

# **VOLVO**

## **Second Quarter 2002**

Press Conference

July 23, 2002

# Highlights

## *Second Quarter*

- Business Environment
  - Low demand in N. America
  - Downward trend in W. Europe, though from a high level
  - Strong development in Asia and E. Europe
- Successful product introduction in Volvo Trucks
  - Completed in Q2
  - Full production in Europe
- Significantly improved cash flow
- Progress in Buses turn around activities

## *In Focus Going Forward*

### **Short Term**

- Manage Winnsboro production transfer
- Introduction of new US truck program
- Adapt to a declining demand in Volvo Aero

### **Long Term**

- Capitalize on the strong product portfolio
- Build a competitive position
  - Powertrain and 3P
  - Integration of truck operations
  - Synergies on track

# Sales by Market Area

## Second Quarter 2002

SEK M	Second Quarter				First Six Months		
	Split	2002	2001	Change	2002	2001	Change
Western Europe	52%	25,670	23,624	9%	46,767	47,321	-1%
Eastern Europe	4%	1,946	1,427	36%	3,264	2,626	24%
North America	29%	14,491	15,354	-6%	26,229	28,795	-9%
South America	3%	1,239	1,727	-28%	2,450	3,106	-21%
Asia	7%	3,342	2,756	21%	5,992	4,697	28%
Others	5%	2,606	2,210	18%	4,977	4,303	16%
<b>Total</b>	<b>100%</b>	<b>49,294</b>	<b>47,098</b>	<b>5%</b>	<b>89,679</b>	<b>90,848</b>	<b>-1%</b>

- Sales increased with 8% when adjusted for changes in exchange rates and group structure
- Improved deliveries in Western Europe for all major Business Areas, despite weakening markets
- Demand in North America continues to be at a low level
- Continued strong performance in Asia and Eastern Europe

# Sales by Business Area

## Second Quarter 2002

SEK M	Second Quarter				First Six Months		
	Split	2002	2001	Change	2002	2001	Change
Trucks	66%	32,554	29,256	11%	59,112	58,377	1%
Buses	8%	4,142	4,915	-16%	7,307	8,630	-15%
Construction Equipm.	13%	6,188	6,067	2%	10,664	10,755	-1%
Volvo Penta	5%	2,249	1,976	14%	4,211	3,712	13%
Volvo Aero	5%	2,338	3,060	-24%	4,823	5,667	-15%
Others	4%	1,823	1,824	0%	3,562	3,707	-4%
<b>Volvo Group</b>	<b>100%</b>	<b>49,294</b>	<b>47,098</b>	<b>5%</b>	<b>89,679</b>	<b>90,848</b>	<b>-1%</b>

- Trucks - European demand still on a high level for Renault and Volvo
- Buses - Significantly lower deliveries in South America and North America
- Construction Equipment - Continued weak market conditions ( North America & Europe -7%)
- Volvo Penta - Gained market shares and continued strong sales development
- Volvo Aero - Impact of market downturn

# Operating Income by Business Area

## Second Quarter 2002

SEK M	Second Quarter			First Six Months		
	2002	2001	Change	2002	2001	Change
Trucks	483	639 <sup>1)</sup>	-24%	9	789	-99%
Buses	51	(25)	n.a.	(43)	(108)	n.a.
Construction Equipm.	464	408	14%	333	489	-32%
Volvo Penta	225	222	na	371	389	na
Volvo Aero	40	286	-86%	118	446	-74%
Financial Services	120	63	90%	235	176	34%
Others	176	530	-67%	174	444	-61%
Restructuring costs					(1,319)	
<b>Volvo Group</b>	<b>1,559</b>	<b>2,123</b>	<b>-27%</b>	<b>1,197</b>	<b>1,306</b>	<b>-8%</b>

- Trucks - Increased delivery and production rates in Europe
- Buses - Progress achieved in turn-around. Significantly lower volumes in South America and Mexico affects result negatively.
- Construction Equipment - Product changeover issues from Q1 resolved
- Volvo Penta - Strong operating income and good operating margin
- Volvo Aero - Engine maintenance and spare parts sales continue to suffer from market downturn
- Financial Services - Stable growth and steady returns

1) Including a capital gain of SEK 574 M from the divestiture of Mitsubishi holding

2) Scania dividend halved: 2001 SEK 637 M and 2002 SEK 318 M

# Trucks

## Second Quarter

SEK M	Second Quarter			First Six Months	
	2002	2001	Change	2002	Change
Volume (units)	43,781	39,945	10%	77,103	-6%
Sales	32,554	29,256	11%	59,112	1%
Operating income	483	639 <sup>1)</sup>	-24%	9	-99%
Operating margin %	1.5%	2.2%	(0.7)	0.0	(1.4)

### Highlights

- Successful product introduction completed
- High and stable production levels in Europe  
- focus on productivity development
- Significant volumes and continued growth in Asia

### In Focus

- Introduction of new US truck program
- Manage demand pattern in US
- Winnsboro production transfer

1) Including a gain of SEK 574 M from divestiture of the Mitsubishi holding  
Note: Excluding restructuring costs in 2001

# Volvo Trucks

## New Volvo FH



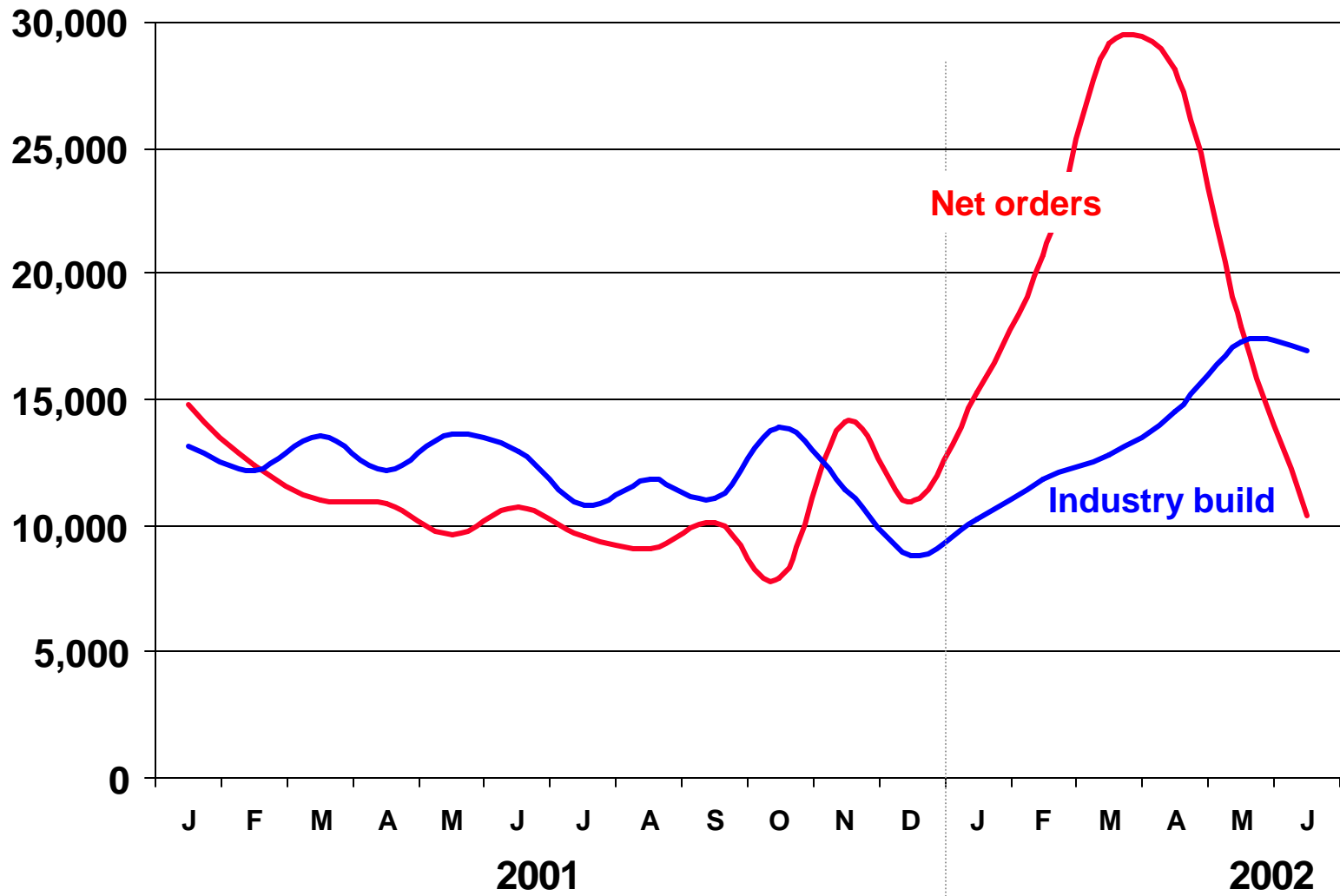
# Truck Deliveries

## First Six Months

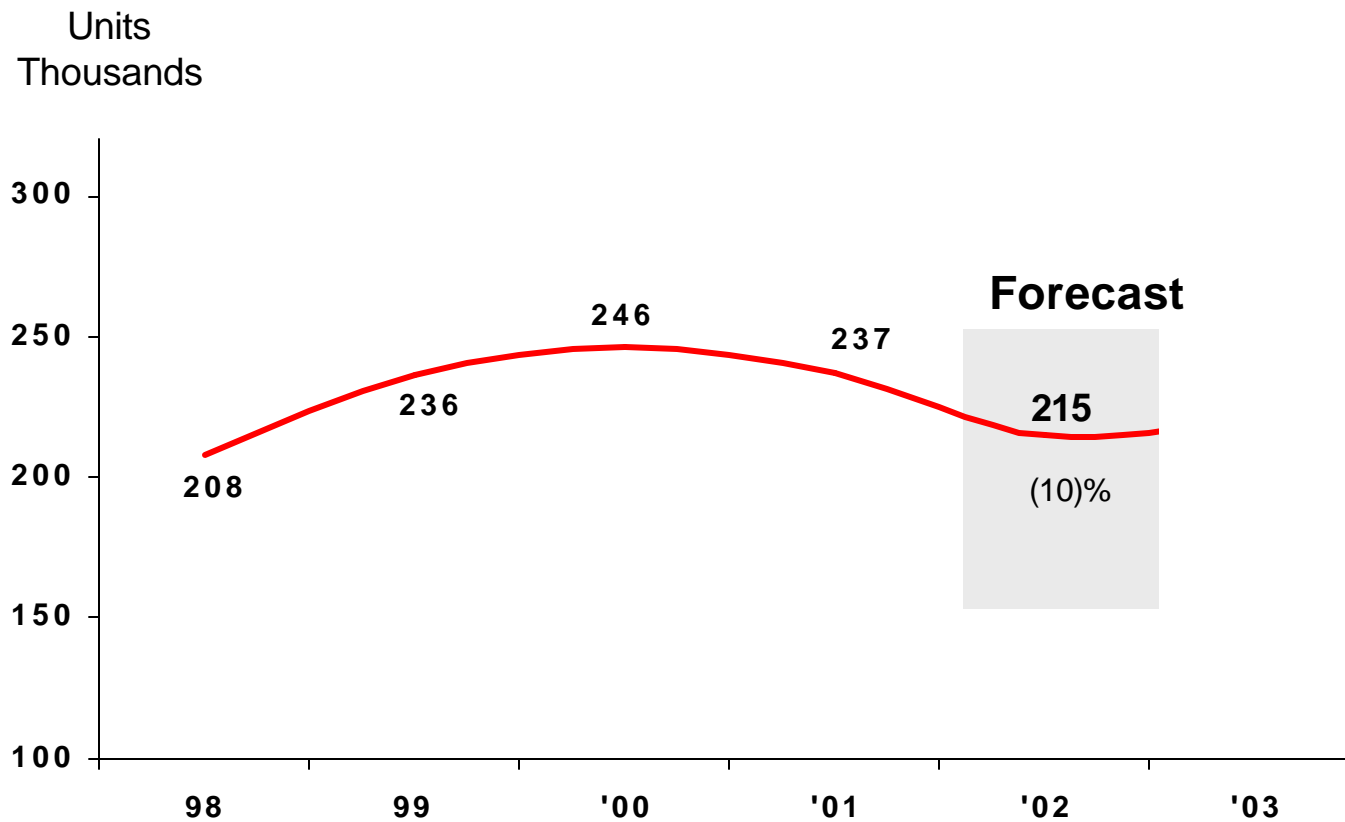
<b>First Six Months</b>			
	2002	2001	Change
Total Europe	47,748	51,986	-8%
Western Europe	43,923	48,507	-9%
Eastern Europe	3,825	3,479	10%
North America	18,034	19,898	-9%
South America	2,529	2,986	-15%
Asia	3,974	2,506	59%
Rest of the world	4,818	4,708	2%
<b>Total</b>	<b>77,103</b>	<b>82,084</b>	<b>-6%</b>



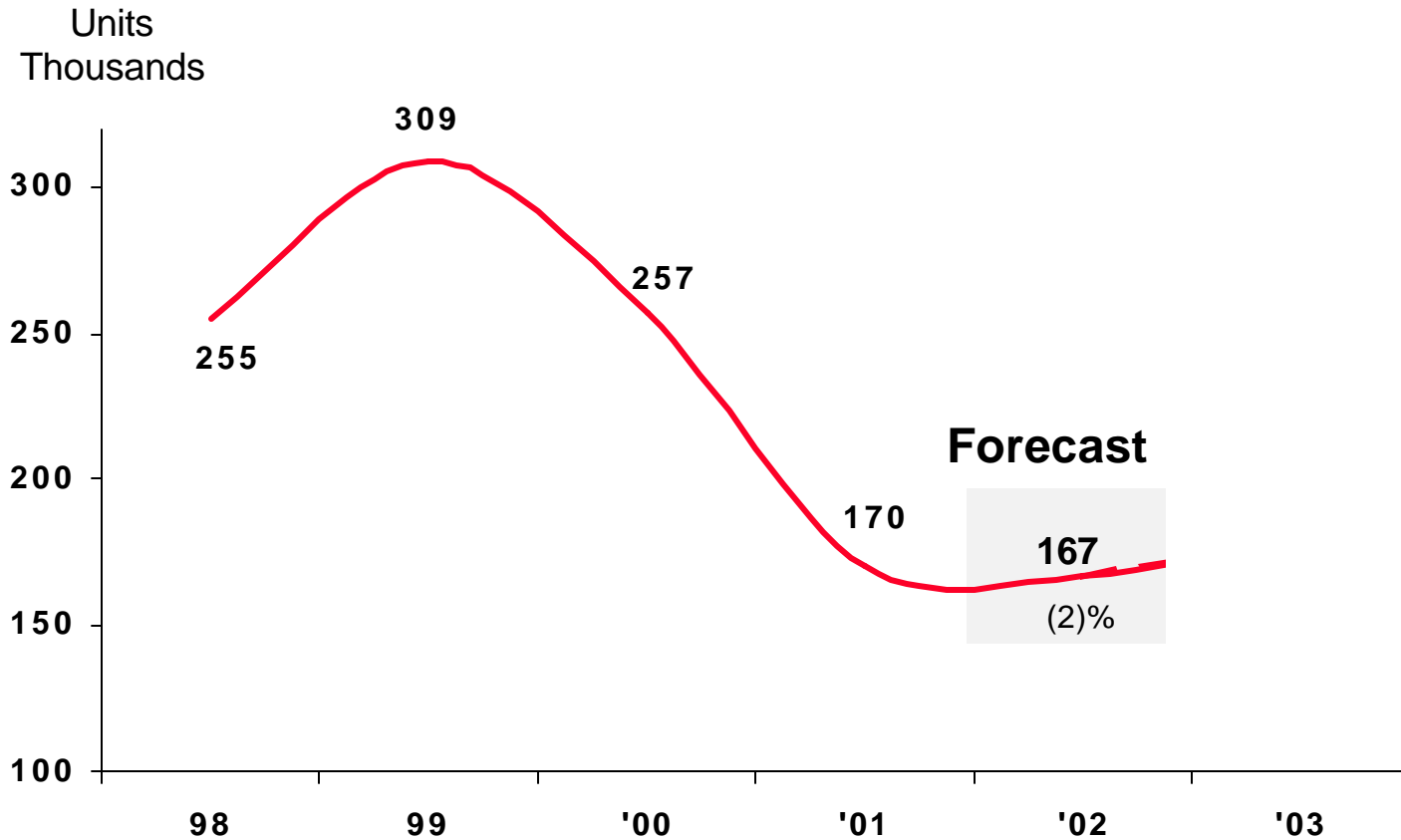
# Business Environment North America



# Total Market Heavy Trucks W. Europe Registration Forecast



# Total Market Heavy Trucks NAFTA Retail Sales Forecast



# Volvo Buses

## Second Quarter

SEK M	Second Quarter			First Six Months	
	2002	2001	Change	2002	Change
Volume (units)	2,571	2,727	-6%	4,413	-9%
Sales	4,142	4,915	-16%	7,307	-15%
Operating income	51	(25)	n.a.	(43)	n.a.
Operating margin %	1.2%	-0.5%	1.7	(0.6)	0.7

### Highlights

- Progress in turn-around activities
- Significant drop in sales in South America and Mexico
- Coach sales low in Europe and the US due to unfavorable touring business
- Major orders in Mexico to leading operators

### In Focus

- Turn-around activities
- Secure an improved price realization
- Manage the exit of the US transit market

# Volvo Construction Equipment

## Second Quarter

SEK M	Second Quarter			First Six Months	
	2002	2001	Change	2002	Change
Sales	6,188	6,067	2%	10,664	-1%
Operating income	464	408	14%	333	-32%
Operating margin %	7.5%	6.7%	0.8	3.1	-1.4

### Highlights

- Continued soft market
- Production changeover issues resolved
- New generation of motor graders

### In Focus

- Manage launch of new compact products
- Continue to develop rental channel
- Product and production cost
- Deliver according to a continued strong order book

# Volvo Construction Equipment

## Heavy Equipment Launched in Q1



**B-Series Excavator**



**E-Series Wheel Loader**

# Volvo Construction Equipment

## New B-series Motor Grader



# Volvo Penta

## Second Quarter

SEK M	Second Quarter			First Six Months	
	2002	2001	Change	2002	Change
Sales	2,249	1,976	14%	4,211	13%
Operating income	225	222	na 1)	371	na 1)
Operating margin %	10.0%	11.2%	na 1)	8.8	na 1)

### Highlights

- Business in order
- Strong sales development and operating income
- Positive cash-flow
- Market downturn has been offset by new customers
- New 5 - 7 litre diesel engines introduced

### In Focus

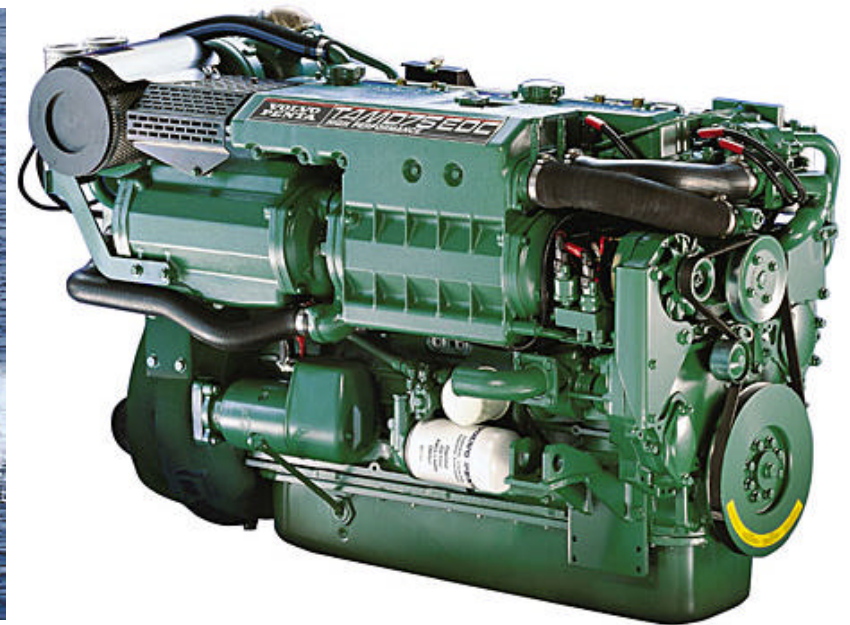
- World market trends
- Cash-flow
- Cost control
- Growth in Marine Commercial and Industrial

1) Not meaningful due to changes in cost allocations



# Volvo Penta

## New 7-Litre Engine for Marine Leisure



**TAMD75**

# Volvo Aero

## Second Quarter

SEK M	Second Quarter			First Six Months	
	2002	2001	Change	2002	Change
Sales	2,338	3,060	-24%	4,823	-15%
Operating income	40	286	-86%	118	-74%
Operating margin %	1.7%	9.3%	(7.6)	2.4	(5.5)

### Highlights

- Slow recovery in air traffic, but lower yield
- More than 15% of all commercial aircraft not in traffic
- Engine maintenance and spare part sales suffering from the market downturn
- Still high but however decreasing volumes in Aerospace Components
- New long term agreements within after market services

### In Focus

- Adaptation to a declining market
- Increased marketing activities within after market services
- Cash flow

# Volvo Financial Services

## Vision

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**To be valued as a world class  
provider of financial and related  
services for the Group's external  
and internal customers**

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## Targeted Customer Offerings by Brand



- Volvo Trucks
- Volvo Buses
- Volvo Construction Equipment
- Volvo Aero
- Volvo Penta

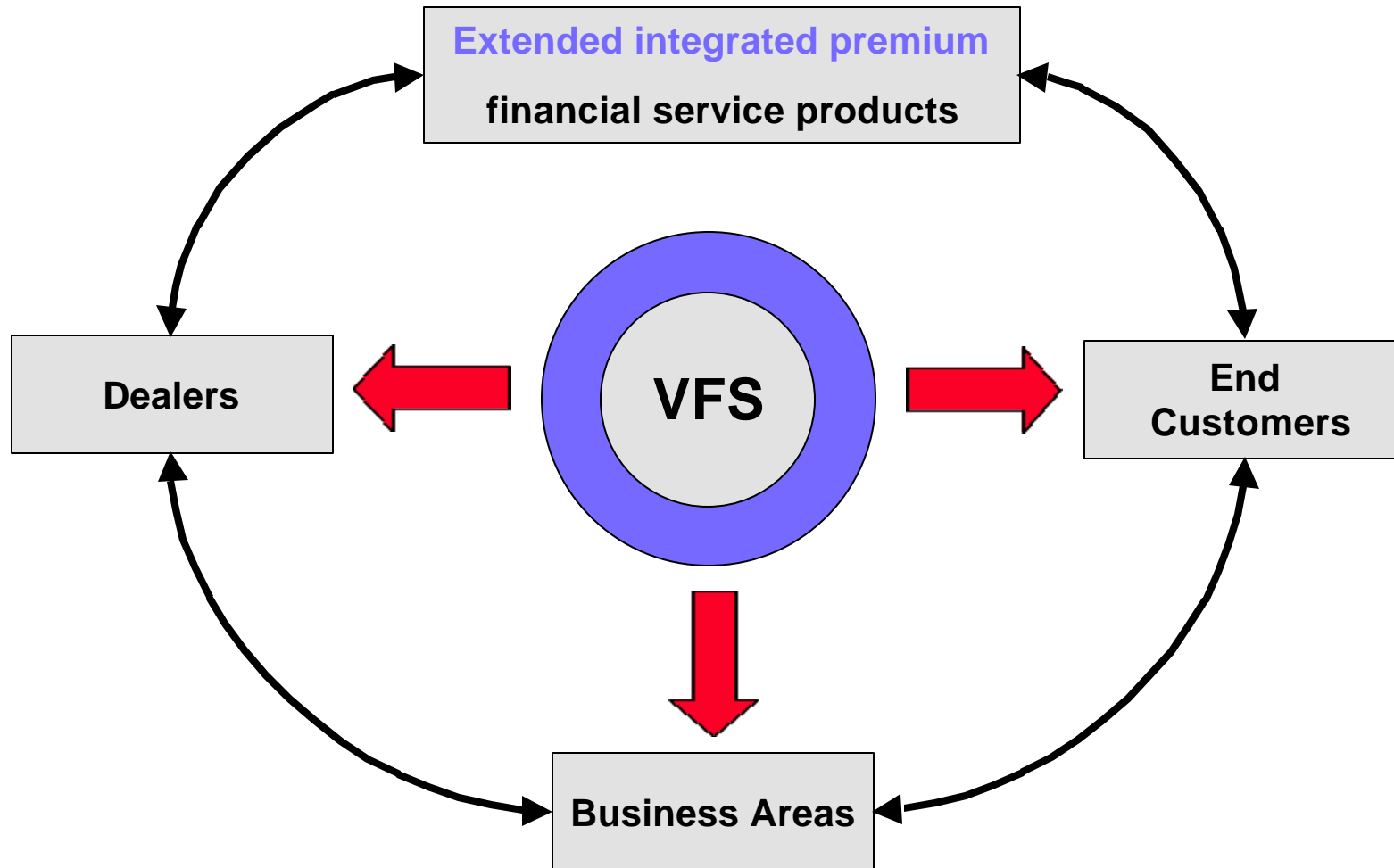


- Renault Trucks



- Mack Trucks

# Customers



# A Global Services Organization

## Customer Finance:

- Operational Leasing
- Financial Leasing
- Instalment Credits

## Dealer Finance:

- Floor Plan
- Dealer Loans



## Insurance

- Liability
- Physical damage
- GAP

## Related Services

- Financial Consultancy
- Fuel & Tax Reporting
- Credit Card

# A Global Services Organization

## Treasury

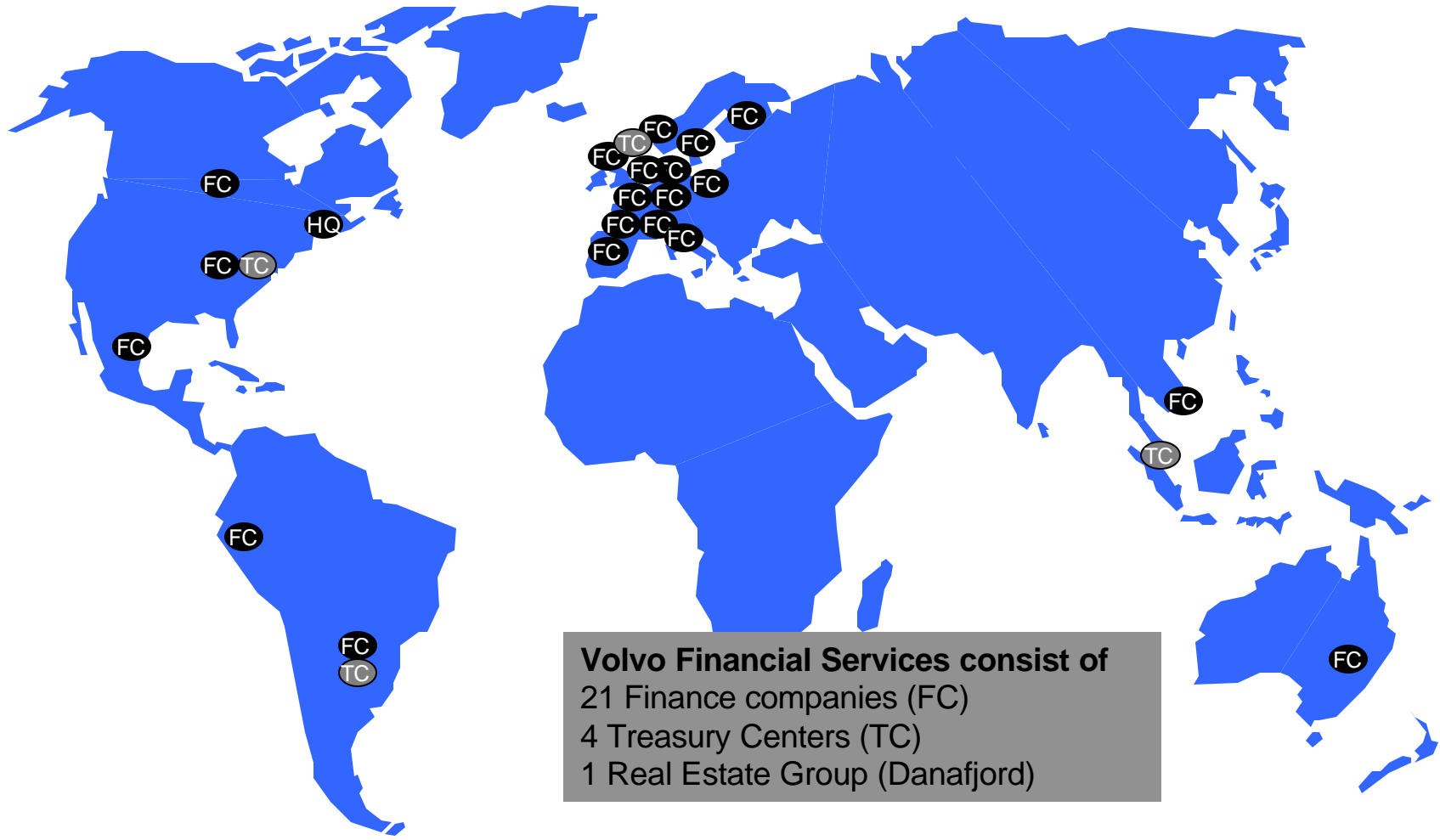
- Foreign Exchange
- Loans and Deposits
- Cash Pooling
- Strategic Funding
- Liquidity Reserves



## Real Estate

- Ownership
- Maintenance
- Lease Agreements
- New Construction

# A Global Services Organization



**Volvo Financial Services consist of**  
21 Finance companies (FC)  
4 Treasury Centers (TC)  
1 Real Estate Group (Danafjord)

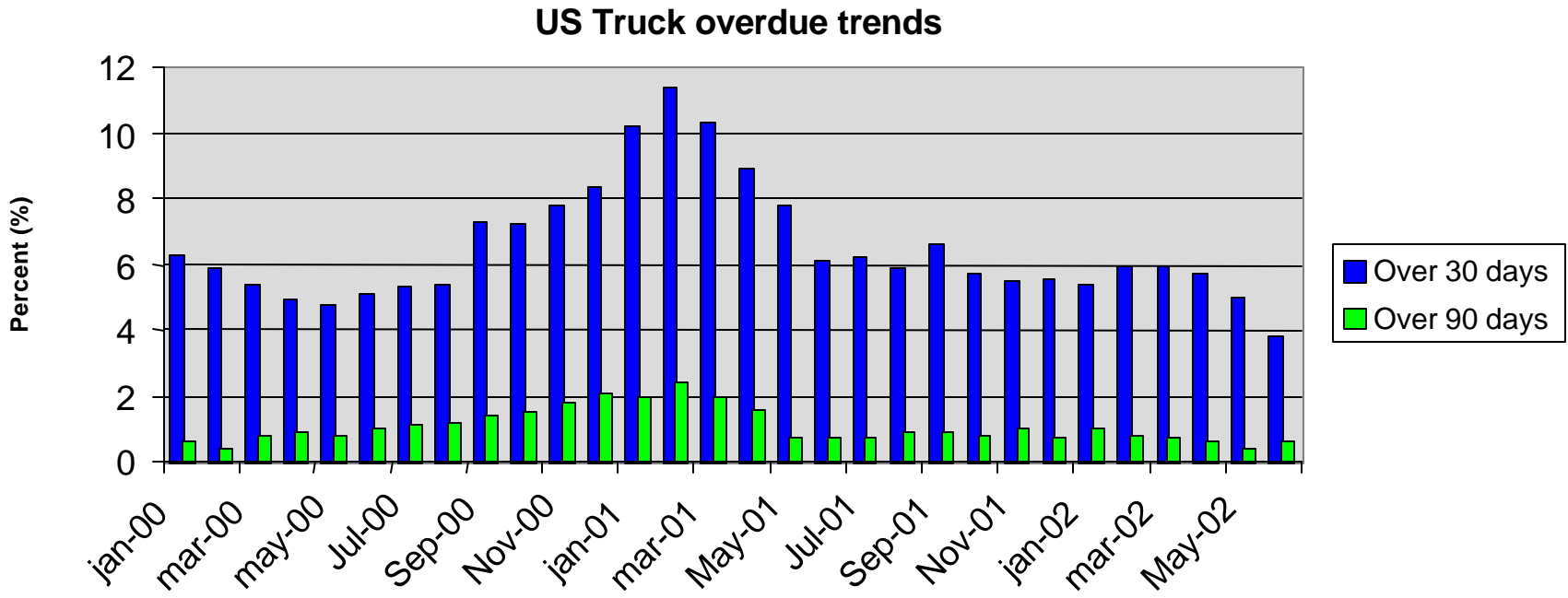


# Risk Management

## Key Principles within Volvo

- Separate Financial Services Business Area reporting
- Clear division of responsibilities between VFS & other Business Areas
- Currency, interest and liquidity matching of credit portfolio
- Standardized credit process within Group
  - arms length procedures for credit decision
  - established portfolio control methodology
  - upfront credit reserve methodology

# Development US Truck portfolio



**Overdue trends began declining 3Q 2001**

# Volvo Financial Services

## Second Quarter

SEK M	Second Quarter			First Six Months	
	2002	2001	Change	2002	Change
Operating income	120	63	90.5%	235	34%
ROE % 1)				3.7%	(2.0)
Assets, MSEK	68,683	70,057	-2.0%	68,683	-2.0%
Equity ratio				10.7%	0.0

### Highlights

- Increase in retail finance volume compared with last year, mainly due to Renault and Mack
  - Improves portfolio diversification
  - Increases long-term profitability
- New committed 5 year back up facility of 850 MUSD established

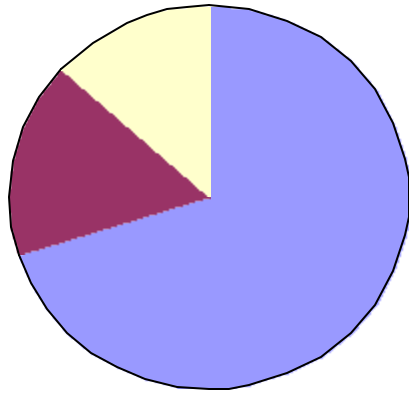
### In Focus

- Syndication strategy
- Funding strategy

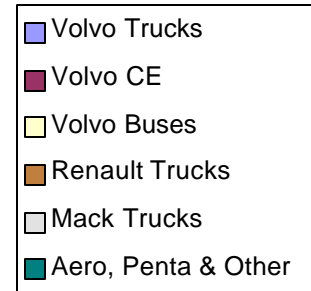
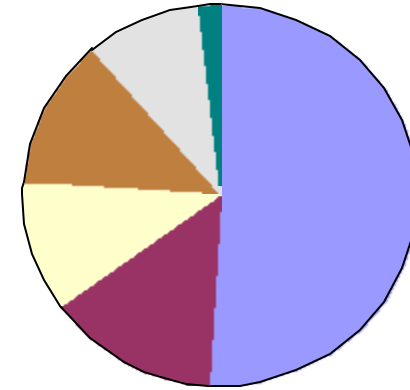
1) Calculated as a 12 month rolling average

# Finance Volume and Penetration

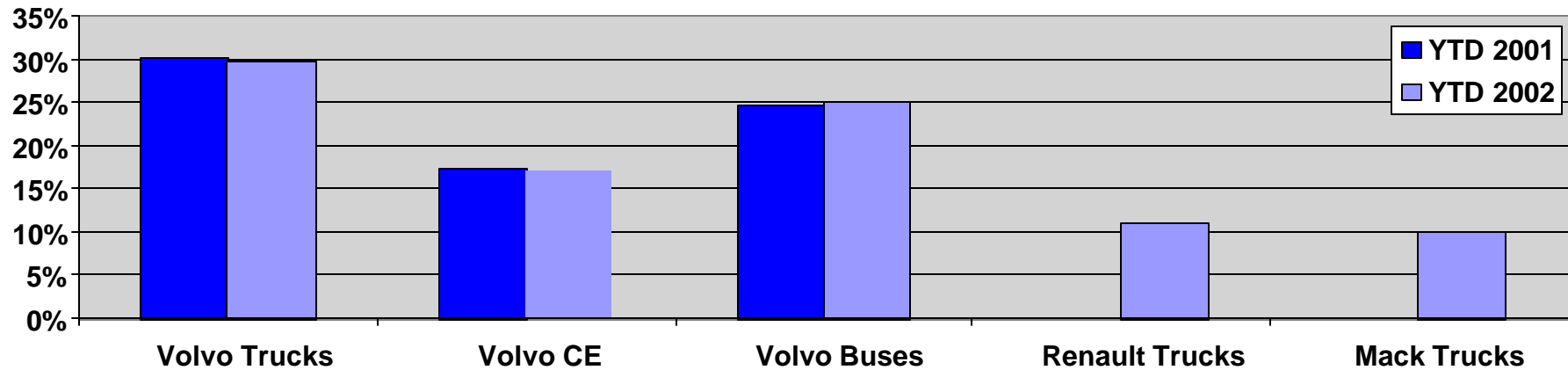
2001 Volume YTD



2002 Volume YTD



Finance penetration



## Key objectives

- 1 **Stability in earnings** over a business cycle
- 2 **Profitability** in all business segments
- 3 Controlled and profitable **asset growth**
- 4 Sound **portfolio structure** / asset diversification
- 5 Support Business Areas & maximize **customer satisfaction**

# Volvo Group

## Summary

- Business Environment
  - Low demand in N. America
  - Downward trend in W. Europe
  - Strong development in Asia and E. Europe
- Successful product introduction
- Improved results in Trucks and Construction Equipment, progress in Buses
- Significantly improved cash flow
- Integration on plan
- Focus on US Truck operations
  - Production transfer
  - New product program
  - Demand pattern