

# **VOLVO**

## **Third Quarter 2008**

**Conference Call, October 24, 2008**

# Group Highlights



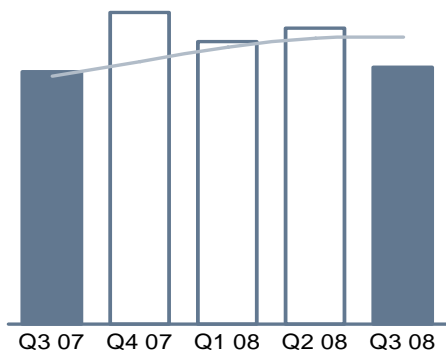
## Third Quarter

- Difficult quarter
  - Sales growth 2%, (+13% in Q2 & +26% in Q1)
  - Operating income down 37%
  - Rapid adjustment of production capacity
- Business environment
  - Europe – falling volumes and heading towards downturn
  - North America and Japan, declining further
  - Still stable development in South America and other international markets

# Volvo Group

## Net sales

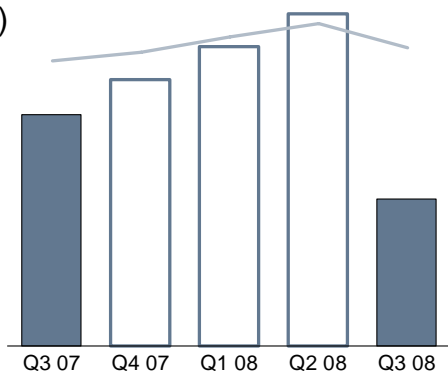
(SEK bn)



Quarter	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08
Quarter	68	85	77	80	70
12 Mth. rol.	269	285	301	310	311

## Operating income

(SEK M)



Quarter	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08
Quarter	5 010	5 775	6 487	7 186	3 177
Margin	7,3%	6,8%	8,5%	8,9%	4,6%
12 Mth. rol.	21 627	22 232	23 391	24 458	22 625

## Sales, up 2%

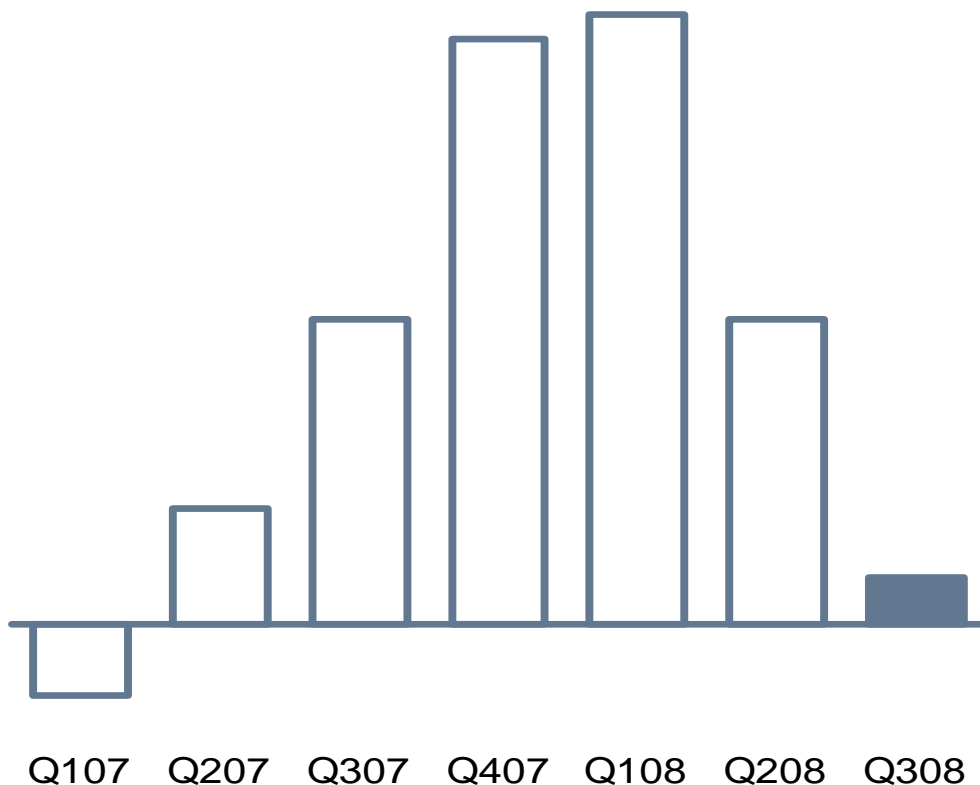
- Western Europe -4% (Q2 +7, Q1 +17)
- Eastern Europe +21% (Q2 +25, Q1 +37)
- North America -12% (Q2 +1, Q1 -4)
- Asia +3% (Q2 +42, Q1 +27)
- South America +35% (Q2 +35, Q1 +18)

## Decrease in operating income

- + Good performance in Europe and International
  - Truck operations in the US
  - Volvo CE
  - R&D expenses up SEK 0.8 bn
  - Cost inflation raw materials SEK 1 bn
  - Restructuring in North America, Volvo CE & Mack SEK 330 M
- Underabsorption

# Volvo Group

Sales growth year over year  
(%)



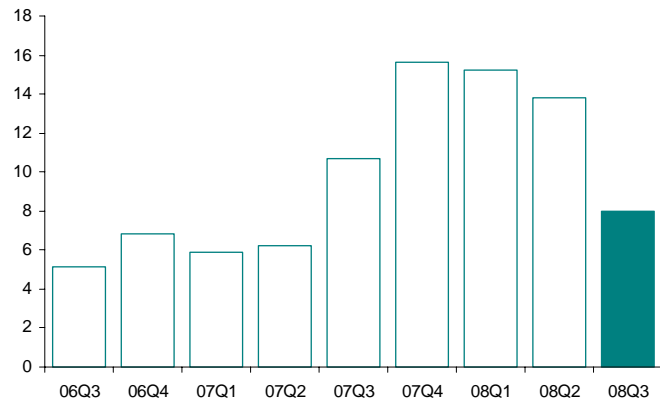
■ Sales growth

Q107	Q207	Q307	Q407	Q108	Q208	Q308
-3%	5%	13%	25%	26%	13%	2%

# Cash flow

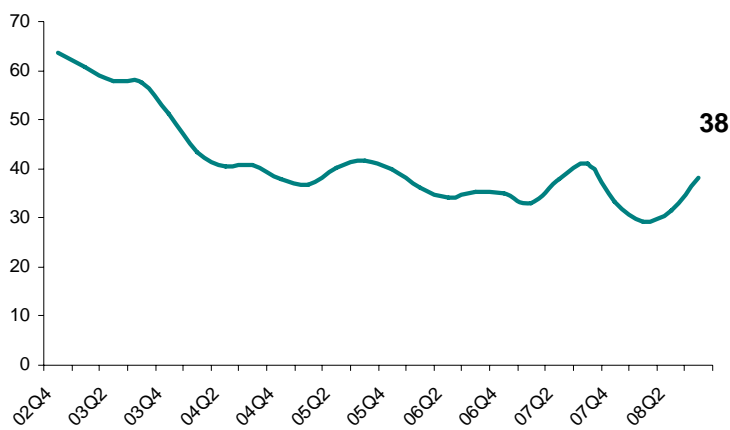
## Operating cash flow

12-months, SEK bn



## Cash Conversion Cycle

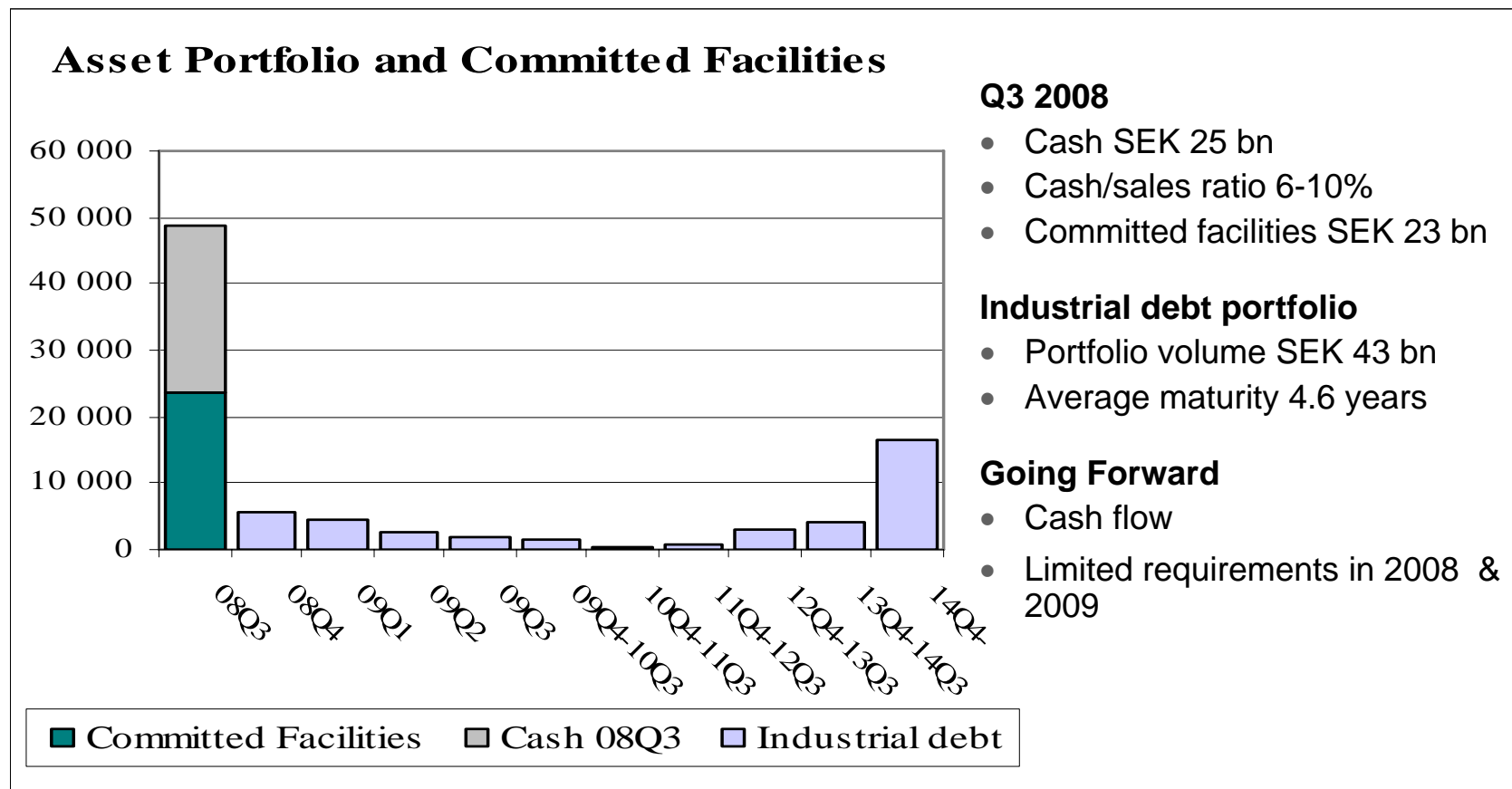
Days



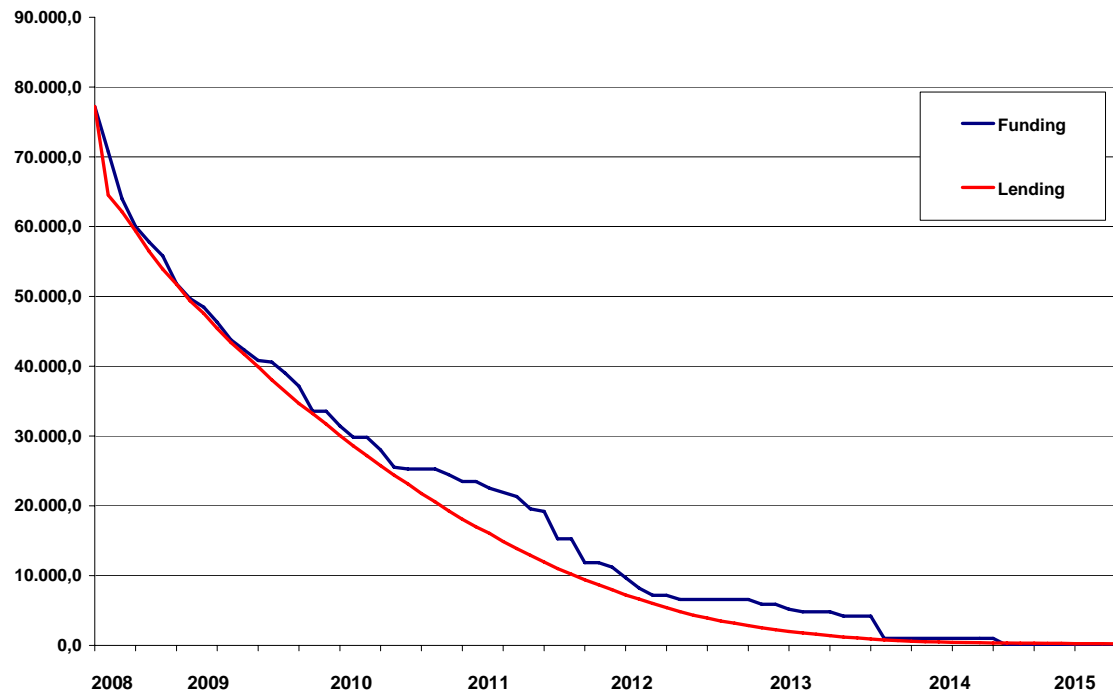
- Industrial operating cash flow; negative SEK 6.1 bn in the quarter
- Cash Conversion Cycle: 38 days
- Focus on working capital
  - Receivables +2.6 bn
  - Inventories -2.4 bn
  - Payables -6.5 bn
  - Other -0.2 bn
  - Total change -6.5 bn
- Net financial debt SEK 23.8 bn, 32.4% of shareholders' equity

# Volvo Group

## Financial Assets and Industrial Debt



# Customer Financing Debt Portfolio



- Strict management of liquidity and funding risk
- Maturing debt matched against customer commitments
- Average maturity 1.4 years
- Total assets of SEK 89 bn as of Sep 30, 2008
- Equity ratio of 8%

# Financial Risk – under control

## **Pensions**

- Contribution according to plan
- Currently no need for additional cash infusions

## **Residual values**

- Conservative approach
- Continuous follow-up by respective Business Areas

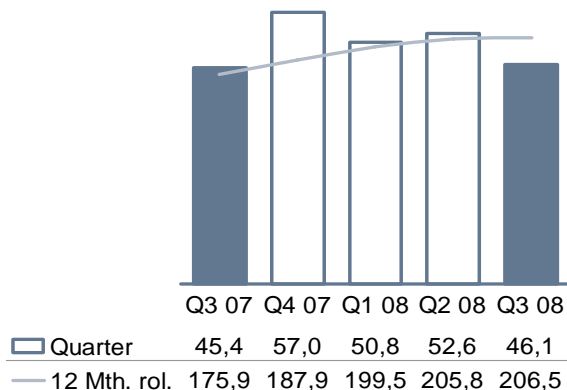


# Trucks



## Net sales

SEK bn

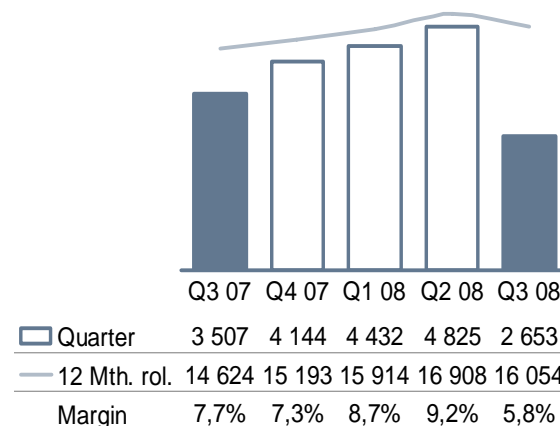


## Highlights

- Significant slowdown in demand in Europe
- Operating income down 24%, driven by North America
- Production system and overhead costs being adjusted to lower demand

## Operating income

SEK M



## In Focus

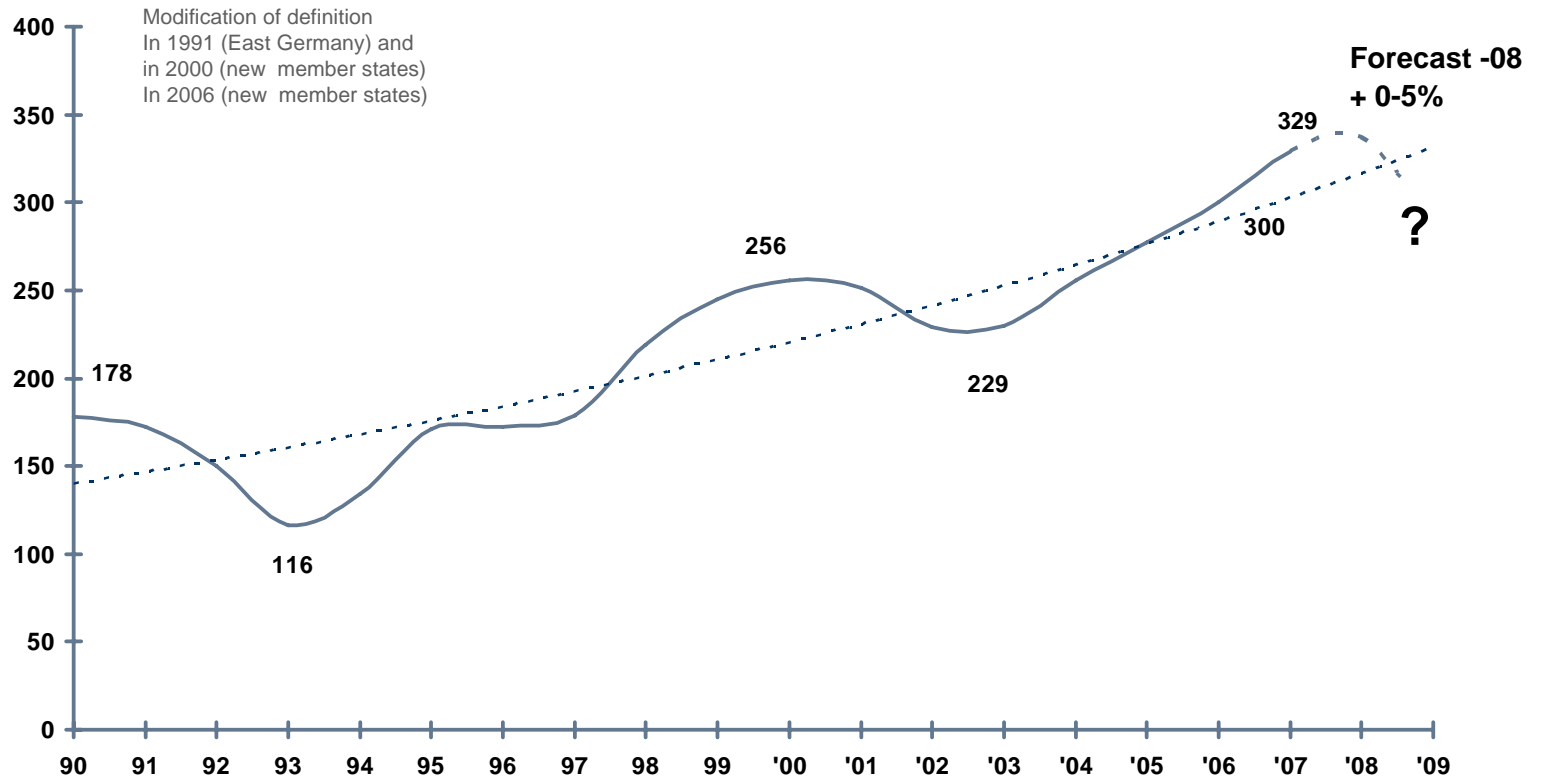
- Production management
- Cost efficiency and productivity
- Integration projects with Nissan Diesel and Eicher
- Manage material cost inflation

# Heavy-duty truck market - Europe

(EU members + Switzerland and Norway)



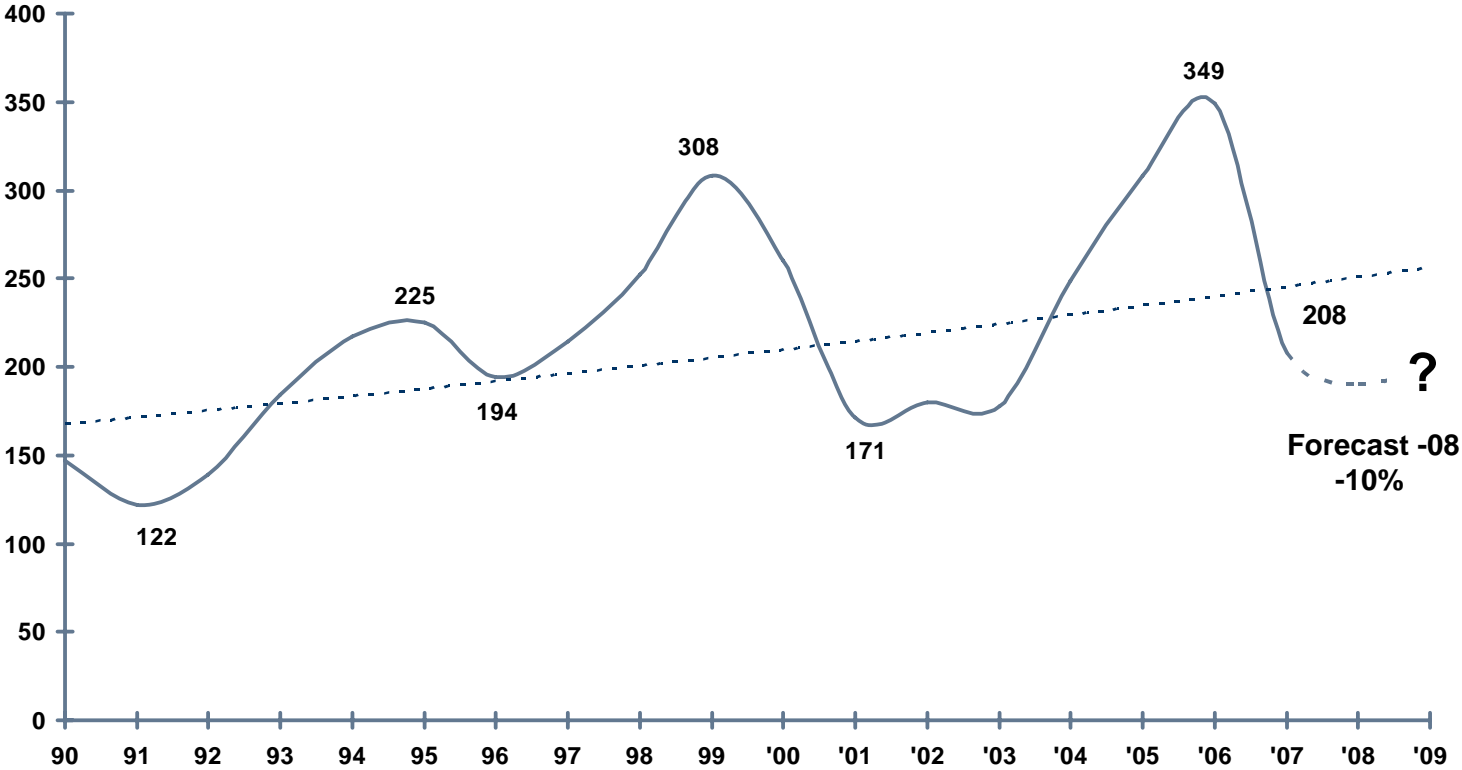
Units, Thousands (heavy trucks)



# Heavy-duty truck market – North America



Units, Thousands (heavy trucks)



# Trucks



## Volvo Trucks

- Market shares gained in Europe
- Production adjustments in Europe
- Order book towards normalization
- New products launched in Europe
  - Good reception at the IAA

## Renault Trucks

- Improving market shares in Europe
- Adjustment of production - temporary workers staffing
- Product innovation
  - All electrical Maxity
  - Renault Premium Distribution Hybrys-Tech
  - Premium Optifuel Concept: new aerodynamic features help reduce fuel consumption.



## Mack Trucks

- UAW negotiations ongoing
- Restructuring plan launched
- Top Customer Satisfaction Ranking for Dealer Service in JD Power
- Honored by EPA for 32% reduction in greenhouse gas emissions



## Nissan Diesel

- Market share maintained
  - the retail sales price of trucks raised
- Market forecast Japan: medium and heavy trucks down 15% in 2008
- Integration work

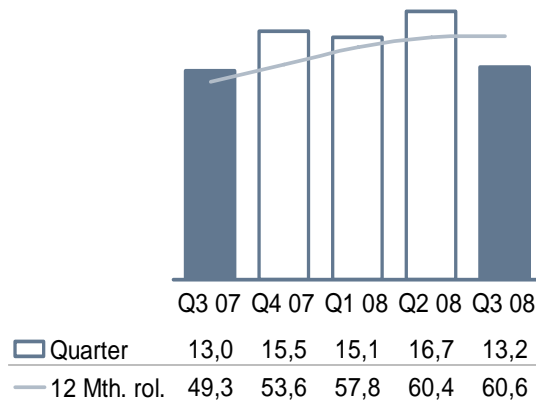


# Construction Equipment



## Net sales

SEK bn

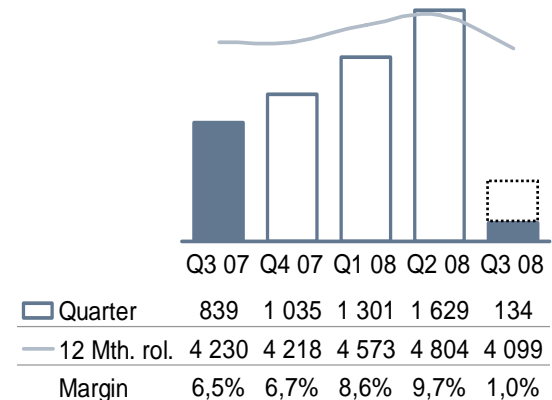


## Highlights

- Sales up 2% (Q2 +18%)
- Operating income affected by increased steel prices and a restructuring charge of SEK 300 M
- Markets continue to fall

## Operating income

SEK M



## In Focus

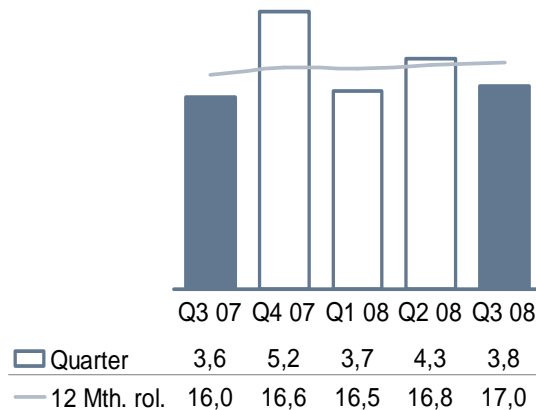
- Manage Goderich plant close down
- Recession Management
- Lingong and Road Machinery integration

# Buses



## Net sales

SEK bn

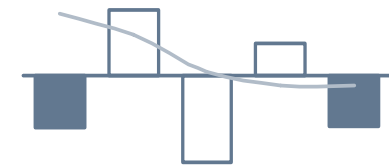


## Highlights

- Increased order intake for city buses
- Closure of Tampere and divestiture of Turku factory Oct 1, 2008
- Negative currency effect
- Hybrid launch

## Operating income

SEK M



Q3 07 Q4 07 Q1 08 Q2 08 Q3 08

Quarter	-73	93	-122	46	-72
12 Mth. rol.	350	231	19	-57	-56
Margin	-2,0%	1,8%	-3,3%	1,1%	-1,9%

## In Focus

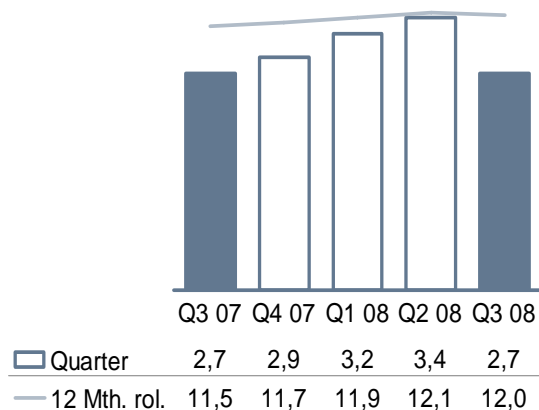
- Global Profitability program
- Inventory management
- City bus tender activities

# Volvo Penta



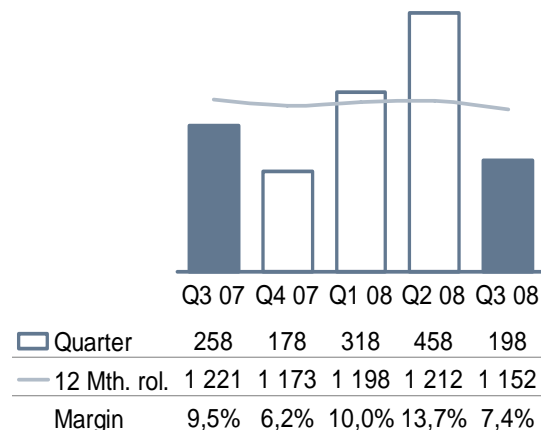
## Net sales

SEK bn



## Operating income

SEK M



## Highlights

- Downturn in total market for marine engines in Europe and North America
- Continued good demand for industrial engines and IPS

## In Focus

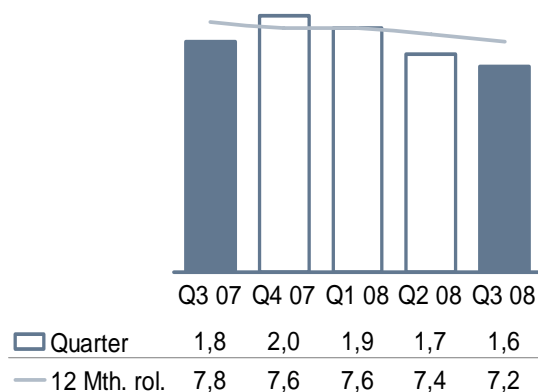
- Adjusting to lower demand
- Efficiency programs for central and regional operations
- Capitalize on good momentum for industrial engines and IPS

# Volvo Aero



## Net sales

SEK bn

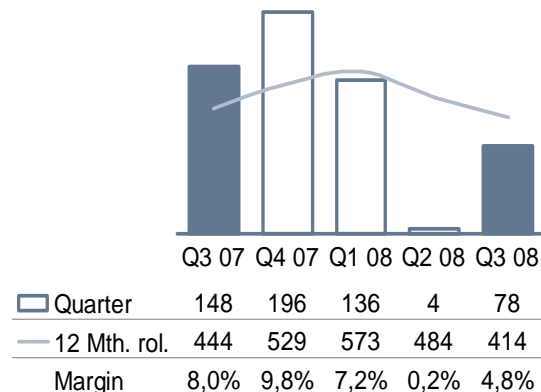


## Highlights

- Air traffic growth flattening out
- Component business still growing, with good margin
- Lower volumes in the after market business
- Successful Fan Blade Out Test with new composite technology

## Operating income

SEK M



## In Focus

- Intensify after market profitability program
- Continued product cost rationalization
- Execution on new contracts

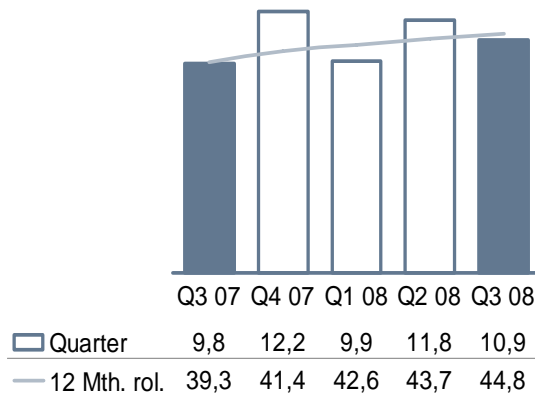


# Financial Services



## New retail financing

SEK bn

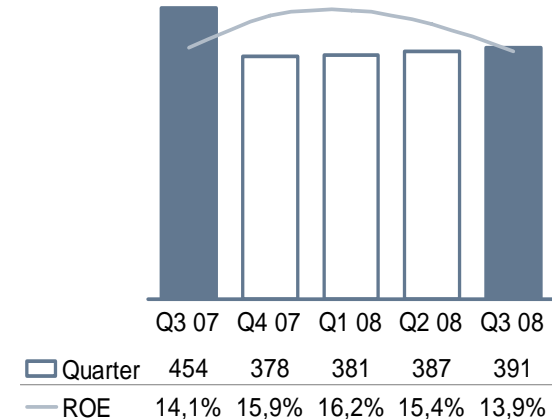


## Highlights

- Strong new business volume
- Stable operating income
- Steady penetration

## Operating income and return on equity

SEK M



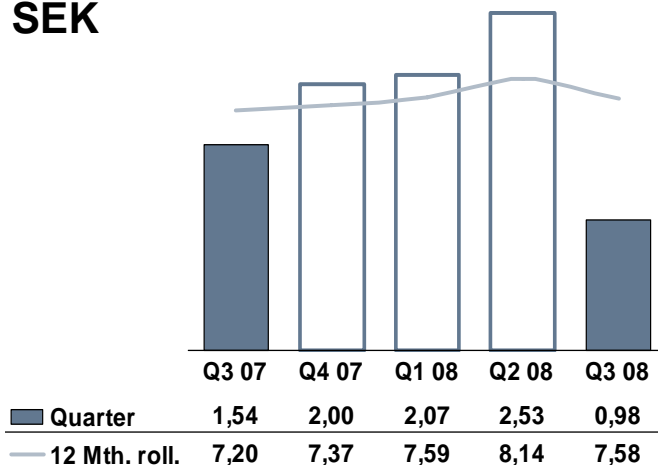
## In Focus

- Heightened portfolio management
- Global financial markets
- Opportunities in the downturn

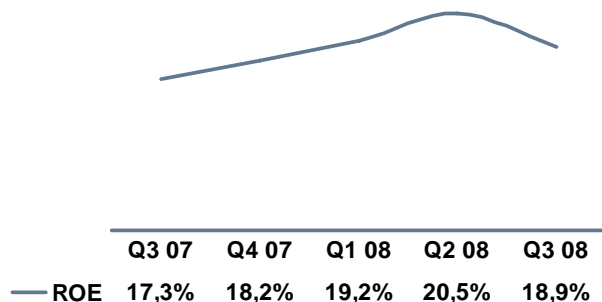
# Group Summary



## Earnings per share SEK



## Return on equity



## Difficult quarter

- Sales down 13% compared to Q2
- Operating income down 37%
- Competitive new products

## In focus

- Rapidly adjust production capacity and cost
- Manage Global demand
- Integrating acquisitions
- Cost efficiency and productivity
- Develop and introduce environmentally friendly and fuel efficient products
  - New emission steps (Euro 5 & US'10)
  - Hybrids

**VOLVO**

**Third quarter 2008**