

Report on 2001 operations



	2001	2000
Net sales, SEK M	180,615	120,392
Operating income excluding restructuring costs, SEK M ¹⁾	3,186	6,668
Operating income, SEK M ¹⁾	(676)	6,668
Income after financial items, SEK M ¹⁾	(1,866)	6,246
Net income, SEK M	(1,467)	4,709
Sales growth, %	50	3
Income per share excluding restructuring costs, during most recent 12 months period, SEK	3.10	11.20
Return on shareholders' equity, excluding restructuring costs, %	1.5	5.0

1) Volvos operating income during 2001 was favorably affected in the amount of SEK 2,038 M attributable to capitalization of development costs. See "Accounting principles", on page 18.

- Extensive product renewal during the year. During the fourth quarter, the Volvo FH and Volvo FM heavy trucks were launched as well as a significant extension of the future product offering within compact construction equipment.
- Operating income in the fourth quarter, excluding restructuring costs, was SEK 773 M (1,670). The integration of the truck companies contributed positively to earnings in the fourth quarter. The result remained weak within Volvo Buses.
- Strong cash flow in the fourth quarter. Positive cash flow for the year.
- The ongoing adaptation to changing market conditions continues, more than 5,700 employees and 1,400 temporary employees and consultants left the Company during 2001.
- The Board of Directors proposes that a dividend of SEK 8.00 per share be paid for 2001.

Comments by the Chief Executive Officer



The acquisition of Renault V.I. and Mack Trucks in 2001 was an important milestone in the development of the Volvo Group. Volvo's business areas now have the volumes, the structure and the geographical scope required for long-term success. During the year, we set the strategy for Trucks, integrated the new units and made key decisions regarding how the Group's synergies will be secured. At the beginning of 2002, Global Trucks was broken up to obtain a structure that is more appropriate

for implementing the truck strategy. Accordingly, Mack Trucks, Renault V.I. and Volvo Trucks became separate business areas, each with a greater presence and able to act more forcefully in the market. The truck companies' joint organization for purchasing, product planning and product development, Volvo 3P is now a separate business unit similar to Volvo Powertrain. These business units will have a key role in securing synergies.

The structural changes were implemented under difficult economic conditions, resulting in many painful, yet necessary decisions. Some 5,700 employees and 1,400 temporary employees and consultants left Volvo during 2001.

In North America, the total market for heavy trucks fell by 34 percent. The market for heavy construction equipment declined by 10 percent, while marine engines for leisure craft declined by 20 percent. In the aftermath of September 11, the aerospace industry experienced one of its worst-ever declines. Markets in Western Europe also weakened during the year, but at a more manageable rate. Growth in Eastern Europe, Asia and South America remained favorable during the fourth quarter, but volumes were not sufficient to offset the drop in North America. Order bookings show that we cannot expect any rapid improvements in North America with respect to trucks. Repurchases and the large inventories of used trucks will continue to put pressure on the market in 2002. We will continue to focus strongly on the structure of North American operations. A decline seems likely in Europe during 2002, but we expect that the total market will remain at a relatively favorable level.

Our focus has been on adapting operations to prevailing business conditions by

reducing capacity and avoiding inventory build-up. In the US, for example, decisions were taken to close the truck plant in Winnsboro, the fabrication plant for construction equipment in Asheville, it was also decided to divest or close down the bus plant in Roswell. To reduce costs, portions of Mack Truck's and Volvo Truck's administrative functions in North America were merged. In Australia, we phased out one assembly plant for trucks, and in Europe, Volvo Bus completed the closure of the body plant in Helsinki.

Despite the difficult economic conditions, the year was characterized by extensive product renewal. The simultaneous launch during the fourth quarter of Volvo Truck's new FH and FM series, with a new generation of 9- and 12-liter engines that meet the Euro 3 requirements, was the largest product introduction. The new trucks received a strong response from the market and the trade press and are now replacing previous models, primarily in the European market. The new range of Volvo trucks will be phased into production during the first quarter of 2002, involving ramp-up costs and significantly lower deliveries for the first quarter. Volvo CE also completed an expansion of the compact segment through acquisitions and initiated a partnership with Komatsu for component development.

Mack, Renault V.I., Volvo Buses, Volvo CE and Volvo Penta also completed significant upgrades of the product lines, as will be described in more detail later in this report.

The negative economic trends were reflected in the Group's operating results, which were unsatisfactory throughout the entire year. The fourth quarter results continued the trend from previous

quarters. The continued focus on cash flow was successful, and we were able to deliver positive cash flow for the full year, particularly during the fourth quarter.

During the fourth quarter, as in previous quarters, Volvo's truck operations was affected not only by the extremely difficult situation in North America, but also by the gradual weakening of the Western European market. These effects were in part offset by positive effects from the integration of the truck companies, which contributed positively to earnings.

Volvo CE was affected by the substantial decline in North America, the weakening in Western Europe and changes in the product mix. Profits for the fourth quarter were clearly lower than during the preceding year, but operations have now been adapted to the prevailing demand.

Volvo Buses results were unsatisfactory during the fourth quarter. The full-year results were strongly affected by the fact that all major markets declined at the same time as the unit underwent a transition with the introduction of a completely new product generation, the TX platform. During the fourth quarter, Volvo Buses took a charge for restructuring its North American operations for city buses. The order situation in the Nordic countries and UK improved notably.

Volvo Penta was able to offset the decline in North America and continues to generate very satisfactory profits, the best ever on a full-year basis, in fact.

Volvo Aero reported reasonably strong earnings, the downturn in the aftermarket was compensated by a favorable development for aerospace components. During the autumn, a number of important new contracts were signed within both components and maintenance.

Financial Services was also pressed by developments in North America. During the year, the organization was reviewed, and the management structure has now been strengthened. Operations are stabilizing in pace with the replacement of doubtful credits with more secure contracts, thus establishing a sound foundation for profitable growth.

It has been a challenging year during which we have taken difficult decisions that affected many employees. Despite this, we have implemented a strong renewal of the product portfolio and extensive restructuring measures that together strengthen Volvo's competitiveness. The Group has a sound structure with well-positioned business areas, which increases our ability to devote even greater energy to the Volvo brands, retailers and customers. We will capitalize on these strengths during 2002.

Leif Johansson

Significant events

Significant events during the fourth quarter of 2001

Volvo CE acquires skidsteer loader and telescopic handler

In December, Volvo CE signed an agreement to acquire the exclusive manufacturing and product design rights to a complete range of eight different skid-steer loaders from Scat Trak. Volvo CE also acquired the telescopic material handler (telehandlers) business from UpRight Inc. including the exclusive rights to product design and manufacturing. In December Volvo CE also announced it has developed its own completely new range of backhoe loaders which will be introduced at ConExpo in March.

The new product ranges will expand Volvo's compact equipment offering to its dealers and customers. Furthermore, telehandlers and skid-steer loaders are key products in the rental industry and the acquired ranges fit well into the rental initiative recently launched by Volvo CE.

In November, Volvo CE and Komatsu announced ongoing discussions regarding a future cooperation in the production and development of construction equipment components.



Volvo Trucks launches the new Volvo FH and FM trucks

In November, Volvo Trucks introduced the new Volvo FH and FM models. The three new models – the Volvo FH12, Volvo

FM12 and Volvo FM9 – have features such as new engines with improved fuel economy, and the fully-automatic Volvo I-Shift gear-changing system.

Volvo Aero signs overhaul agreement with Pratt & Whitney

In October, Volvo Aero signed an agreement with Pratt & Whitney whereby Volvo Aero will overhaul about 25 Pratt & Whitney JT9D engines, for Boeing 747s among other aircraft. The value of the contract is estimated at about SEK 500 M covering 2001–2002, making it the largest overhaul contract signed by Volvo Aero since 1998.

Significant events earlier in 2001

Volvo acquires Mack and Renault V.I.

On January 2, 2001, AB Volvo's acquisition of Renault's truck operations, Mack and Renault V.I., became effective. Under the terms of the acquisition AB Volvo acquired all the shares of Renault V.I., including the operations of Renault V.I. and Mack, in exchange for 15% of AB Volvo's shares. In connection with the acquisition, Renault V.I. Finance was acquired for approximately FRF 154 M.

Divestment of the insurance operations in Volvia

On February 8, 2001, Volvia reached an agreement covering the divestment of its insurance operations to the If insurance company. The divestment was completed in the second quarter of 2001 and resulted in a capital gain of SEK 562 M.

Divestment of shares in Volvofinans

On June 28, 2001, Volvo reached an agreement to divest its entire 50% holding in AB Volvofinans to Ford Credit International, Inc for a total purchase price of SEK 871 M. The divestment was completed during the third quarter with a

marginally positive effect on Volvo's earnings.

Divestment of shares in Mitsubishi Motors Corporation ("MMC")

On June 29, 2001, Volvo received USD 297 M (SEK 3,182 M) as payment for the sale of its 3.3% holding in, and all rights and obligations relating to, MMC. The divestment resulted in a net capital gain of SEK 574 M in the second quarter of 2001.

Volvo divests its Low Cab-Over-Engine (LCOE) business

On July 27, 2001, Volvo Trucks North America agreed to sell its Xpeditor[®] LCOE truck product line to Grand Vehicle Works Holdings, LLC. By divesting its LCOE operations, Volvo meets the condition imposed by the US Department of Justice for approval of its acquisition of Mack and Renault V.I.

AB Volvo and Renault SA

AB Volvo and Renault SA have entered into arbitration regarding the final value of acquired assets and liabilities in Renault V.I. and Mack. This process could result in an adjustment in the value of the transfer. Any such adjustment will affect the amount of acquired liquid funds and Volvo's reported goodwill amount.

The outcome of this arbitration cannot be determined with certainty. However, Volvo believes that the outcome will not lead to an increase in goodwill.

Volvo's repurchase of Company shares

During the beginning of 2001, Volvo repurchased 10% of the total number of shares outstanding in AB Volvo. As a result, a total of SEK 8.3 billion was transferred to the shareholders' of AB Volvo. On February 9, 2001, 5% of the shares were transferred to Renault S.A. as final payment for the shares of Renault V.I. Volvo thus holds 5% of the total number of A and B shares outstanding.

The Volvo Group – 2001

Net sales

Net sales of the Volvo Group for the fourth quarter of 2001 amounted to SEK 48,633 M, compared with SEK 33,237 in 2000. Net sales for the year totaled SEK 180,615 M (120,392), a decline of 5% adjusted for acquired companies and currency effects. Volvo Global Trucks, Volvo Penta and Volvo Aero reported increased net sales during the fourth quarter.

Including Mack and Renault V.I., net sales of Volvo's truck operations nearly doubled and amounted to SEK 33,696 M in the fourth quarter. Despite the significant decline in deliveries, Volvo Global Trucks was able to increase its share of the market in North America. In Europe, the combined heavy-truck market share for Volvo and Renault was maintained at the same level as in 2000, while market shares increased in the medium-heavy segment.

Net sales for Volvo CE remained at a high level, in part due to a favorable currency trend but also as a result of successfully launched products. Volvo Penta's sales remained strong with an increase of 13% in the fourth quarter in a declining market. As a result of increasing sales of components and spare parts for commercial aircraft, Volvo Aero's net sales rose by 8%.

During the fourth quarter of 2001, the Group's net sales increased in all market areas compared with the year-earlier period. Adjusted for acquired companies, net sales declined by 1%. Net sales in Western Europe rose by 43%, most of which was attributable to the acquisition of Renault V.I. Excluding acquired companies, Group net sales in Western Europe declined by 4%. The decline in demand in North America had an adverse effect on net sales. Excluding acquired companies Group net sales in North America declined by 16%. Net sales in Volvo's growth markets – Asia, Eastern Europe and South America – increased by 39% compared with a year earlier and

SEK M	Fourth quarter		Year		Change in %	% of total
	2001	2000	2001	2000		
Western Europe	25,702	17,927	93,147	61,942	+50	52
Eastern Europe	2,429	1,321	6,383	3,676	+74	4
North America	12,454	9,091	54,630	38,029	+44	30
South America	1,473	1,171	6,018	4,730	+27	3
Asia	3,632	2,932	10,862	8,765	+24	6
Other markets	2,943	795	9,575	3,250	+195	5
Total	48,633	33,237	180,615	120,392	+50	100

SEK M	Fourth quarter		Year		Change in %
	2001	2000	2001	2000	
Global Trucks	33,696	17,651	120,140	62,196	+93
Buses	4,044	4,910	16,675	17,187	(3)
Construction Equipment	4,992	5,102	21,135	19,993	+6
Volvo Penta	1,894	1,679	7,380	6,599	+12
Volvo Aero	3,123	2,882	11,784	10,713	+10
Other	3,749	3,465	13,630	12,669	+8
Eliminations	(2,865)	(2,452)	(10,129)	(8,965)	–
Net sales	48,633	33,237	180,615	120,392	+50

SEK M	Fourth quarter		Year	
	2001	2000	2001	2000
Global Trucks	591	685	1,040	1,414
Buses	(231)	162	(524)	440
Construction Equipment	136	261	891	1,594
Volvo Penta	128	63	658	484
Volvo Aero	89	161	653	621
Financial Services	80	151	325	1,499
Other	(20)	187	143	616
Operating income*	773	1,670	3,186	6,668
Restructuring costs	(1,137)	–	(3,862)	–
Operating income (loss)	(364)	1,670	(676)	6,668

* Excluding restructuring costs

%	Fourth quarter		Year	
	2001	2000	2001	2000
Global Trucks	1.8	3.9	0.9	2.3
Buses	(5.7)	3.3	(3.1)	2.6
Construction Equipment	2.7	5.1	4.2	8.0
Volvo Penta	6.8	3.8	8.9	7.3
Volvo Aero	2.8	5.6	5.5	5.8
Operating income*	1.6	5.0	1.8	5.5
Operating income	(0.7)	5.0	(0.4)	5.5

* Excluding restructuring costs

accounted for 15% of the Group's total sales. Excluding Mack and Renault V.I., net sales on these markets rose by 21% compared with the preceding year.

During 2001, Western Europe and North America accounted for 82% of the Group's total sales, compared with 83% in the preceding year. The distribution of net sales by market is further specified in the table below:

Income from investments in shares

Income from investments in shares for the year amounted to SEK 1,322 M (411), attributable mainly to a dividend received from Scania and a capital gain from the divestment of shares in Mitsubishi Motors. In the fourth quarter income from investments in shares amounted to a loss of SEK 5 M (loss 43).

Operating income

Operating income, excluding restructuring costs amounted to SEK 773 M in the fourth quarter of 2001, compared with an operating income of SEK 1,670 M in the corresponding period a year earlier. Operating margin for the fourth quarter was 2%, compared with 5% in 2000.

Global Trucks' operating income for the fourth quarter of 2001 was SEK 591 M (685). The downturn in North America shows no sign of improvement but the effect was to some extent offset by continued positive earnings in Europe and positive effects from the integration of the truck companies.

Lower volumes and low capacity utilization, particularly in the North American plants, were mainly responsible for the operating loss in Buses of SEK 231 M (income: 162) in the fourth quarter. Construction Equipment reported operating income of SEK 136 M (261).

Operating income for Volvo Penta amounted to SEK 128 M compared with SEK 63 M in the year earlier period. Volvo Aero was affected by the downturn in the air traffic and operating income decreased to SEK 89 M (161).

Consolidated income statements ¹⁾ SEK M	Fourth quarter		Year	
	2001	2000	2001	2000
Net sales	48,633	33,237	180,615	120,392
Cost of sales	(40,321)	(26,572)	(149,477)	(97,131)
Gross income	8,312	6,665	31,138	23,261
Research and development expenses	(1,361)	(1,291)	(5,391)	(4,876)
Selling expenses	(4,242)	(2,611)	(14,663)	(9,285)
Administrative expenses	(1,514)	(1,221)	(6,474)	(4,651)
Other operating income and expenses	(497)	20	(3,071)	309
Income from Financial Services	80	151	325	1,499
Income from investments in shares	(5)	(43)	1,322	411
Restructuring costs	(1,137)	-	(3,862)	-
Operating income (loss)	(364)	1,670	(676)	6,668
Interest income and similar credits	388	312	1,653	1,588
Interest expenses and similar charges	(629)	(549)	(2,653)	(1,845)
Other financial income and expenses	58	(46)	(190)	(165)
Income (loss) after financial items	(547)	1,387	(1,866)	6,246
Taxes	53	(194)	326	(1,510)
Minority interests in net (income) loss	7	(6)	73	(27)
Net income (loss)	(487)	1,187	(1,467)	4,709
Income (loss) per share, SEK	(1.20)	3.00	(3.50)	11.20
Average number of shares	419.4	397.4	422.4	421.7

¹⁾ Financial Services reported in accordance with the equity method. See further 'Accounting principles' on page 19.

Key operating ratios, Volvo Group %	Fourth quarter		Year	
	2001	2000	2001	2000
Gross margin	17.1	20.1	17.2	19.3
Research and development expenses in % of net sales	2.8	3.9	3.0	4.1
Selling expenses in % of net sales	8.7	7.9	8.1	7.7
Administrative expenses in % of net sales	3.1	3.7	3.6	3.9
Operating margin ¹⁾	1.6	5.0	1.8	5.5
Operating margin	(0.7)	5.0	(0.4)	5.5

¹⁾ Excluding restructuring costs

Condensed income statement – Financial Services				
SEK M	Fourth quarter		Year	
	2001	2000	2001	2000
Net sales	2,314	2,695	9,495	9,678
Income after financial items	80	151	325	1,499
Taxes	(53)	(41)	10	(471)
Net income	27	110	335	1,028

Key ratios – Financial Services %		
	Jan - Dec 2001	Jan-Dec 2000
Return on shareholders' equity, %	4.2	14.1
Equity ratio at end of period, %	10.3	11.5
Asset growth, %	10.5	17.8

Operating income within Financial Services amounted to SEK 80 M (151). The losses and repossessions on the US portfolio continued to decrease in the fourth quarter, compared with the three earlier quarters, although they still remain at a high level.

Group operating income for the year was negatively affected by provisions of SEK 292 M relating to a deficit within the Volvo Group's Swedish pension foundation for securing commitments in accordance with the ITP plan. The deficit is a result of the downturn on the stock markets. The deficit is distributed among Global Trucks, SEK 86 M, Buses, SEK 10 M, Construction Equipment, SEK 21 M, Volvo Penta, SEK 11 M, Volvo Aero, SEK 33 M, Financial Services, SEK 4 M, and AB Volvo together with other companies, SEK 127 M. See also page 19.

Operating income for the year, excluding restructuring costs amounted to SEK 3,186 M (6,668). Earnings were favorably affected by SEK 2,038 M, which was attributable to capitalization of development costs (see also page 22). The distribution of these costs was SEK 1,586 M for Global Trucks, SEK 153 M for Buses, SEK 204 M for Construction Equipment, SEK 81 M for Volvo Penta and SEK 14 M for Volvo Aero.

During the year the number of employees was reduced by more than 5,700, adjusted for acquired companies.

Restructuring costs

The prevailing business conditions have made it necessary to adapt the Group's structure and capacity. In 2001, restructuring cost of SEK 3,862 M affected earnings, of which SEK 3,106 M for Global Trucks, SEK 392 M for Buses, SEK 364 M for Volvo CE.

Within Volvo Global Trucks it was decided to implement a number of actions during the next three years in order to secure the coordination gains made possible through the acquisition of Mack and Renault V.I. For the period up to and including 2003, it is estimated that restruc-



turing costs will total slightly more than SEK 4 billion. In the fourth quarter a restructuring charge of SEK 507 M was recorded in addition to the SEK 2,599 M reported earlier in 2001. Actions taken in the fourth quarter include closure of the assembly plant in Lima, Peru, early retirement plans at Renault and costs for dealer restructuring in the US. The remaining restructuring measures will be announced later and charged against earnings as incurred during the period 2002 to 2003.

Net interest expense

Net interest expense for the year amounted to SEK 1,000 M (257). The higher net interest expense was mainly due to the weaker financial position, see page 8, partly offset by increased yield on net financial assets and lower funding costs in Brazil. In the fourth quarter, net interest expense amounted to SEK 241 M compared with SEK 224 M for the third quarter of 2001.

Taxes

During 2001, a tax income of SEK 326 M was reported compared with a tax expense of SEK 1,510 M for the corresponding period in the preceeding year. The tax income relates mainly to an increase in deferred tax assets.

Residual value exposure

Volvo is exposed to residual value risks from buy-back and operating lease agreements. Management of these risks is split between Financial Services and the other business areas. It is Volvo's policy to provide for this exposure on a continuing basis, so that the value of these vehicles is in line with current and expected future price levels on used vehicles.

During 2001, Volvo has increased its provisions for residual value risks as a consequence of declining used truck prices, primarily in the US. Volvo believes that current levels of provisions are satisfactory

with respect to current and expected future price levels.

The Volvo Group's total assets

The Volvo Group's total assets at the end of December, 2001, amounted to SEK 260.9 billion, corresponding to an increase of SEK 60.2 billion compared with year-end 2000. Acquired and divested companies, primarily the acquisition of Mack and Renault V.I., represented an increase of SEK 53.7 billion. In addition, the weakening of the Swedish krona resulted in an increase in total assets of SEK 13.8 billion. The continued expansion within Financial Services contributed to the increase in assets offset in part by divestment of shares and reductions in inventories and receivables. During the fourth quarter total assets were reduced by SEK 0.7 billion mainly as a result of reduced inventories and a weakening Swedish krona, which was partially offset by increased liquid funds.

The purchase price for the shares of Mack and Renault V.I. was set at SEK 10.7 billion, based on the Volvo share price on the acquisition date (January 2, 2001). The fair value of acquired assets and liabilities was established in the fourth quarter and goodwill related to the acquisition was set at SEK 8.4 billion. The preliminary goodwill was previously estimated at SEK 7.3 billion. See also information regarding arbitration between AB Volvo and Renault SA on page 4.

Shareholders' equity amounted to SEK 85.2 billion as of December 31, 2001. Net debt on the same date amounted to SEK 7.0 billion. The changes in shareholders' equity and net financial position since year-end are specified in the tables below.

The Volvo Group's cash flow

Cash flow after net investments, excluding Financial Services, amounted to SEK 21.3 billion, of which SEK 2.4 billion in the fourth quarter. Excluding the effects of acquisitions and divestments, cash flow for the Group was SEK 3.4 billion, of which

Consolidated balance sheets						
SEK M	Volvo Group excl Financial Services ¹⁾		Financial Services		Volvo Group total	
	Dec 31 2001	Dec 31 2000	Dec 31 2001	Dec 31 2000	Dec 31 2001	Dec 31 2000
Assets						
Intangible assets	17,366	6,781	159	144	17,525	6,925
Property, plant and equipment	30,370	19,652	2,864	2,579	33,234	22,231
Assets under operating leases	15,020	4,245	14,060	11,883	27,101	14,216
Shares and participations	35,145	37,366	203	778	27,798	30,481
Long-term customer finance receivables	19	10	26,256	23,026	26,075	22,909
Long-term interest-bearing receivables	5,627	5,091	0	23	5,554	5,032
Other long-term receivables	9,017	2,186	73	90	8,902	2,232
Inventories	30,557	22,998	518	553	31,075	23,551
Short-term customer finance receivables	95	5	23,732	19,168	22,709	18,882
Short-term interest bearing receivables	6,799	14,195	82	1	2,525	14,196
Other short-term receivables	29,798	22,696	2,647	2,627	31,044	24,120
Marketable securities	12,997	5,682	517	3,886	13,514	9,568
Cash and bank	11,877	5,276	2,417	1,764	13,869	6,400
Total assets	204,687	146,183	73,528	66,522	260,925	200,743
Shareholders' equity and liabilities						
Shareholders' equity	85,185	88,338	7,550	7,663	85,185	88,338
Minority interests	391	593	0	0	391	593
Provision for post-employment benefits	14,632	2,619	15	13	14,647	2,632
Other provisions	14,085	8,277	4,342	6,620	18,427	14,941
Loans	29,710	18,233	57,956	49,048	81,568	66,233
Other liabilities	60,684	28,123	3,665	3,178	60,707	28,006
Shareholders' equity and liabilities	204,687	146,183	73,528	66,522	260,925	200,743

1) Financial Services, reported in accordance with the equity method.

Change of Net financial position		
SEK bn	Fourth quarter	Year
Beginning of period	(8.6)	9.4
Cash flow from operating activities	3.6	9.7
Investments in fixed assets, net	(1.7)	(7.1)
Customer Finance receivables, net	0.2	0.8
Investments in shares, net	0.4	3.2
Acquired and divested operations	(0.1)	14.7
Cash-flow after net investments, excluding Financial Services	2.4	21.3
Debt in acquired and divested operations ¹⁾	1.3	(9.3)
Repurchase of own shares	0.0	(8.3)
Receivable from Ford Motor Company	0.0	(12.1)
Dividend paid	0.0	(3.4)
Change in provision for post employment benefits	(2.0)	(2.5)
Currency effect	0.0	(2.6)
Other	0.1	0.5
Total change	1.6	(16.4)
Net financial position at end of period	(7.0)	(7.0)

1) Refers to debt in Mack, Renault VI, Arrow Truck Sales and Prevost/Nova Bus.

SEK 2.1 billion in the fourth quarter. The positive development during 2001 and during the fourth quarter was mostly related to a reduction in tied-up operating capital, in particular inventories and receivables, while net interest- and tax payments had an adverse effect. All business areas except Volvo Aero reported positive cash flow in 2001. The transfer of interest-bearing receivables from the truck operations in North America to Financial Services had a positive effect on cash flow of SEK 0.7 billion in the third quarter. Cash flow from investments in shares of SEK 3.2 billion was mainly related to the sale of Volvo's holding in Mitsubishi Motors Corporation in the second quarter. Cash flow from acquired and divested companies of SEK 14.7 billion mainly pertained to the final payment of SEK 12.1 billion from the sale of Volvo Cars, and acquired liquid funds within Mack and Renault V.I. The purchase price paid for Mack and Renault V.I. did not affect cash flow, since the payment was made with Volvo shares held by AB Volvo.

Cash flow after net investments within Financial Services was negative in an amount of SEK 5.3 billion of which SEK 1.2 billion was reported in the fourth quarter. The divestment of the holding in Volvofinans had a positive effect on cash flow of SEK 0.9 billion during year while the sale of Volvia's insurance operations had an adverse effect of SEK 1.7 billion. During the first quarter of 2001, Volvo repurchased 10% of the total number of shares outstanding, of which 5% were transferred to Renault SA. In total, the repurchase of shares reduced liquid funds by SEK 8.3 billion. During the second quarter, a dividend of SEK 3.4 billion was paid to the shareholders of AB Volvo. Net borrowing during 2001 amounted to SEK 6.2 billion, of which SEK 3.7 billion in the fourth quarter.

Cash flow statement				
SEK bn	Fourth quarter		Year	
	2001	2000	2001	2000
Operating activities				
Operating income ¹⁾	(0.4)	1.5	(1.0)	5.2
Add depreciation and amortization	1.2	1.1	7.0	3.8
Other non-cash items	0.1	(0.4)	0.0	(1.6)
Change in working capital	2.9	0.1	6.0	(3.0)
Financial items and income taxes paid	(0.2)	(0.4)	(2.3)	(0.8)
Cash flow from operating activities	3.6	1.9	9.7	3.6
Investing activities				
Investments in fixed assets	(1.9)	(1.6)	(7.7)	(5.1)
Investment in leasing vehicles	(0.2)	(0.6)	(0.5)	(0.6)
Disposals of fixed assets and leasing vehicles	0.4	0.5	1.1	0.7
Customer Finance receivables, net	0.2	0.0	0.8	0.0
Investments in shares, net	0.4	0.0	3.2	(1.6)
Acquired and divested operations	(0.1)	0.4	14.7	0.0
Cash-flow after net investments excl Financial Services	2.4	0.6	21.3	(3.0)
Cash-flow after net investments, Financial Services	(1.2)	(3.1)	(5.3)	(4.1)
Cash-flow after net investments, Volvo Group total	1.2	(2.5)	16.0	(7.1)
Financing activities				
Change in other loans, net	3.7	2.5	6.2	8.1
Loans to external parties, net	1.5	2.0	0.2	0.3
Repurchase of own shares	0.0	0.0	(8.3)	(11.8)
Dividend to AB Volvo' shareholders	0.0	0.0	(3.4)	(3.1)
Other	0.1	0.0	0.1	0.0
Change in liquid funds excl translation differences	6.5	2.0	10.8	(13.6)
Translation difference on liquid funds	(0.1)	(0.1)	0.6	0.3
Change in liquid funds	6.4	1.9	11.4	(13.3)

1) excluding Financial Services

Change in shareholders' equity		
SEK bn	Year	
	2001	2000
Beginning of period	88.3	97.7
Translation differences	1.0	1.0
Repurchase of own shares	(8.3)	(11.8)
Issue of shares to Renault SA	10.4	0.0
Dividend to AB Volvo's shareholders	(3.4)	(3.1)
Minimum liability adjustment for postemployment benefits	(1.4)	-
Other changes	0.1	(0.2)
Net income	(1.5)	4.7
Balance at end of period	85.2	88.3

Number of Volvo shares		
	Dec 31 2001	Dec 31 2000
Number of shares outstanding	419.4	397.3
Average number of shares outstanding during the period	422.4	421.7
Company shares held by AB Volvo	22.1	44.2

Financial review by business area

Volvo Global Trucks

When Mack Trucks and Renault V.I. (today known as Renault Trucks) joined the Volvo Group at the beginning of 2001, AB Volvo formed a new business area called Volvo Global Trucks. Volvo Global Trucks incorporated the three truck companies, as well as a dedicated organisation for the co-ordination of Product Planning, Purchasing and Product Development, known as 3P.

During 2001, Volvo Global Trucks formulated a strategy for the future of the three truck companies.

A program to increase operating efficiency was launched. As part of this program, Volvo's assembly operations in Wroclaw, Poland and in Lima, Peru were shut down. The closure of Mack's plant in Australia was completed and the closure of the plant in Winnsboro, USA, is scheduled by the end of 2002. In total, Volvo Global Trucks' workforce was reduced by 3,300 employees during the year.

Early in the year, a cash flow improvement program, named "Cash 2 Grow" was launched, which produced immediate results.

A business plan and a product plan were presented, as well as a brand management platform. An international sales strategy was formulated, defining which of the three brands would take the lead in each particular part of the world.

A program for optimization in North America resulted in several back-office functions, such as Human Resources, Communications and IT, being merged. The customer support offering and the product offering are being strengthened. An optimization project for Europe is ongoing, and Volvo and Renault will continue to compete on the main markets.

At the beginning of 2002, the Volvo Group decided on a new organisational structure, separating Mack Trucks, Renault Trucks and Volvo Trucks from the Volvo Global Trucks business area and making

each of them a business area. The three truck brands will operate as separate, customer-focused companies, coordinated by the Volvo Group Headquarters.

Total market

The North American heavy truck market weakened considerably during the year, and no signs of an imminent recovery were visible during the fourth quarter. Total retail sales amounted to 170,000 trucks, a decrease of 34% compared with 2000. Inventory levels were reduced from a level of 50,000 trucks at the end of 2000, to 25,000 by the end of 2001.

The total market for heavy trucks in Western Europe amounted to 237,000 trucks, a decrease of 4% compared with the preceding year.

The Brazilian market, which accounts for more than two thirds of the South American truck deliveries, remained strong during the year, with deliveries of heavy trucks amounting to 30,000, compared with 29,000 in 2000.

Deliveries¹

Volvo Global Trucks' total deliveries during 2001 amounted to 155,311 vehicles, a decline of 17% compared with 2000.

In Europe, deliveries from Volvo Global Trucks amounted to 98,041, down 9%.

In North America, Volvo Global Trucks delivered a total of 34,645 vehicles, a decline of 40% compared with a year earlier. In South America, however, Volvo Global Trucks' deliveries rose 13% to 5,789.

In an effort to maintain production in line with order bookings, a series of 25 down-days was implemented at Mack during the fourth quarter, and at Volvo's plants in North America additional 10 down-days were taken in the fourth quarter.

Production of the new Mack commenced during the spring, and the new Renault vehicles went into production during the autumn of 2001. The new range of Volvo trucks will be phased into produc-

tion during the first quarter of 2002, involving ramp-up costs and significantly lower deliveries for the first quarter.

Order situation¹

The total number of orders for Volvo Global Trucks for the year 2001 was 12% below the figure for the preceding year. Orders in Europe were down by only 4%, and in North America by 35%.

Market share¹

Volvo Global Trucks gained market share in North America in 2001. At the end of 2000, Volvo's share of the heavy truck market was 10.6% and Mack's was 12.7%. By the end of 2001, Mack's market share had risen to 14.3%, while Volvo's fell slightly to 10.0%.

In Western Europe, Renault retained its market share in the heavy truck segment (over 16 tons) of 11.9% during the year, while Volvo's share declined from 14.9% to 14.5%. In the medium-heavy segment (10-16 tons), Renault's share of the market increased to 17.1% (14.3) and Volvo's market share to 8.8% from 8.2% a year earlier.

Financial performance

Net sales for the fourth quarter amounted to SEK 33,696 M, with total net sales for the year amounting to SEK 120,140 M. Operating income, excluding restructuring costs, recovered during the fourth quarter and amounted to SEK 1,040 M for the year, of which SEK 591 M was recorded during the last quarter. The integration of the truck companies had a positive effect on earnings in the fourth quarter.

Cash flow for the year was positive, particularly during the fourth quarter.

Restructuring

The restructuring program announced in the first quarter of 2001 is developing according to plan and in the fourth quarter a restructuring charge of SEK 507 M was recorded in addition to the SEK 2,599 M reported earlier in the year. Restructuring

1) Including Mack and Renault V.I. in 2000.

measures during the fourth quarter included closure of the assembly-plant in Peru, early retirement plans in Renault and costs for dealer restructuring in the US. The remaining restructuring measures of about SEK 1 billion, will be charged against earnings as incurred, during 2002-2003.

New products

A complete product renewal was carried out during the year. In the spring, Mack launched the Granite, a versatile truck for construction applications. Early in the autumn, Renault presented the new version of its long-haul truck, the Magnum, as well as the Midlum18t and 4x4. Later in the autumn, Volvo launched its totally new FH/FM-series, with a new 500 bhp engine for the FH. All the new products were well-received by both customers and the media.

Buses

Total market

The traditionally strong Volvo markets, for example the US and UK, were affected adversely by the general downturn in the economy, which was accelerated by unexpected events. The terror attacks in September, the foot and mouth epidemic in the UK and the difficulties in the Middle East affected travel patterns and tourism with a resulting negative effect on coach markets in Europe and North America. South America also experienced a slow down, emphasized by the financial development started in Argentina.

Deliveries

The deliveries of buses from Volvo amounted 9,953 (11,015) units during 2001. During the fourth quarter the number of delivered Volvo buses was 2,791 (2,975). The decline was attributable mainly to lower volumes in the Nordic area, Continental Europe, Mexico as well as weak deliveries of coaches in the US. This was compensated by a strong development in China and Middle East. Deliveries of complete buses amounted to 43% (47) of the total.



The new Volvo FM 12 was introduced during the autumn of 2001.

SEK M	Volvo Global Trucks, net sales by market area				
	Fourth quarter		Year		Change in %
	2001	2000	2001	2000	
Europe	20,035	10,810	69,794	36,541	+91
North America	8,542	4,325	33,747	17,201	+96
South America	973	915	3,994	3,111	+28
Asia	1,793	1,053	4,683	3,432	+36
Other markets	2,353	548	7,922	1,911	+315
Total	33,696	17,651	120,140	62,196	+93

Market share

The tough market conditions in Europe, the US and Canada resulted in increased price competition, which affected Volvo's market share negatively. Volvo's intention to stay out of unprofitable deals resulted in a negative effect on the market share development in continental Europe, the US and Brazil. Asia, and in particular China, showed strong development. A further market-adapted product offering to the Chinese luxury coach market made it possible to retain the leading position despite stronger competition. Volvo regained its leading position on the important Hong Kong city-bus market. In South American markets, excluding Brazil, Volvo posted a positive market share development.

Order situation

Order bookings at the end of December were at the same level as a year earlier. A major positive development was posted in the Nordic region during the fourth quarter of 2001 with sizeable orders to some major customers, which means that the utilization in the European industrial system will be significantly improved. Nova Bus received an order of a minimum of 825 buses to be delivered to the city of Montreal starting in 2003. South Africa, Thailand, China and Middle East are other markets that report a favorable order situation.

Financial performance

Net sales in 2001 declined to SEK 16,675 M (17,187). Sales for the fourth quarter amounted to SEK 4,044 M (4,910). Volvo changed ownership in the joint venture in North America from 51 percent to 50

percent. As a consequence, Prevost and Nova are consolidated using the proportional method as of October 1, 2001 which has affected the sales value and the operating income.

The operating loss, excluding restructuring costs was SEK 524 M compared with an operating income of SEK 440 M in 2000. In the fourth quarter the operating loss amounted to SEK 231 M (income: 162). The main reasons for the loss are the lower deliveries in Europe and North America and, as a consequence of the reduced volume, a low capacity utilization in the production facilities in the same markets. Important investments in the product development and launch of the TX platform also represented a significant cost during 2001. A notably positive development in cash flow was attained through tight capital control of inventories and receivables.

Restructuring

In the later part of 2001 some major actions were taken in terms of Volvo Buses' North American operations. It was announced that the Nova Bus operations in Roswell, US would be either divested or closed down during 2002. A restructuring cost of SEK 350 M relating to the shut down of the bus plant in Roswell was recorded in the fourth quarter. The transit bus operations will be focused on Canada based on the aforementioned sizeable order to the city of Montreal providing a viable foundation for the city bus business.

Throughout 2001 Volvo successively implemented measures to adapt the cost structure to the prevailing order situation. Major reductions in the workforce were implemented in Europe and in North America. The number of employees at the end of 2001 was 6,228 (9,060), with 1,015 of the deviation compared with last year due to consolidating Nova Bus and Prevost with the proportional method.

New products and markets

During the fourth quarter of 2001



SEK M	Fourth quarter		Year		Change in %
	2001	2000	2001	2000	
Europe	1,997	2,119	6,636	6,949	(5)
North America	984	2,051	6,847	7,723	(11)
South America	173	164	757	732	+3
Asia	655	425	1,839	1,269	+45
Other markets	235	151	596	514	+16
Total	4,044	4,910	16,675	17,187	(3)

local introductions of the TX-platform continued. The customers and trade press received the new products very well. As a result, Volvo received an award – the Busbuilder of the year 2002 – for its new product range. Accordingly, Volvo has one of the most modern product ranges in the bus industry, including complete buses and chassis for city and intercity traffic as well as coaches, which meet customers and environmental demands as well as internal requirements for production efficiency.

Volvo entered India – a new market – in October 2001 with the start of production of a luxury coach in the Volvo factory in Bangalore.

Construction Equipment

Total market

The total combined world market for heavy construction equipment and compact equipment declined by 7% during the fourth quarter, compared with the corresponding period in the preceding year. In North America the downturn was 9%

and in both Europe and International markets the decrease was 7%. For the full year the total combined world market was down 7%.

The market for heavy construction equipment declined by about 9% in the fourth quarter, of which North America showed a decline of 11%, Europe approximately 8% and other markets about 8%.

For compact equipment the market fell about 6% during the quarter of which North America represented a decline of 3%, Europe 6% and other markets 6%. For the full year, the heavy equipment world market fell 8% and the compact equipment market by 6%.

Market share

Compared with the corresponding period in the preceding year, Volvo CE was able to strengthen its share of the market in several important geographical and product areas mainly due to recently launched products backed by a strong brand name.

Order situation

The value of the order bookings as of December 31, 2001 was 12% lower than on the same date in 2000 and 5% lower compared with the end of September 2001. The order situation is mainly due to lower market demand. In order to reduce the breakeven level and to increase the efficiency of Volvo CE's Swedish wheel loader operation, a proposal was made in October to move the assembly from Eskilstuna and concentrate the production of wheel loaders in Sweden at the plant in Arvika.

Financial performance

Volvo CE's net sales during the fourth quarter declined slightly to SEK 4,992 M (5,102). For the full year, sales increased to an all-time-high of SEK 21,135 M (19,993), an increase of 6%. The increase in sales is mainly related to currency effects, successfully launched products and increased market shares.

Operating income, excluding restructuring costs in the fourth quarter amounted to SEK 136 M (261). The operating margin for the fourth quarter was 2.7% (5.1). For the full year, operating income was SEK 891 M (1,594) and operating margin 4.2%. Restructuring costs of SEK 280 M were reported during the fourth quarter relating to a redundancy program launched earlier in 2001, and to the restructuring of the operations in Asheville in the US. These actions continued during the fourth quarter and, as a consequence, a total of 900 employees left the company.

The extensive program, launched during the autumn, to balance the slow down in Volvo CE's major markets and to improve financial performance, is paying off. The Company was able to reduce capital expenditures, focus on projects with short pay-off times, reduce costs and to maintain, and in some areas, increase prices.

In line with Volvo CE's strategy to have fewer, larger, independent distributors who are able to provide complete service and support, the Company announced in December the sale of its branch in Hamburg to Kuiken N.V of the Netherlands



SEK M	Fourth quarter		Year		Change in %
	2001	2000	2001	2000	
Europe	2,504	2,609	10,667	10,284	+4
North America	1,269	1,396	6,145	5,823	+6
South America	200	224	847	776	+9
Asia	795	778	2,773	2,484	+12
Other markets	224	95	703	626	+12
Total	4,992	5,102	21,135	19,993	+6

who is already Volvo CE's exclusive distributor in the Netherlands, Belgium and Luxembourg.

New products

In December Volvo CE announced the development of its own and completely new range of backhoe loaders. The new backhoe will be produced in Poland and it will be shown to customers for the first time at ConExpo in March. The annual average world market for backhoe loaders is between 50,000 – 70,000 machines.

Volvo CE also announced two acquisitions in December. The Company has acquired the telehandler business from UpRight Inc. and the skidsteer loader business from Textron's subsidiary OmniQuip. In both cases Volvo CE has bought design and manufacturing rights, but no manufacturing facilities. Both product ranges will be redesigned, branded Volvo and marketed globally. The range of skidsteer loaders will hit the market during the autumn of 2002. The total world-wide market for skidsteer loaders is estimated at

90,000 units per year. Sales start for the new telehandler is expected in 2003. The total world-wide market for telehandlers is around 30,000 units a year.

In November, Volvo CE and Komatsu announced that they initiated discussions regarding future cooperation in the production and development of construction equipment components. Tangible outcomes from the discussions are expected by mid-year 2002.

Volvo Penta

Total market

The world market for marine and industrial engines grew weaker toward year-end, primarily due to an increasing slowdown in the global economy. Total demand in Europe remained strong, however, while the total market in North America was much weaker. Total volumes for industrial engines in Asia and the Middle East remained strong. In Brazil, the market for diesel engines for generator sets increased following a temporary energy crisis in the country.

Market share

Volvo Penta reported increased market shares in all business segments. Volvo Penta strengthened its already very strong positions among boat builders during the year, in Europe and in North America. Sales of Volvo Penta's industrial engines rose, resulting in a substantial increase in shares of the growing industrial engine markets in China and Saudi Arabia, for example.

Order situation

Volvo Penta reported continued favorable order bookings for both marine and industrial engines. The order bookings for industrial engines was approximately 50% higher than in the preceding year. There was a strong order intake for marine diesel engines.

Volvo Penta's expanded product range and its strategy to focus on key customers contributed significantly to maintaining continued strong order bookings despite the weaker total markets.

Financial performance

Net sales during the fourth quarter rose 13% to SEK 1,894 M (1,679). Fourth-quarter operating income amounted to SEK 128 M (63), and the operating margin was 6.8% (3.8%). The continued strong increase in sales, combined with cost control and favorable currency exchange rates, contributed to the earnings improvement. Net sales in full-year 2001 totaled SEK 7,380 M (6,599), and operating income amounted to SEK 658 M (484), an all-time-high in the history of Volvo Penta. Operating margin for 2001 was 8.9% (7.3).

New products

Volvo Penta increased its sales and captured new market shares in marine leisure with the new 3-liter KAD300 diesel engine, which has generated very strong demand among boat builders in all parts of the world. During the year Volvo Penta also launched the new D2-55 diesel engine for sailboats.



Marine and Industrial Power Systems, net sales by market area

SEK M	Fourth quarter		Year		Change in %
	2001	2000	2001	2000	
Europe	970	792	3,827	3,234	+18
North America	492	524	2,175	2,257	(4)
South America	71	50	213	160	+33
Asia	306	264	988	794	+24
Other markets	55	49	177	154	+15
Total	1,894	1,679	7,380	6,599	+12

Efforts to strengthen Volvo Penta's industrial product range included the introduction of a new 12-liter diesel engine and 5- to 7-liter engines for mobile applications. In the marine commercial segment, Volvo Penta launched a further developed version of the 16-liter diesel engine.

Volvo Aero

Total market

The terror attack on September 11 had dramatic consequences for air traffic in the world, particularly within as well as to and from North America. A gradual recovery was noted in air travel toward the end of the year, but levels were clearly lower than earlier. Accordingly, the fourth quarter was characterized by continued major economic problems for most airlines, which were forced to ground aircraft and reduce personnel to adapt to the lower demand. Among the exceptions were a few discount carriers that, in contrast, could report passenger increases.

As a direct effect of the airline's economic crisis, new aircraft orders were cancelled during the period and the large aircraft manufacturers Boeing and Airbus were forced successively to lower their forecasts for aircraft deliveries. During 2001, the two companies delivered a total of 852 aircraft, but the current projections are for a decline to about 675 aircraft in 2002.

The decline in air travel also affects the spare parts market to a great degree as well as the need for engine overhauls, two other areas in which Volvo Aero is active.

Order situation

The decline in aircraft production affects Volvo Aero, whose largest business area manufactures components and spares parts for commercial aircraft engines. During the fourth quarter, order bookings declined by more than 30% compared with the year-earlier period.

Financial performance

Sales rose during the fourth quarter by 8% to SEK 3,123 M (2,882). Operating income was SEK 89 M (161). The operating margin was 2.8% (5.6). Net sales for the full-year 2001 was SEK 11,784 M (10,713), operating income amounted to SEK653 M (621).

The lower income in the fourth quarter is attributable to the decline after September 11, which rapidly had major impact on the aviation industry after-market. Volvo Aero Services (which mainly purchases and sells spare parts for aircraft and aircraft engines) and Engine Services (which overhauls engines) were affected by the decline.

Aerospace Components (which produces components and spare parts for new aircraft engines) continues to report full production in its plants and, accordingly, can report continued favorable profitability. However, during the second half of 2002 a sharp decline in workload is anticipated, as a result of which the company announced a preliminary lay-off notice to 310 employees in Trollhättan. Volvo Aero Services, headquartered in Florida, released about 70 of its 350 employees during the autumn, closed its warehouse in New York and discontinued operations in Ireland.

New orders

Despite the stiffening competition in a shrinking market, Engine Services succeeded this autumn in signing a contract with Pratt & Whitney covering overhaul by Volvo Aero of about 25 JT9D engines at an estimated value of about SEK 500 M.

During the fourth quarter it was finalized that Hungary will lease 14 Gripen aircraft for ten years. For Volvo Aero, which is responsible for the engine in the Gripen, the Volvo RM12, the contract means an upgrading of the engines in the existing aircraft as well as overhaul and product support during the contract period.



Volvo Aero, net sales by market area

SEK M	Fourth quarter		Year		Change in %
	2001	2000	2001	2000	
Europe	1,644	1,645	4,875	4,693	+4
North America	1,150	808	5,841	5,040	+16
South America	51	42	187	134	+40
Asia	208	335	708	701	+1
Other markets	70	52	173	145	+19
Total	3,123	2,882	11,784	10,713	+10

The selection by the NATO country Hungary of a combat aircraft from Sweden is considered an important success for Gripen, since this choice is expected to have an impact on similar decisions about aircraft investments in the Czech Republic, Austria and Poland.

In December, the Czech government announced that it had decided to negotiate for the purchase of 24 new Gripen aircraft.

Financial Services

During 2001, total financing volume amounted to SEK 22.6 billion compared with SEK 20.6 billion a year earlier. Approximately SEK 1.4 billion of the increase is due to financing of Renault and Mack. The volume of Volvo Trucks related financing for 2001 was SEK 14.8 billion, which is SEK 0.7 billion less than in 2000 while Construction Equipment, Buses and Aero related financing was SEK 6.4 billion, an increase of SEK 1.3 billion compared with a year earlier.

During the year, the organization was

reviewed, the management structure strengthened and a new credit policy established. Operations are stabilizing in pace with the replacement of doubtful credits with more secure contracts, thus establishing a sound foundation for profitable growth.

The degree of penetration expressed as a percentage of Volvo unit sales excluding Mack and Renault V.I. amounted to 28%. Penetration in markets where Financial Services is offering financing on sales of new trucks amounted to 30%, compared with 29% in the year earlier period.

Total assets as of December 31, 2001 amounted to SEK 74 billion, of which SEK 64 billion was in the credit portfolio. Adjusted for the effects of foreign exchange movements, the credit portfolio increased by 9% during 2001. Some 66% of the portfolio was related to Volvo truck financing, 15% to bus financing and 14% to construction equipment financing. The remaining 5% is related to financing of Renault V.I. and Mack and the other

business areas. Geographically, about 21 % of Financial Services credit portfolio is related to the US truck market.

Operating income for the fourth quarter amounted to SEK 80 M (151), compared with third quarter earnings of SEK 69 M (220) and second quarter earnings of SEK 63 M (710).

At the end of December, total credit reserves amounted to 2.9% of the credit portfolio compared with 2.3 % at the end of December 2000. Total write-offs during the fourth quarter amounted to SEK 196 M compared with SEK 223 M for the third quarter. Total write-offs for 2001 amounted to SEK 823 M (411).

During the fourth quarter, the losses and repossessions on the US portfolio continued to decrease compared with the situation earlier in 2001, although they still remain at a high level. The number of non-performing contracts in the US truck portfolio was 2.9% compared with 4% at the end of 2000.

In order to develop the Financial Services business, close relationships are being forged with the other business areas aiming to provide a full range of integrated financial services. Future growth within Volvo Financial Services is expected mainly from Mack and Renault V.I. financing combined with increased financing of the other business areas within the Group.

Number of employees

As of December 31, 2001, the Volvo Group had 70,921 employees, compared with 54,266 at the end of 2000. The increase is attributable to employees in acquired companies, primarily Mack and Renault V.I. Adjusted for acquired companies, the number of employees was reduced by 5,700.

Parent Company

Income from investments in Volvo Group companies includes dividends in the amount of SEK 24,814 M (589), write-

Parent Company income statement		
SEK M	2001	2000
Net sales	500	377
Operating income (loss)	(424)	(300)
Income from investments in Volvo Group companies	9,599	1,558
Income (loss) from investments in associated companies	22	(166)
Income from other shares and participations	1,258	663
Interest income and expenses	(12)	(87)
Other financial income and expenses	(163)	(44)
Income after financial items	10,280	1,624
Allocations	2	(133)
Taxes	832	(115)
Net income	11,114	1,376

down of shares of SEK 12,217 M (372) and net Group contributions delivered totaling SEK 3,450 M (received: 928). Income from other shares and participations includes a dividend of SEK 637 M (637) from Scania AB and a capital gain of SEK 595 M from the sale of shares in Mitsubishi Motors Corporation.

Proposed dividend¹

The Board of Directors proposes that the Annual General Meeting approve payment of a dividend of SEK 8.00 per share for 2001, or a total of SEK 3,356 M. The dividend paid in the preceding year was SEK 8.00 per share.

In addition, the Board of Directors resolved to propose to the Annual General Meeting that the Board be authorized to make decisions regarding the acquisition and transfer of Volvo's own shares. The proposal is on the same terms as in last year's proposal, which was approved by the Annual General Meeting. The terms are essentially the following: Acquisition may be made of a maximum number of Series A and/or Series B shares so that Volvo, after each purchase, holds not more than 10 percent of the total number of shares. Purchases may be made through trading on a stock exchange, authorized marketplace or another regulated marketplace on which the Company's shares are traded at a price per share corresponding to the prevailing market price. Acquisitions may also be

made through an offer directed to all shareholders at a price that is a maximum of 30 percent higher than the prevailing market price at the time of the Board's decision regarding such an offer. The main purpose for purchases is to optimize the capital structure of the Group. For the purpose of financing company acquisitions, transfer may be effected through an offer to all shareholders. Transfer may also be made to another party than a shareholder as payment in conjunction with company acquisitions.

Volvo currently holds 5% of the shares of AB Volvo, the Board of Directors has presently no plans to repurchase additional shares. However, should the financial position of the Volvo Group change, the Board of Directors would want to have that option.

The Annual General Meeting of AB Volvo will be held on April 24, 2002.

Göteborg, February 8, 2002

AB Volvo (publ)
The Board of Directors

Quarterly figures

Volvo Group ¹⁾					
SEK M unless otherwise specified	4/2000	1/2001	2/2001	3/2001	4/2001
Net sales	33,237	43,750	47,098	41,134	48,633
Cost of sales	(26,572)	(36,236)	(38,887)	(34,033)	(40,321)
Gross income	6,665	7,514	8,211	7,101	8,312
Research and development expenses	(1,291)	(1,394)	(1,357)	(1,279)	(1,361)
Selling expenses	(2,611)	(3,378)	(3,599)	(3,444)	(4,242)
Administrative expenses	(1,221)	(1,659)	(1,776)	(1,525)	(1,514)
Other operating income and expenses	20	(696)	(815)	(1,063)	(497)
Income from Financial Services	151	113	63	69	80
Income from investments in shares	(43)	2	1,396	(71)	(5)
Restructuring costs	–	(1,319)	–	(1,406)	(1,137)
Operating income (loss)	1,670	(817)	2,123	(1,618)	(364)
Interest income and similar credits	312	411	388	466	388
Interest expenses and similar charges	(549)	(684)	(650)	(690)	(629)
Other financial income and expenses	(46)	(161)	(49)	(38)	58
Income (loss) after financial items	1,387	(1,251)	1,812	(1,880)	(547)
Taxes	(194)	422	(465)	316	53
Minority interests	(6)	28	9	29	7
Net income (loss)	1,187	(801)	1,356	(1,535)	(487)
Depreciation and amortization included above					
Volvo Group excl Financial Services	1,150	1,818	2,106	1,907	1,216
Financial Services	669	698	691	834	691
Total	1,819	2,516	2,797	2,741	1,907
Income (loss) per share, SEK	3.00	(1.90)	3.20	(3.60)	(1.20)
Average number of shares, million	397.4	431.4	419.4	419.4	419.4

1) Financial Services reported in accordance with the equity method.

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

Key operating ratios					
%	4/2000	1/2001	2/2001	3/2001	4/2001
Gross margin	20.1	17.2	17.4	17.3	17.1
Research and development expenses in % of net sales	3.9	3.2	2.9	3.1	2.8
Selling expenses in % of net sales	7.9	7.7	7.6	8.4	8.7
Administrative expenses in % of net sales	3.7	3.8	3.8	3.7	3.1
Operating margin	5.0	(1.9)	4.5	(3.9)	(0.7)
Operating margin excl restructuring costs	5.0	1.1	4.5	(0.5)	1.6

Net sales					
SEK M	4/2000	1/2001	2/2001	3/2001	4/2001
Global Trucks	17,651	29,962	30,128	26,354	33,696
Buses	4,910	3,715	4,915	4,001	4,044
Construction Equipment	5,102	4,688	6,067	5,388	4,992
Volvo Penta	1,679	1,736	1,976	1,774	1,894
Volvo Aero	2,882	2,607	3,060	2,994	3,123
Other	3,465	3,399	3,400	3,082	3,749
Eliminations	(2,452)	(2,357)	(2,448)	(2,459)	(2,865)
Net sales	33,237	43,750	47,098	41,134	48,633

Operating income (loss)					
SEK M	4/2000	1/2001	2/2001	3/2001	4/2001
Global Trucks	685	150	639	(340)	591
Buses	162	(83)	(25)	(185)	(231)
Construction Equipment	261	81	408	266	136
Volvo Penta	63	167	222	141	128
Volvo Aero	161	160	286	118	89
Financial Services	151	113	63	69	80
Other	187	(86)	530	(281)	(20)
Operating income (loss)¹⁾	1,670	502	2,123	(212)	773
Restructuring costs	—	(1,319)	—	(1,406)	(1,137)
Operating income	1,670	(817)	2,123	(1,618)	(364)

1) Excluding restructuring costs.

Operating margins					
%	4/2000	1/2001	2/2001	3/2001	4/2001
Global Trucks	3.9	0.5	2.1	(1.3)	1.8
Buses	3.3	(2.2)	(0.5)	(4.6)	(5.7)
Construction Equipment	5.1	1.7	6.7	4.9	2.7
Volvo Penta	3.8	9.6	11.2	7.9	6.8
Volvo Aero	5.6	6.1	9.3	3.9	2.8
Operating margin¹⁾	5.0	1.1	4.5	(0.5)	1.6
Operating margin	5.0	(1.9)	4.5	(3.9)	(0.7)

1) Excluding restructuring costs.

Key ratios		
12 month figures unless otherwise stated	Jan-Dec 2001	Jan-dec 2000
Sales growth, %	50.0	3.4
Income per share, SEK	(3.50)	11.20
Income per share, excluding restructuring costs, SEK	3.10	11.20
Return on shareholders' equity,%	(1.7)	5.0
Return on shareholders' equity excluding restructuring costs, %	1.5	5.0
Net financial position at end of period, SEK billion	(7.0)	9.4
Net financial position at end of period as percentage of shareholders' equity and minority interests	(8.2)	10.6
Shareholder' equity and minority interests as percentage of total assets	32.8	44.3
Shareholders' equity and minority interests excluding Financial Services, as percentage of total assets	41.8	60.8

Accounting principles

With the exception of the description below, in preparing this report, Volvo has applied the accounting principles presented in Note 1, page 53, of the Volvo 2000 Annual Report.

As of January 1, 2001, Volvo is applying the following new accounting standards issued by the Swedish Financial Accounting Standards Council: RR1:00 Business combinations, RR12 Tangible Assets, RR13 Associates, RR14 Joint ventures, RR15 Intangible Assets, RR16 Provisions, Contingent Liabilities and Contingent Assets, RR17 Impairment of Assets, RR18 Income Per Share, RR19, Discontinuing Operations and RR20 Interim Financial Reporting. All accounting standards comply in all significant respects to the corresponding accounting standard issued by the International Accounting Standards Committee (IASC).

In applying the transition rules as a consequence of the aforementioned accounting standards, there are no retroactive effects on Volvo's earlier financial statements. In applying the new standards during fiscal year 2001, RR1:00 Business combinations, RR15 Intangible Assets, RR16 Provisions, Contingent Liabilities and Contingent Assets result in a change in Volvo's accounting principles. In accordance with RR1:00 Business combinations, when a subsidiary is acquired through the issue of own shares at market price, the purchase consideration is determined at the time of the transaction. In accordance with Volvo's previous accounting principles, such a purchase consideration was determined based on the average market price of the issued shares during ten days prior to the public disclosure of the transaction. In accordance with RR15 Intangible Assets, the expenditures for development of new products, production and information systems shall be reported as intangible assets if such expenditures with a high degree of certainty will result in future financial benefits for the company. The acquisition value for such intangible assets shall be amortized over the estimated useful life of the assets. Volvo's application of the new rules means that very high demands are established in order for these development expenditures to be reported as assets. For example, it must be possible to prove the technical functionality of a new product prior to this development being reported as an asset. In normal cases, this means that expenditures are capitalized only during the industrialization phase of a product development project. In accordance with Volvo's previous accounting principles, all costs for the development of new products, production and information systems were expensed on a current basis. In accordance with RR16 Provisions, Contingent Liabilities and Contingent Assets, a provision for decided

Units invoiced

restructuring measures is reported first when a detailed plan for the implementation of the measures is complete and when this plan is communicated to those who are involved. In accordance with Volvo's previous accounting principles, a provision for restructuring measures was reported in connection with the measures being decided by the company's management.

As from 2001, some changes have been implemented in the presentation of Volvo's income statement and cash-flow statement. The first change is that the business area Financial Services is reported in accordance with the equity method which means the result of this operation is reported as a separate line item. The change has been made as an adaption to normal practice within the industry. In Volvo's annual report, the income statement and cash-flow statement will also be presented according to the earlier applied presentation format. The second change is that investments in shares and participations and the income/cash-flow from these investments will be included as a part of the operating activities rather than as a part of the financial items. The change has been made as an adaption to Volvo's internal business control model in connection with the new organization.

Deficit within Volvo's Swedish pension foundation

Operating income during 2001 was negatively affected by a deficit of SEK 292 M in Volvo's Swedish pension foundation for securing commitments in accordance with the ITP-plan.

In conjunction with its establishment in 1996, the foundation received from the Volvo Group pension funds amounting to about SEK 2.5 billion, corresponding at that time to pension commitments in accordance with the ITP plan. The management of these funds has since 1996 resulted in a reduction of the Volvo Group's pension costs. This has been possible because the foundation was able to finance portions of new pension commitments without requiring new funds from the Group. In addition, it has been possible to cover pension costs in excess of the ITP plan.

During 2001, however, the foundation's capital under management declined in value as a result of the downturn in the stock market. At the same time, the total liability for pension commitments increased, due in part to new obligations. The result was that net asset value was SEK 292 M lower than commitments at the end of 2001.

The value of assets under management amounted to SEK 3,626 M at that time, while total pension commitments amounted to SEK 3,918 M. In view of these circumstances, reserves to cover this deficit are reported in the Volvo Group's financial accounts for 2001.

Units invoiced, trucks	Fourth quarter		Year		Change in %
	2001	2000	2001	2000	
Volvo Global Trucks					
Europe	27,062	32,130	98,041	108,143	(9)
Western Europe	24,403	29,592	90,460	101,098	(11)
Eastern Europe	2,659	2,538	7,581	7,045	8
North America	7,663	13,789	34,645	57,933	(40)
South America	1,383	1,307	5,789	5,104	13
Asia	2,648	2,038	6,603	6,732	(2)
Other markets	3,329	3,247	10,233	8,657	18
Total, Volvo Global Trucks	42,085	52,511	155,311	186,569	(17)

Mack Trucks					
North America	5,004	7,851	21,629	34,323	(37)
South America	244	223	1,169	570	105
Other markets	277	255	997	939	6
Total	5,525	8,329	23,795	35,832	(34)

Renault Trucks					
Europe	15,890	17,373	56,726	58,602	(3)
Western Europe	14,805	16,281	53,816	55,646	(3)
Eastern Europe	1,085	1,092	2,910	2,956	(2)
Other markets	2,555	2,766	7,521	6,908	9
Total	18,445	20,139	64,247	65,510	(2)

Volvo Trucks					
Europe	11,169	14,756	41,309	49,540	(17)
Western Europe	9,598	13,310	36,644	45,451	(19)
Eastern Europe	1,571	1,446	4,665	4,089	14
North America	2,659	5,938	13,016	23,610	(45)
South America	1,139	1,084	4,620	4,534	2
Asia	2,462	1,619	5,980	5,556	8
Other markets	686	646	2,344	1,987	18
Total	18,115	24,043	67,269	85,227	(21)

Units invoiced, buses/bus chassies	Fourth quarter		Year		Change in %
	2001	2000	2001	2000	
Europe	854	1,095	3,115	3,994	(22)
Western Europe	758	1,064	2,899	3,870	(25)
Eastern Europe	96	31	216	124	74
North America	448	969	3,128	3,869	(19)
South America	220	235	1,009	980	3
Asia	1,062	481	2,209	1,659	33
Other markets	207	195	492	513	(4)
Total, buses/bus chassies	2,791	2,975	9,953	11,015	(10)

This report contains forward-looking statements that reflect management's current views with respect to certain future events and potential financial performance. Although the Company believes that the expectations reflected in such forward looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. Accordingly, results could differ materially from those set out in the forward looking statements as a result of, among other factors, (i) changes in economic, market and competitive

conditions, (ii) success of business and operating initiatives, (iii) changes in the regulatory environment and other government actions, (iv) fluctuations in exchange rates and (v) business risk management.

This report does not imply that the company has undertaken to revise these forward-looking statements, beyond what is required under the company's registration contract with the Stockholmsbörsen if and when circumstances arise that will lead to changes compared to the date when these statements were provided.

Volvo's Nominating Committee

The following persons were named members of Volvo's Nominating Committee at the 2001 Annual General Meeting:

Thomas Halvorsen	The National Pension Insurance Fund, Fourth Fund Managing board
Lars Ramqvist	Chairman of the Board of AB Volvo
Bengt Hane	Representative for shareholders with smaller holdings
Shemaya Lévy	Renault SA
Lars Otterbäck	Alecta

The Nominating Committee is responsible for submitting to the Annual General Meeting the names of candidates to serve as members of the Board of Directors and as auditors and deputy auditors.

The Committee also proposes the amount of the fees to be paid to the holders of these positions.

Publication dates

Report on 2001 operations	February 8, 2002
Annual Report 2001	March 22, 2002
Report on three months	April 22, 2002
Annual General meeting	April 24, 2002
Report on six months	July 23, 2002
Report on nine months	October 24, 2002

The annual and quarterly reports are also published on www.volvo.com

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