

# VOLVO

## Third Quarter 2000

Telephone conference

October 25, 2000

# Highlights

## *Third Quarter*

- Market situation
  - Cyclical decline North America
  - Improvements outside North America
- Sales are up in 4 out of 5 business areas
- Product launches
  - Volvo Trucks; VHD, FL
  - Volvo Buses; B12, first launch TX platform
  - Volvo CE; Articulated Haulers, A35D, A40D  
Excavator EC150
  - Volvo Penta; range extension through Mitsubishi  
Heavy co-operation
- Renault V.I./Mack
  - Phase 1, Repurchase program
  - Approval EU, September 1

## *In Focus going forward*

- Turnaround program in Trucks
  - Gradual price realisation in Europe
- Adapting to market changes
- Geographical expansion
  - China; joint-venture between  
Volvo Buses and SAIC
- Renault V.I./Mack
  - Ready for implementation after US approval
- Expansion of the value chain
  - Focus on soft products

# Sales by Market Area

## 2000

| MSEK           | Percent of Volvo's sales | Third quarter, bln |               |          | First nine months |          |
|----------------|--------------------------|--------------------|---------------|----------|-------------------|----------|
|                |                          | 2000               | 1999          | Change % | 2000              | Change % |
| Western Europe | 50                       | 15,052             | 13,795        | 9        | 48,781            | 4        |
| Eastern Europe | 3                        | 803                | 659           | 22       | 2,525             | 26       |
| North America  | 32                       | 9,795              | 11,487        | (15)     | 30,609            | (3)      |
| South America  | 5                        | 1,512              | 746           | 103      | 3,864             | 37       |
| Asia           | 6                        | 1,863              | 1,383         | 35       | 5,835             | 44       |
| Others         | 4                        | 1,117              | 759           | 47       | 2,524             | 14       |
| <b>Total</b>   | <b>100</b>               | <b>30,142</b>      | <b>28,829</b> | <b>5</b> | <b>94,138</b>     | <b>5</b> |

- Downturn in NAFTA continues
- Europe continues to be strong
- Strong increase in Asia and South America

# Sales by Business Area

## 2000

| SEK M                    | Total %    | Third quarter |               | Change % | First nine months |          |
|--------------------------|------------|---------------|---------------|----------|-------------------|----------|
|                          |            | 2000          | 1999          |          | 2000              | Change % |
| Trucks                   | 45         | 13,635        | 14,222        | (4)      | 44,545            | (1)      |
| Buses                    | 13         | 3,883         | 3,360         | 16       | 12,277            | 19       |
| Construction Equipm.     | 16         | 4,804         | 4,107         | 17       | 14,891            | 6        |
| Marine & Ind. Power sys. | 5          | 1,610         | 1,400         | 15       | 4,920             | 18       |
| Aero                     | 9          | 2,814         | 2,412         | 17       | 7,831             | 10       |
| Finance                  | 7          | 2,231         | 2,211         | 1        | 6,983             | 10       |
| Other & Eliminations     |            | 1,165         | 1,117         |          | 2,691             |          |
| <b>Volvo Group</b>       | <b>100</b> | <b>30,142</b> | <b>28,829</b> | <b>5</b> | <b>94,138</b>     | <b>5</b> |

- Trucks - sharp decline in North America, partly offset by Europe and Emerging markets
  - Buses - continued growth in all market regions
  - Construction Equipment - good momentum in compact segment and Excavators
  - Marine and Industrial Power Systems
  - Aero
- } sales continuously strong

# Operating Income by Business Area

## 2000

| SEK M                    | Total %    | Third quarter |              | Change %    | First nine months | Change %   |
|--------------------------|------------|---------------|--------------|-------------|-------------------|------------|
|                          |            | 2000          | 1999         |             | 2000              |            |
| Trucks                   | 7          | 53            | 442          | (88)        | 729               | (66)       |
| Buses                    | 9          | 65            | 13           | 400         | 278               | 309        |
| Construction Equipm.     | 37         | 282           | 389          | (28)        | 1,333             | (2)        |
| Marine & Ind. Power sys. | 16         | 121           | 92           | 32          | 421               | 59         |
| Aero                     | 9          | 72            | 80           | (10)        | 460               | 17         |
| Finance                  | 22         | 173           | 285          | (39)        | 1,269             | 98         |
| Other & Eliminations     |            | (112)         | (103)        |             | (25)              |            |
| <b>Volvo Group</b>       | <b>100</b> | <b>654</b>    | <b>1,198</b> | <b>(45)</b> | <b>4,465</b>      | <b>(3)</b> |

- Trucks - hit by in North America decline
- Buses - continued volume growth with good capacity utilisation
- Volvo CE - major contributor to group profit
- Marine and Industrial Power Systems - solid development
- Aero - strong performance within Aerospace components and Military Engines, continued downturn in the aftermarket
- Finance - affected by US downturn, Q3-99 inflated by non-rec. items

# First nine months 2000 Consolidated Results

| SEK M                       | First nine months |         | Adjustments          |                       | Normalized       |         | Change<br>% |
|-----------------------------|-------------------|---------|----------------------|-----------------------|------------------|---------|-------------|
|                             | 2000              | 1999    | 2000                 | 1999                  | 2000             | 1999    |             |
| Sales                       | 94,138            | 89,806  |                      |                       | 94,138           | 89,806  | 5           |
| Operating income            | 4,465             | 31,296  | (1,278) <sup>1</sup> | (26,875) <sup>2</sup> | 3,187            | 4,421   | (28)        |
| Inc. ass. comp. & oth. inv. | 533 <sup>3</sup>  | 676     |                      |                       | 533 <sup>3</sup> | 676     |             |
| Interest net                | (20)              | 169     |                      |                       | (20)             | 169     |             |
| Other financial items       | (119)             | 39      |                      |                       | (119)            | 39      |             |
| Income after fin. items     | 4,859             | 32,180  |                      |                       | 3,581            | 5,305   | (32)        |
| Taxes                       | (1,316)           | (1,556) | 358 <sup>1</sup>     | (130) <sup>2</sup>    | (958)            | (1,686) |             |
| Minority interest           | (21)              | (60)    |                      |                       | (21)             | (60)    |             |
| Net income                  | 3,522             | 30,564  |                      |                       | 2,602            | 3,559   | (27)        |
| EPS                         | 8.20 <sup>0</sup> | 69.22   |                      |                       | 6.05             | 8.06    |             |
| Operating margin            | 4.7%              | 34.8%   |                      |                       | 3.4%             | 4.9%    |             |

1) Including repaid pension contribution from SPP with SEK 683 M, capital gains Volvia of SEK 610 M, positive adjustments of the gain from the sale of Volvo Cars of SEK 145 M and increased provisions in Trucks related to engine program and others as a total of SEK 160 M.

2) Excl. gain on sale of Volvo Cars and Volvo CE capital gain

3) Scania reclassified to Other investments, dividend has adjusted book value to SEK 264.

0) Weighted number of shares outstanding (429,8 million)

# Volvo Trucks

## Third Quarter 2000

| SEK M            | Third quarter |        |        | First nine months |        |
|------------------|---------------|--------|--------|-------------------|--------|
|                  | 2000          | 1999   | Change | 2000              | Change |
| Volume (units)   | 16,941        | 19,353 | (12%)  | 58,691            | (4%)   |
| Sales            | 13,635        | 14,222 | (4%)   | 44,545            | (1%)   |
| Operating income | 53            | 442    | (88%)  | 729               | (66%)  |
| Operating margin | 0.4           | 3.1    | (2.7)  | 1.6               | (3.1)  |
| ROC, 12M         | 13.8%         | 29.1%  | (15.3) | 13.8%             | (15.3) |

### Major Factors

- Market situation in North America
- Strongly increased deliveries in Asia. Eastern Europe and Brazil
- Volvo VHD introduced very successfully

### Third quarter constraints

- Reduced volumes in N. America (-5,241 units)
- Production capacity in Europe

### In focus

- Turn around programme
- N. America market development
- Renault V.I./Mack integration planning

# Deliveries

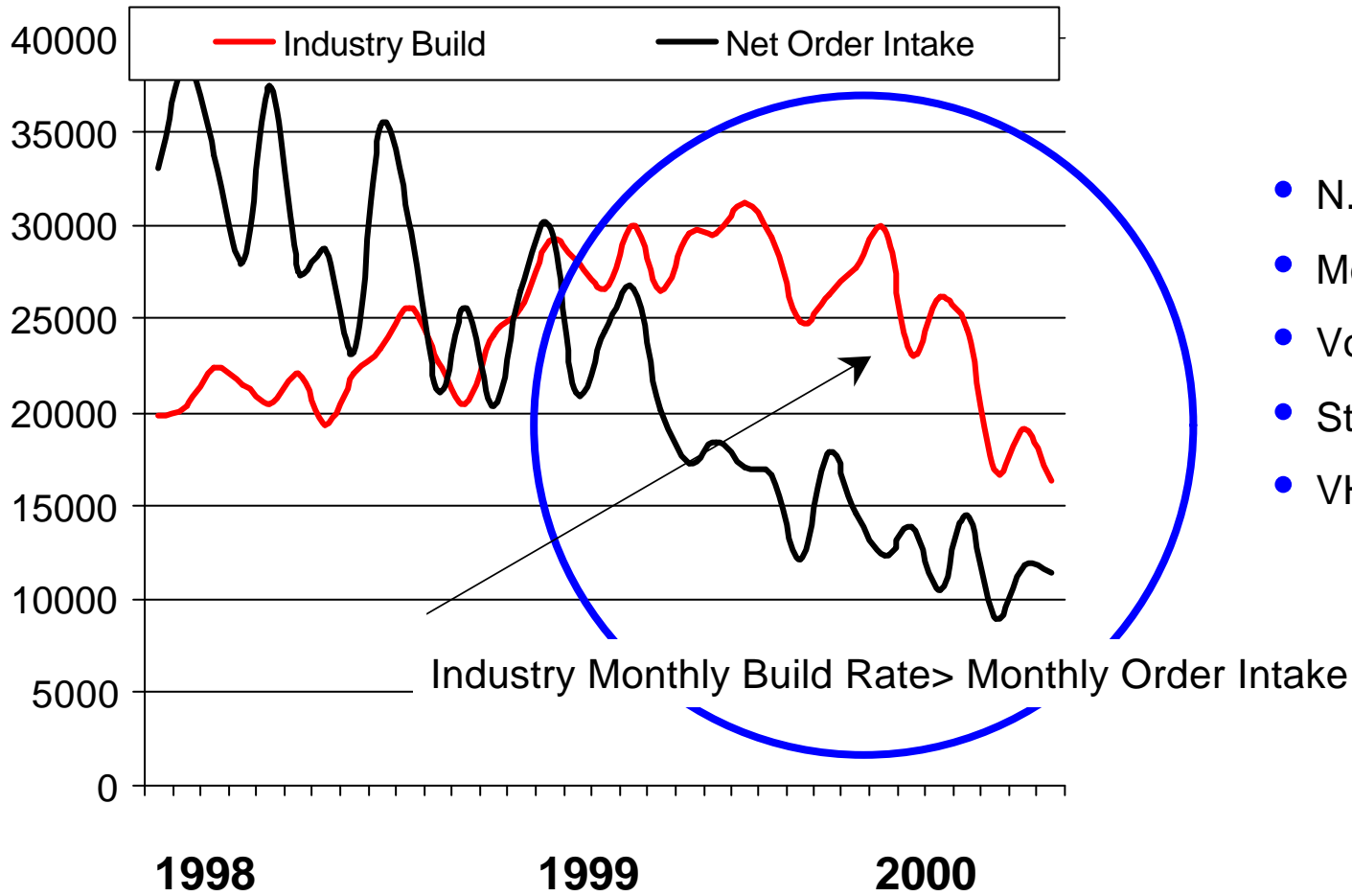


## Units

|                   | January-September<br>1999 | 2000          | Change<br>% |
|-------------------|---------------------------|---------------|-------------|
| Total Europe      | 29 871                    | 32 291        | 8           |
| of which:         |                           |               |             |
| Western Europe    | 27 962                    | 29 648        | 6           |
| Eastern Europe    | 1 909                     | 2 643         | 38          |
| North America     | 25 640                    | 17 672        | (31)        |
| South America     | 2 674                     | 3 450         | 29          |
| Asia              | 1 651                     | 3 937         | 138         |
| Rest of the world | 1 270                     | 1 341         | 6           |
| <b>Total</b>      | <b>61 106</b>             | <b>58 691</b> | <b>(4)</b>  |



# The gap between monthly orders vs. build is starting to narrow



- N. America worse than forecast
- Monitoring market development
- Volvo engines order intake 29%
- Stable stock situation on low level
- VHD launch successful

# Volvo Trucks

## Turn Around Programme

ON TRACK

### Revenue increases

- Price increase in Europe
- Market mix management
- Product mix management
- Customer mix management
- After market sales
- Volumes outside N.America

### Cost reductions

- Purchased material
- Production efficiency
- Selling expenses
- Warranty recovery
- R&D expenses

# New Volvo VHD range in North America



Positive response from customers and dealers  
80% Volvo engines  
Positive outlook

# Volvo Construction Equipment

## Third Quarter 2000

| SEK M            | Third quarter |       |        | First nine months |        |
|------------------|---------------|-------|--------|-------------------|--------|
|                  | 2000          | 1999  | Change | 2000              | Change |
| Sales            | 4,804         | 4,107 | 17%    | 14,891            | 6%     |
| Operating income | 282           | 389   | (28%)  | 1,333             | (2%)   |
| Operating margin | 5.9%          | 9.5%  | (3.6)  | 9.0%              | (0.6)  |
| ROC, 12M         | 17.6          | 17.8  | (0.2)  | 17.6%             | (0.2)  |

### Major Factors

- Continued good momentum in Compact segment
- Continued good contribution from Excavators
- Decreasing market and price pressure in NAFTA

### Third quarter constraints

- Product mix
- Price pressure in Europe

### In focus

- Launch of new Articulated Haulers, A35D, A40D
- Excavator EC150
- Excavator pricing
- Restructuring in NAFTA
- Cost focus in all areas

# Volvo Construction Equipment Articulated Hauler, A35D



# Volvo Construction Equipment Excavator EC150



# Volvo Buses

## Third Quarter 2000

| SEK M            | Third quarter |       |        | First nine months |        |
|------------------|---------------|-------|--------|-------------------|--------|
|                  | 2000          | 1999  | Change | 2000              | Change |
| Volume (units)   | 2,636         | 2,271 | 16%    | 8,040             | 22%    |
| Sales            | 3,883         | 3,360 | 16%    | 12,277            | 19%    |
| Operating income | 65            | 13    | 400%   | 278               | 309%   |
| Operating margin | 1.7%          | 0.4%  | 1.3    | 2.3%              | 1.6    |
| ROC, 12M         | 6.5%          | 1.9%  | 4.6    | 6.5%              | 4.6    |

### Major Factors

- Increased volumes in most market areas  
- market share improvement in Europe
- High capacity utilisation
- Improved margins

### Third quarter constraints

- Some disturbances in industrial system
- Higher selling costs, product introduction
- High operating capital

### In focus

- Introduction of new TX platform
- Start up in Shanghai
- Cost reductions
- Consolidation of acquisitions

# Volvo Buses

## TX Platform - a new technical level



**Modular Concept**

**Space Frame in Stainless Steel**

**Weight Reduction**

**World Class Fuel Efficiency and  
Environmental Characteristics**

**Low Operating Cost and Good Serviceability**



# Volvo Penta

## Third Quarter 2000

| SEK M            | Third quarter |       |        | First nine months |        |
|------------------|---------------|-------|--------|-------------------|--------|
|                  | 2000          | 1999  | Change | 2000              | Change |
| Sales            | 1,610         | 1,400 | 15%    | 4,920             | 18%    |
| Operating income | 121           | 92    | 32%    | 421               | 59%    |
| Operating margin | 7.5%          | 6.6%  | 0.9    | 8.6%              | 2.2    |
| ROC, 12M         | 42%           | 16%   | 26     | 42%               |        |

### Major Factors

- Sales continuously strong - specifically in the North American market
- Increasing market shares
- Six consecutive quarters of operating income improvement

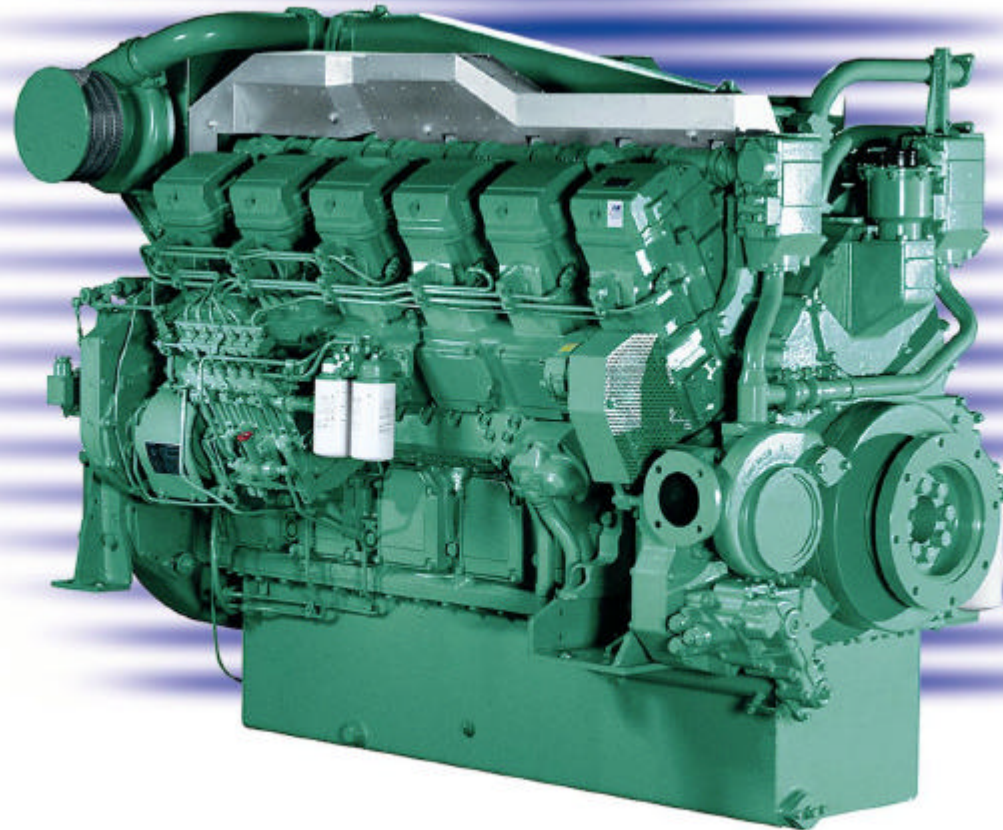
### Third quarter constraints

- Some supplier capacity constraints

### In focus

- Possible changes in Business environment
- Execution of new product development program - Mitsubishi Heavy co-operation
- Operating capital development

# Volvo Penta D25-D65



# Volvo Aero

## Third Quarter 2000

| SEK M                | Third quarter |       |        | First nine months |        |
|----------------------|---------------|-------|--------|-------------------|--------|
|                      | 2000          | 1999  | Change | 2000              | Change |
| Sales                | 2,814         | 2,412 | 17%    | 7,831             | 10%    |
| Operating income     | 72            | 80    | (10%)  | 460               | 17%    |
| Operating margin     | 2.6           | 3.3   | (0.7)  | 5.9               | 0.4    |
| ROC, 12M, excl. AGES | 28.3          | 17.8  | 10.5   | 28.3              |        |

### Major Factors

- Revenue growth
- Lower margin within Engine services
- Strong performance in Aerospace components and Military engines
- Slight improvement in AGES

### Third quarter constraints

- Turnaround time and cost in Engine services
- Continued downturn in the aftermarket

### In focus

- Strong orderbook in components
- Weak aftermarket
- Capital management
- Engine Services operations

# Volvo Finance

## Third Quarter 2000

| SEK M                          | Third months |        |        | Nine months quarter |        |
|--------------------------------|--------------|--------|--------|---------------------|--------|
|                                | 2000         | 1999   | Change | 2000                | Change |
| Operating income               | 173          | 285    | (39%)  | 1,269*              | 98%    |
| Op. Income excl non-rec.       | 173          | 230**  | (25%)  | 621                 | (3%)   |
| ROE before tax (excl.non-rec.) | 11.3%        | 13.4%  | (2.1%) |                     |        |
| Assets, MSEK                   | 63,144       | 56,477 | 12%    |                     |        |
| Equity ratio                   | 11.7%        | 12.1%  | (0.4%) |                     |        |

### Major Factors

- Lower op income comp to Q3 last year
  - release of provisions last year
  - less capital gain through Volvia
  - increased credit losses in US

### Third quarter constraints

- Higher costs for transporters, both in Europe and North America
- Increased credit-losses, mainly from the US Truck financing
  - SEK 293 M vs 99 SEK 159 M

### In focus

- Asset growth through increased Volvo CE- and Bus financing
- Further development and growth of related services such as insurance, credit card and consulting.

\* Incl. pension contribution from SPP with SEK 38 M, Capital gain Volvia 610

\*\* Includes release of earlier provisions during Q3 last year (55)

# Summary

- Cyclical decline in North America
- Improvements outside North America
- Product introductions
- Volvo Trucks turn around program
  - price realisation Europe
- Renault V.I. and Mack
  - ready for implementation after approval