

The degree of penetration - the percentage of sales financing and service contracts relative to total new sales - varied from market to market, and with respect to products. The degree of penetration for trucks was 49% in Europe, and 20% in North America, in 1999.

Operating income in the sales-financing operations was affected favorably in the amount of approximately SEK 240 M as a result of the reversal of reserves, which are considered to be unnecessary. Net income from sales financing amounted to SEK 488 M, compared with SEK 150 M in 1998, excluding Volvo Cars.

The millennium shift

The changeover to the new millennium occurred without any major problems within the Volvo Group. Like most major companies and public authorities, Volvo strengthened its preparedness on New Year's Eve and during the following days. During the New Year holidays Volvo conducted a thorough verification of computers, networks, business applications and equipment used in production and buildings. A number of minor defects were found and corrected immediately, but no defects resulted in production problems in any of Volvo's units. Nor did the changeover to the new millennium affect Volvo's products or deliveries from Group suppliers.

The costs of the work for preparations and corrective measures, from the beginning of 1997 to mid-2000, are estimated to be within the framework of the amount announced earlier, approximately SEK 550 M. Analyses show that if Volvo had failed to undertake the preparedness program the consequence would have been halt in production, in development units and in marketing; thus it was clearly essential to implement the program.

Number of employees

At December 31, 1999, the Volvo Group had 53,600 employees, an increase of 1,150 since the beginning of the year, excluding the sale of Volvo Cars. The increase is attributable in part to acquisitions of companies during the year and to the increase in production capacity mainly in Volvo Trucks in North America. As a result of the rationalization program that was announced at the end of 1998, more than 3,500 persons left the Group in 1998 and 1999.

Parent Company

Income from shares in Group companies includes a capital gain of SEK 17,784 M on the sale of the shares of Volvo Personvagnar Holding AB to Ford Motor Company. It also includes dividends amounting to SEK 996 M (22,615) as well as Group contributions received in a net amount of SEK 1,416 M (4,887).

Parent Company income statement

SEK M	**1999**	**1998**
Net sales	**459**	**625**
Operating income	**(588)**	**(494)**
Income from investments in Group companies	18 728	26 705
Income from investments in associated companies	(11)	(4)
Income from other shares and participations	195	35
Interest income and expenses	(6)	(419)
Other financial income and expenses	72	(277)
Income after financial items	**18 390**	**25 546**
Allocations	(227)	(686)
Taxes	384	(816)
Net income	**18 547**	**24 044**

Proposed dividend and authorization to repurchase Company shares

The Board of Directors proposes that the Annual General Meeting approve payment of a dividend of SEK 7.00 per share for 1999, or a total of SEK 3,091M. The dividend paid in the preceding year was SEK 6.00 per share.

Further on, the Board of Directors of AB Volvo intends to propose the Annual General Meeting authorization for the Board regarding repurchase of Company shares. Assuming that the proposed legislation pertaining to repurchase of a company's shares becomes effective as has been announced, this authorization will make it possible, if the Board finds it appropriate, for the Board to decide to repurchase Company shares during the period preceding the next Annual General Meeting. Any repurchase could be effected in the open market or through an offer to the shareholders. It is intended that the authorization to the Board also shall include the possibility to sell repurchased shares, as permitted, within the framework of the proposed legislation.

Göteborg, February 14, 2000

AB Volvo (publ)
The Board of Directors

Quarterly figures, Volvo Group

SEK M unless otherwise specified	4/1998	1/1999	2/1999	3/1999	4/1999
Net sales	**62 616**	**27 072**	**33 905**	**28 829**	**35 213**
Cost of sales	(48 838)	(21 063)	(26 714)	(23 053)	(27 746)
Gross income	**13 778**	**6 009**	**7 191**	**5 776**	**7 467**
Research and development expenses	(2 792)	(1 085)	(1 194)	(1 104)	(1 142)
Selling expenses	(5 596)	(2 120)	(2 232)	(2 129)	(2 377)
Administrative expenses	(2 353)	(1 474)	(1 547)	(1 417)	(1 285)
Other operating income and expenses	(345)	(115)	(114)	17	(571)
Items affecting comparability	(1 181)	26 695	-	-	-
Operating income	**1 511**	**27 910**	**2 104**	**1 143**	**2 092**
Income from investments in associated companies	104	19	88	371	89
Income from other investments	2 364	1	189	8	(28)
Interest income and similar credits	353	667	457	454	471
Interest expenses and similar charges	(473)	(725)	(313)	(231)	(296)
Other financial income and expenses	(27)	127	13	(102)	88
Income after financial items	**3 832**	**27 999**	**2 538**	**1 643**	**2 416**
Taxes	(916)	(435)	(550)	(570)	(715)
Minority interests	(37)	(7)	(48)	(5)	(44)
Net income	**2 879**	**27 557**	**1 940**	**1 068**	**1 657**
Depreciations included above	3 143	1 188	1 381	1 325	1 277
Income per share, SEK	6.50	62.40	4.40	2.40	3.80
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	4/1998	1/1999	2/1999	3/1999	4/1999
Net sales	**34 523**	**27 072**	**33 905**	**28 829**	**35 213**
Cost of sales	(27 160)	(21 063)	(26 714)	(23 053)	(27 746)
Gross income	**7 363**	**6 009**	**7 191**	**5 776**	**7 467**
Research and development expenses	(1 166)	(1 085)	(1 194)	(1 104)	(1 142)
Selling expenses	(2 630)	(2 120)	(2 232)	(2 129)	(2 377)
Administrative expenses	(1 639)	(1 474)	(1 547)	(1 417)	(1 285)
Other operating income and expenses	(489)	(115)	(114)	17	(571)
Items affecting comparability	(500)	26 695	-	-	-
Operating income	**939**	**27 910**	**2 104**	**1 143**	**2 092**

Gross and operating margin excluding Cars

%	4/1998	1/1999	2/1999	3/1999	4/1999
Gross margin	21.3	22.2	21.2	20.0	21.2
Research and development expenses in % of net sales	3.4	4.0	3.5	3.8	3.2
Selling expenses in % of net sales	7.6	7.8	6.6	7.4	6.8
Administrative expenses in % of net sales	4.7	5.4	4.6	4.9	3.6
Operating margin, excluding items affecting comparability	4.2	4.5	6.2	4.0	5.9
Operating margin	2.7	103.1	6.2	4.0	5.9

Net sales **SEK M**	**4/1998**	**1/1999**	**2/1999**	**3/1999**	**4/1999**
Trucks	18 796	15 767	17 972	16 016	19 794
Buses	4 562	2 791	4 388	3 466	4 515
Construction Equipment	5 736	4 115	6 050	4 223	4 907
Marine and industrial engines	1 272	1 230	1 540	1 400	1 591
Aero	2 314	2 167	2 532	2 412	2 842
Other	3 770	3 023	3 301	3 039	3 707
Eliminations	(1 927)	(2 021)	(1 878)	(1 727)	(2 143)
Net sales	**34 523**	**27 072**	**33 905**	**28 829**	**35 213**

Operating income excluding items affecting comparability **SEK M**	**4/1998**	**1/1999**	**2/1999**	**3/1999**	**4/1999**
Trucks	1 123	917	967	602	1 419
Buses	40	(67)	123	16	169
Construction Equipment	415	183	791	397	365
Marine and industrial engines	(58)	45	128	92	49
Aero	178	139	175	80	190
Other	(259)	(2)	(80)	(44)	(100)
Operating income	**1 439**	**1 215**	**2 104**	**1 143**	**2 092**

Operating margins excluding items affecting comparability **%**	**4/1998**	**1/1999**	**2/1999**	**3/1999**	**4/1999**
Trucks	6.0	5.8	5.4	3.8	7.2
Buses	0.9	(2.4)	2.8	0.5	3.7
Construction Equipment	7.2	4.4	13.1	9.4	7.4
Marine and industrial engines	(4.6)	3.7	8.3	6.6	3.1
Aero	7.7	6.4	6.9	3.3	6.7
Other	(6.9)	(0.1)	(2.4)	(1.4)	(2.7)
Operating margin	**4.2**	**4.5**	**6.2**	**4.0**	**5.9**

Income taxes

Effective in 1999, Volvo is applying "Recommendation, Income taxes, RR 9" of the Swedish Financial Accounting Standards Council, which in all essential respects conforms with "Recommendation, Income taxes, IAS 12 (revised 1996)" of the International Accounting Standards Committee. Earlier, Volvo reported deferred tax receivables pertaining to so-called temporary differences and loss carryforwards to the degree that they could be netted against deferred tax liabilities within the same area of taxation. Effective in 1999, deferred tax receivables are reported if it is considered likely that the amounts can be offset against future taxable surpluses. Comparable figures for 1998 have been adjusted in accordance with this new principle. At the beginning of 1998 and 1999, this resulted in increasing the Volvo Group's equity capital in the amounts of SEK 1.5 billion and SEK 1.3 billion, respectively.

Accounting for goodwill in connection with the acquisition of Scania

Volvo has stated earlier that it intended to apply an amortization period of 40 years for the value of the trademark and goodwill attributable to the holding in Scania.

The proposal now issued by the Swedish Financial Accounting Standards Council pertaining to a change in the Recommendation on group accounting (RR 1:96) involves an adaptation to recommendations issued by the International Accounting Standards Committee (IASC). The Committee has stated in strong terms that amortization periods may not exceed 20 years except in very special circumstances. In the United States a change in accounting rules that involves a maximum period of 20 years for amortization of goodwill has recently been proposed. Against this background, Volvo has decided to apply a period of 20 years for amortization of goodwill arising from the acquisition of Scania.

Trucks, units invoiced	**1999**	**1998**	**Change in %**
Europe	42 530	42 350	-
Western Europe	39 630	37 810	5
Eastern Europe	2 900	4 540	(36)
North America	34 300	29 310	17
South America	3 900	6 020	(35)
Asia	2 720	3 760	(28)
Other markets	1 640	1 840	(11)
Total trucks	**85 090**	**83 280**	**2**

Volvo buses/bus chassis, units invoiced	**1999**	**1998**	**Change in %**
Europe	3 630	3 860	(6)
Western Europe	3 430	3 580	(4)
Eastern Europe	200	280	(29)
North America*	3 640	2 730	33
South America	710	1 510	(53)
Asia	1 000	1 650	(39)
Other markets	520	450	16
Total, buses/bus chassis	**9 500**	**10 200**	**(7)**

** The impact on volume resulting from acquisitions of companies in North America amounts to 1,000 delivered buses.*