

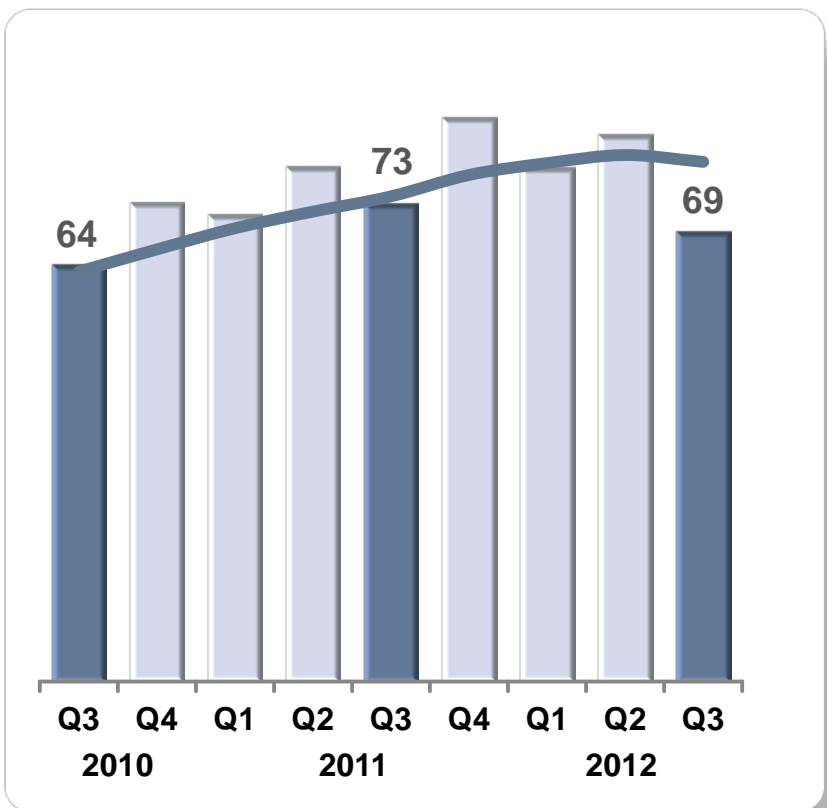
# Volvo Group

## Third quarter 2012

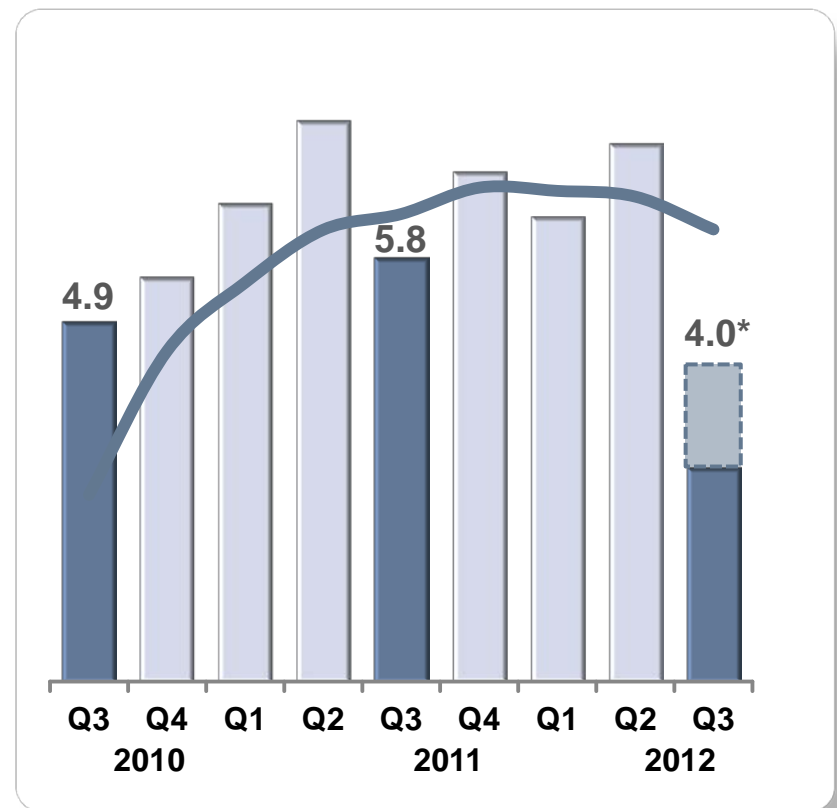


# Slowing demand and lower earnings driven by one-offs and under-absorption

SALES TREND  
SEK bn  
12 months 318 bn



OPERATING INCOME  
SEK bn  
12 months\* 25 bn



\* Excluding restructuring in UD Trucks and one-off increase in warranty provisions, in total SEK 1,060 M

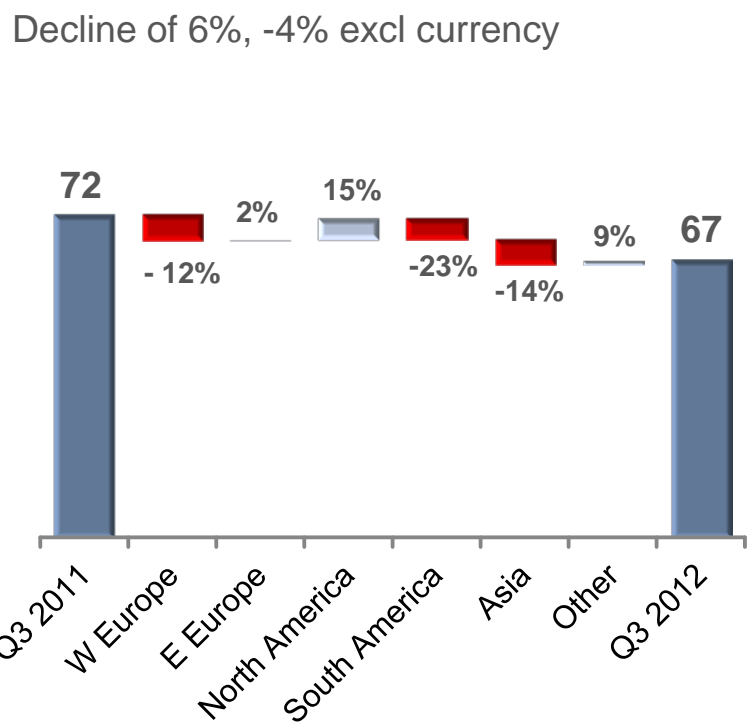
# Challenging third quarter with volatile macro conditions

	NET SALES	OPERATING INCOME	MARGIN
<b>VOLVO GROUP</b> 	69 bn	2,927 M	4.2% 5.8%*
<b>TRUCKS</b> 	44 bn	1,695 M	3.8% 6.2%*
<b>VOLVO CE</b> 	13 bn	650 M	4.9%
<b>BUSES</b> 	4.3 bn	-58 M	- 1.4%
<b>VOLVO PENTA</b> 	1.7 bn	147 M	8.5%
<b>VOLVO AERO</b> 	1.6 bn	227 M	14.3%
<b>FINANCIAL SERVICES</b> 	11 bn new financing	383 M	12 m ROE 10.9%

\* Excluding restructuring in UD Trucks and one-off increase in warranty provisions, in total SEK 1,060 M

# Growth in North America off-set by lower sales in Western Europe, Asia and South America

MARKET DEVELOPMENT\*  
SEK bn



VOLVO GROUP\* SALES Q3  
%



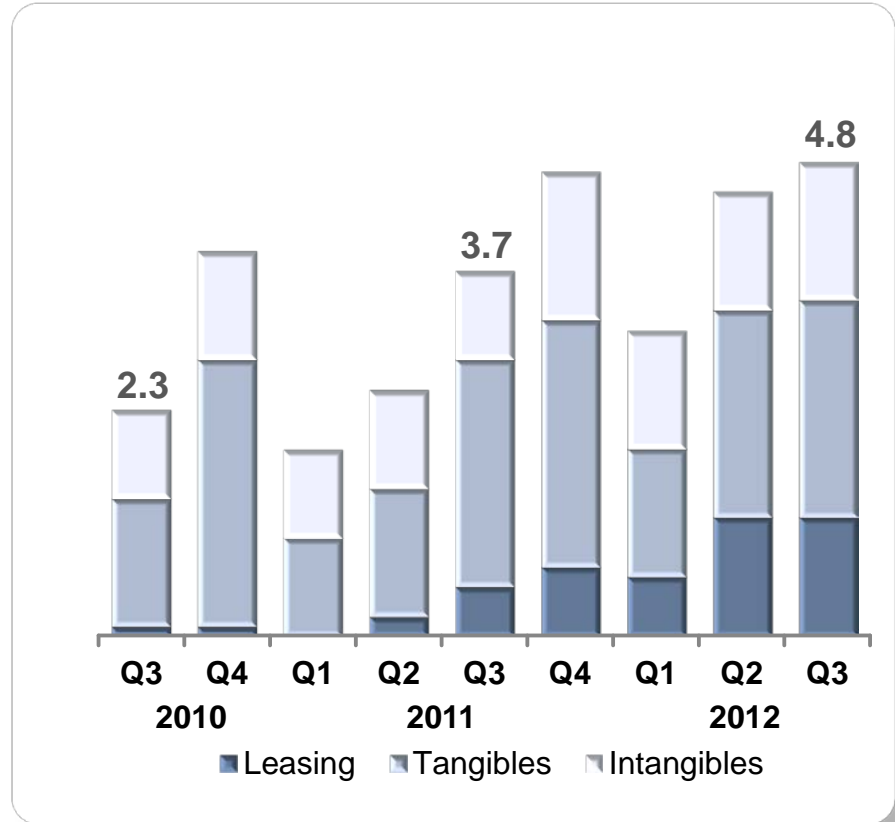
\* Industrial operations

# Production cut-backs affecting payables (-7.4 bn)

OPERATING CASH FLOW\*  
SEK bn



INVESTMENTS\*  
SEK bn



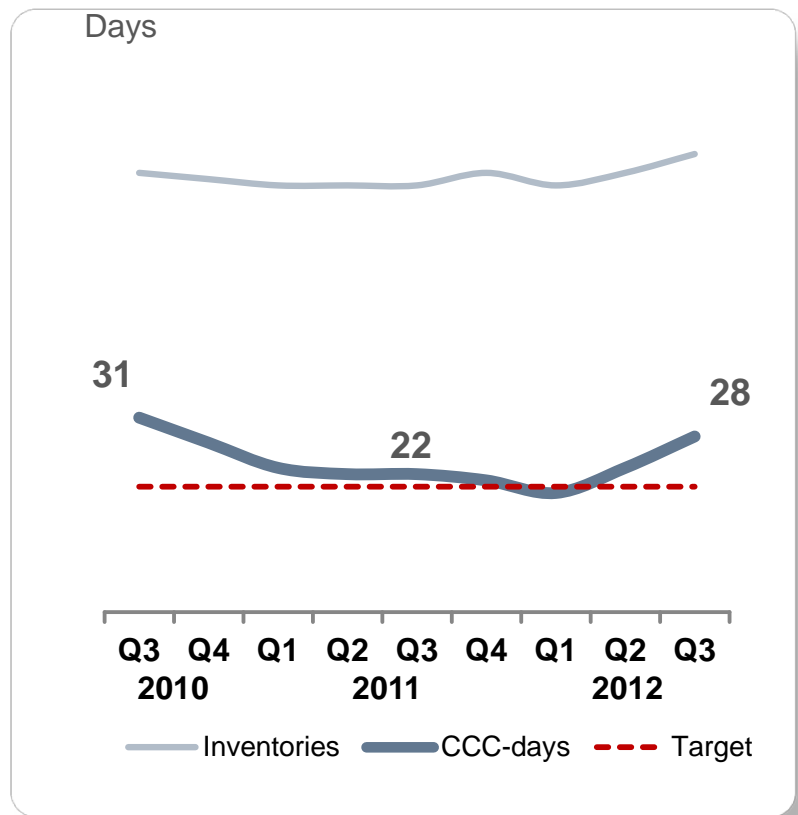
\* Industrial operations

# Capital efficiency – CCC at 28 days

Inventory levels are being addressed

CASH  
CONVERSION CYCLE\*

Days



ROC\*

%



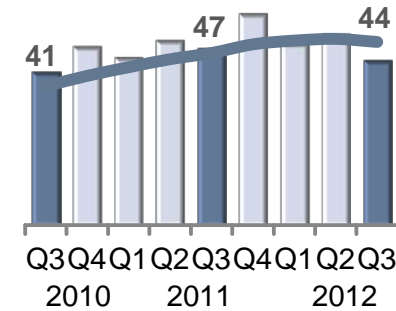
\* Industrial operations

# Trucks in Q3



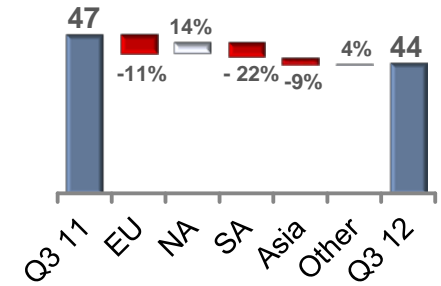
## SALES TREND

SEK bn      12 months 201 bn



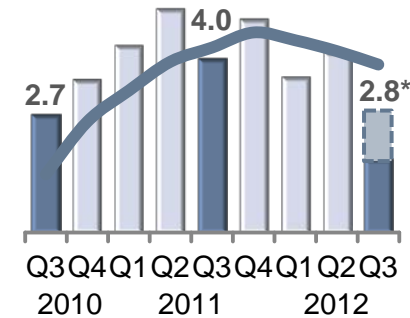
## SALES BRIDGE

Decline of 7%, -4% excl currency



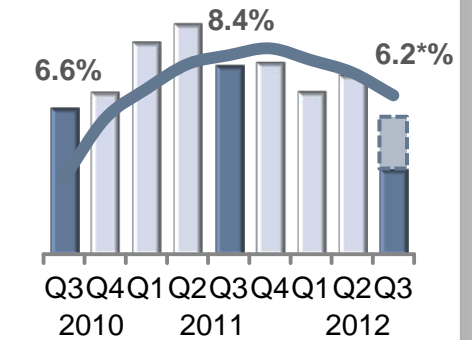
## OPERATING INCOME

SEK bn      12 months 15.3\* bn



## OPERATING MARGIN, %

Currency - 81 M



\* Excluding restructuring in UD Trucks and one-off increase in warranty provisions, in total SEK 1,060 M

# Trends and actions in Q3 – Trucks

## Trends in Q3

- Declining demand outside Brazil
- Weak order intake in September
- Increasing inventory levels in Renault Trucks
- Under-absorption of costs in production, SEK ~600 M

## Actions implemented in Q3

- Lowered production rates for engines and components, (10-20%)
- Lowered production rates for Volvo in Brazil, (15%)
- Stop weeks in the US, (2 weeks)
- Decision to reduce production rates by ~20% for Renault Trucks in Q4

## Actions in Q4 and going forward:

- Readiness to adjust production further
- Selective market activities
- Detailed inventory reduction program focusing on cash flow in Q4



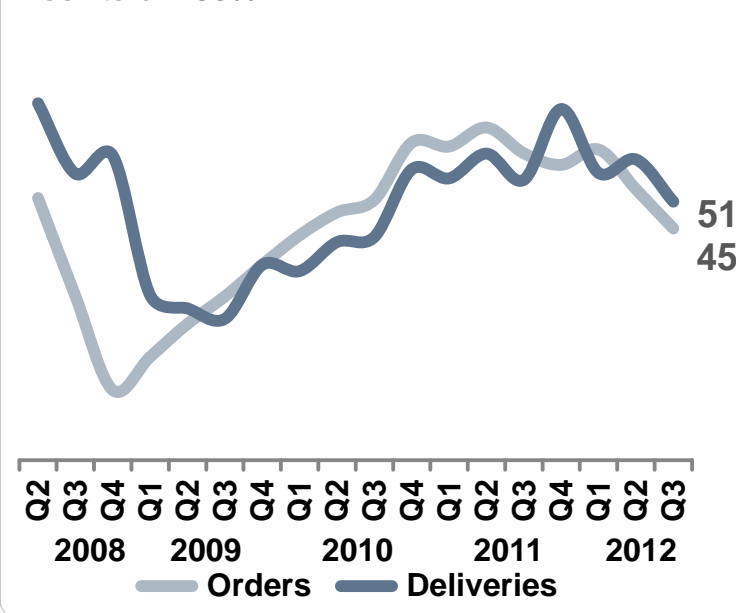
# Slow orders in September drives low production in December

Production adjusted to meet expected demand in 2013

ORDERS	Q3-12	YoY	QoQ	BtB
<b>Europe</b>	<b>16 091</b>	<b>-28%</b>	<b>-25%</b>	<b>89%</b>
- Volvo	8 358	-31%	-29%	92%
- Renault	7 733	-24%	-20%	86%
<b>North America</b>	<b>7 929</b>	<b>-33%</b>	<b>-2%</b>	<b>74%</b>
- Mack	3 342	-26%	41%	73%
- Volvo	4 410	-38%	-20%	74%
<b>South America</b>	<b>7 322</b>	<b>-9%</b>	<b>19%</b>	<b>116%</b>
<b>Asia</b>	<b>11 118</b>	<b>-19%</b>	<b>-16%</b>	<b>97%</b>
<b>Other markets</b>	<b>2 812</b>	<b>-29%</b>	<b>-29%</b>	<b>71%</b>
<b>Total</b>	<b>45 272</b>	<b>-25%</b>	<b>-14%</b>	<b>90%</b>

## ORDERS AND DELIVERIES

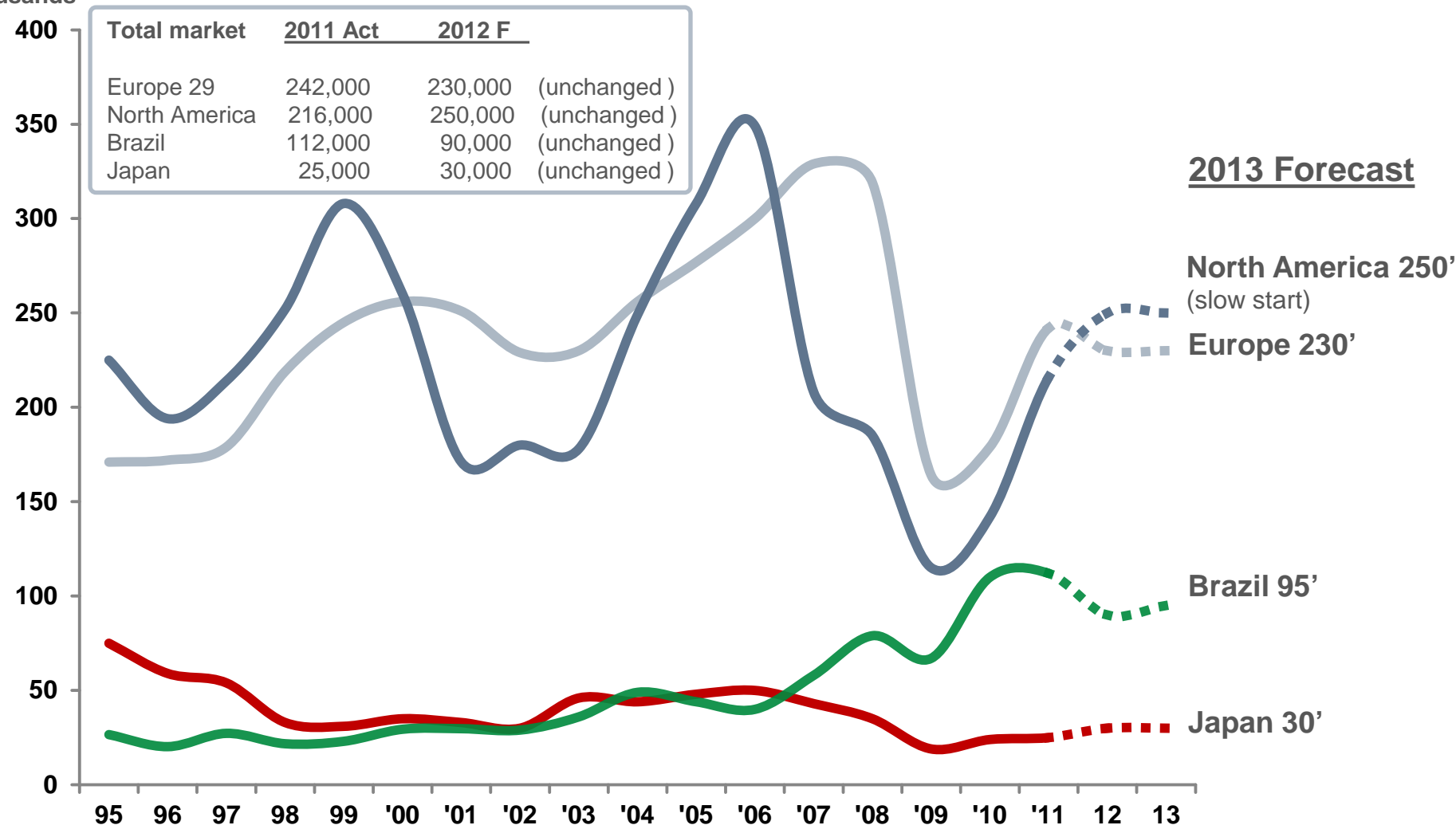
Book to bill: 90%



Book-to-bill at Q2 level despite slowing demand

# Markets expected to move sideways in 2013

Units, thousands

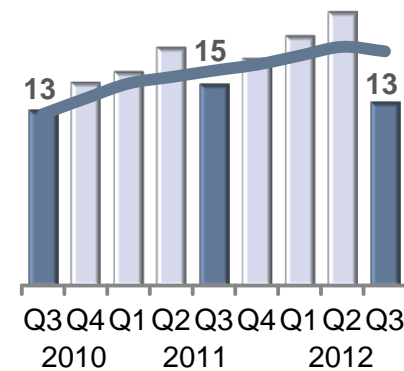


# Construction Equipment in Q3



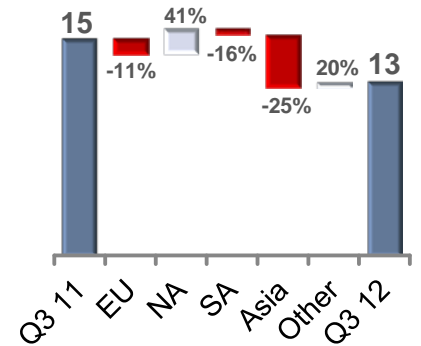
## SALES TREND

SEK bn 12 months 67 bn



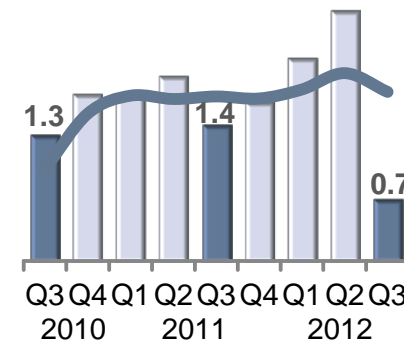
## SALES BRIDGE

Decline of 9%, -8% excl currency



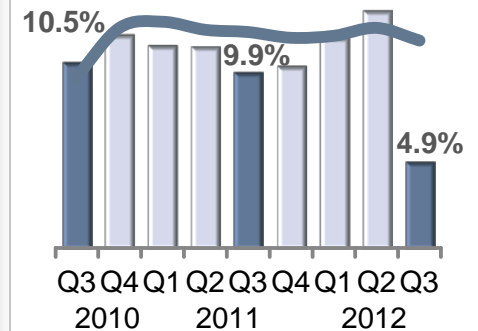
## OPERATING INCOME

SEK bn 12 months 7.1 bn



## OPERATING MARGIN, %

Currency +149 M



# Trends and actions in Q3 – Volvo CE

## Trends in Q3

- Weakening construction market and rapid slow-down in mining
- Price pressure
- Order book down by 24% in value
- Under-absorption of costs in production, SEK ~400 M

## Actions implemented in Q3

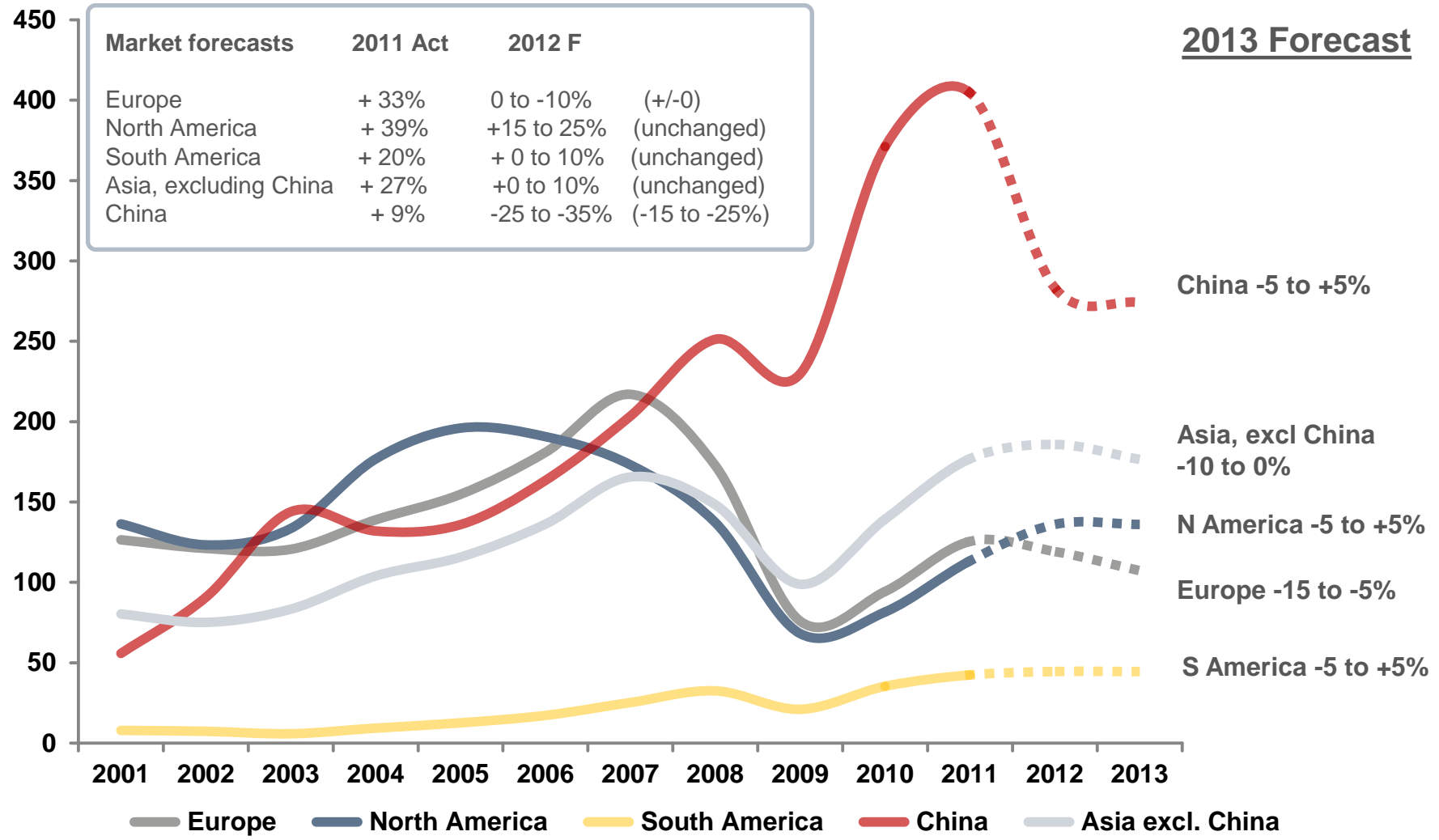
- Production in Q3 35% lower than Q3 last year
- Reduction of pipeline inventory for five consecutive months – leading to positive cash flow for the first nine months

## Actions in Q4 and going forward:


- Readiness to adjust production further
- Selective market activities
- Continued inventory reduction program focusing on cash flow
- Right-sizing of the cost structure

# Markets expected to move sideways in 2013


Units, thousands



# Third quarter summary

- 
- Slow truck orders in September
  - Flat inventories in Q3 despite weakening market
  - September fallback to impact production in Q4
  - Given 2013 market forecasts, we will have the right production capacity in place. If orders should deteriorate we will adjust production further
  - Focus for the remainder of 2012 is inventories and cash flow
  - 2013 markets expected to be on the same level as in 2012

# High speed in the implementation of the strategic objectives

<p><b>1. Secure number 1 or 2 in profitability</b></p> <ul style="list-style-type: none"> <li>1.1 Increase vehicle gross profit margin per region by 3% points</li> <li>1.2 Reduce actual standard cost of sales on total cost for current offer by 10%</li> <li>1.3 Decrease wholesale selling expenses to 5% of sales</li> <li>1.4 Increase own dealer soft offer absorption rate by 10 % points</li> <li>1.5 Reduce R&amp;D cost (spending pace) to 11,5 BSEK</li> <li>1.6 IT cost on 2% of Volvo Group total cost by 2015</li> </ul>	<p><b>2. Strengthen customer business partnership</b></p> <ul style="list-style-type: none"> <li>2.1 We will achieve 99% product availability contributing to 'strengthen customer business partnership'</li> <li>2.2 Drive retail excellence by implementation of an integrated customer interface tool</li> <li>2.3 Each brand to rank number 1 on decided brand attributes in competitive set</li> </ul>	<p><b>3. Capture profitable growth opportunities</b></p> <ul style="list-style-type: none"> <li>3.1 By optimizing the brand assets become number 1 or 2 in combined Group Trucks HD market share</li> <li>3.2 Establish required commercial presence to support revenue growth by 50% in APAC and 25% in Africa</li> <li>3.3 Establish required R&amp;D footprint and supply chain in APAC &amp; Africa achieving lead time reduction by 15% and capital tied up reduction by 15%</li> <li>3.4 Increase Aftermarket sales per unit in operation by 12%, including total commercial solution offer for second owner</li> <li>3.5 Build 1 BSEK new businesses complementary to existing offering</li> </ul>
<p><b>4. Innovate energy-efficient transport and infrastructure solutions</b></p> <ul style="list-style-type: none"> <li>4.1 Fuel efficiency to be improved by 2% per annum through vehicle optimization, diesel efficiency and electromobility</li> <li>4.2 Commercialize alternative fuel technology by launching concepts or products in all regions</li> </ul>	<p><b>5. Build high performing global teams</b></p> <ul style="list-style-type: none"> <li>5.1 Become an attractive employer measured by reaching the employee engagement level (EEI) of high performing companies</li> <li>5.2 Drive high performance measured by reaching performance excellence level (PEI) of high performing companies</li> <li>5.3 Secure leadership and strategic competencies, primary focus is the implementation of Volvo Group University</li> <li>5.4 Build an efficient and inclusive organization by implementing common global level 1 and 2 processes</li> </ul>	

Launch of the new-generation Volvo FH

New sales and marketing organization for Trucks in Europe, Middle East and Africa – restructuring costs of SEK 900 M from Q4

Right-sizing of UD Trucks in Japan – 950 employees less as of Jan 1, 2013

Cab assembly plant in Russia decided

**VOLVO**



# APPENDIX

# Guidance

## Market forecast

<b>Capex PPE</b>	2012
Ind. Operations	~10 bn
<b>Tax rate 2012</b>	~30%

<b>Heavy-duty trucks</b>	<b>2012</b>	<b>2013</b>
- Europe 29	230,000	230,000
- North America	250,000	250,000
- Brazil	90,000	95,000
- Japan	30,000	30,000

<b>CE</b>	<b>2012</b>	<b>2013</b>
- Europe	0 to -10%	-15 to -5%
- North America	+15 to 25%	-5 to +5%
- South America	+0 to 10%	-5 to +5%
- Asia, ex China	+0 to 10%	-10 to 0%
- China	-25 to -35%	-5 to +5%

# Currency effects – On operating income

SEK M	Q3-12 vs Q3-11
Trucks	- 81
Volvo CE	+ 149
Buses	+ 79
Volvo Penta	- 37
Volvo Aero	+ 146
Group functions and other	+ 338
<b>Volvo Group</b>	<b>+ 594</b>

# Upcoming events

Q4 REPORT

Feb 6

Stockholm

INVESTOR DAY

Nov 5

New York

ANNUAL REPORT

March

AGM

April 4

Göteborg

[www.volvogroup.com/IR](http://www.volvogroup.com/IR)