



CAPITAL MARKET DAY 2011

Olof Persson, CEO Volvo Group

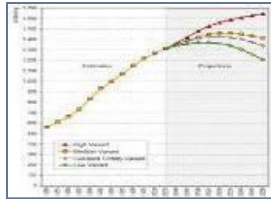
The world is changing ...





Future challenges

Key long-term drivers and challenges



**Increasing population
and
middle class**

- Increasing consumption
- Increasing transport needs



**Climate
change**

- Sustainable transports
- Political push away from fossil fuels
- Restrictions on CO₂



**Scarcity of
commodities
and raw materials**

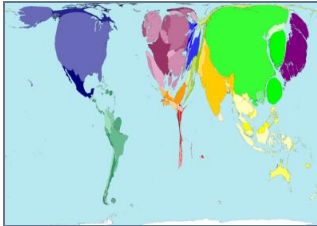
- Corporate responsibility “cradle to grave”
- Recyclability
- New materials

Key long-term drivers and challenges



Cities leading environmental “push” in society

- Efficient & sophisticated logistics
- Restrictions on CO₂ & noise



Asian growth

- Product cost challenge
- Changing competitive landscape
- Asian competitors’ entry into the global market



Future challenges

Volvo Group Vision

New Vision

The Volvo Group's vision is to become the world leader in sustainable transport solutions by:

- creating value for customers in selected segments
- pioneering products and services for the transport and infrastructure industries
- driving quality, safety and environmental care
- working with energy, passion and respect for the individual.





Volvo Group wanted position



We are among the most profitable in our industry



We are our customers' closest business partners



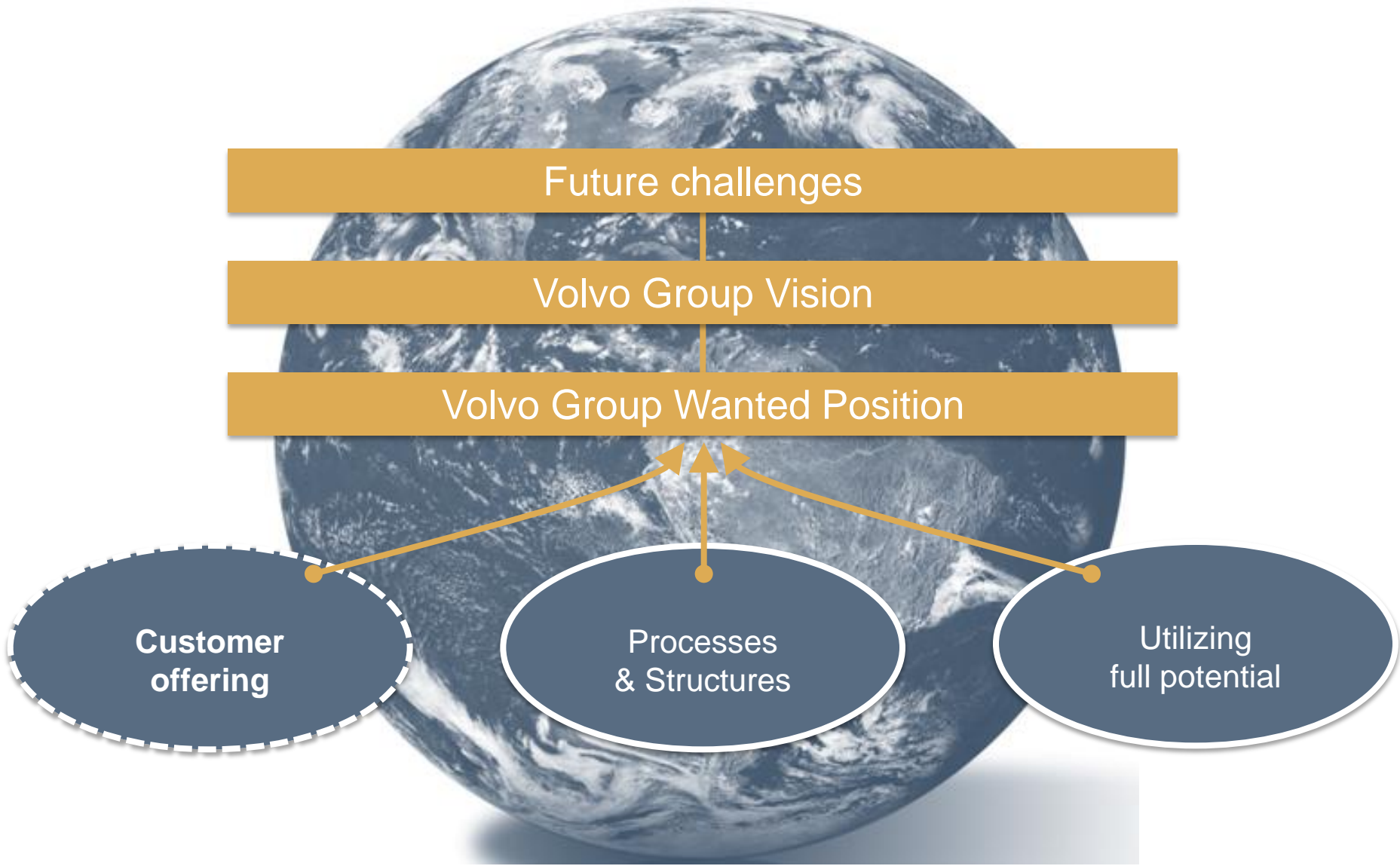
We have captured profitable growth opportunities



We are proven innovators of energy-efficient transport solutions

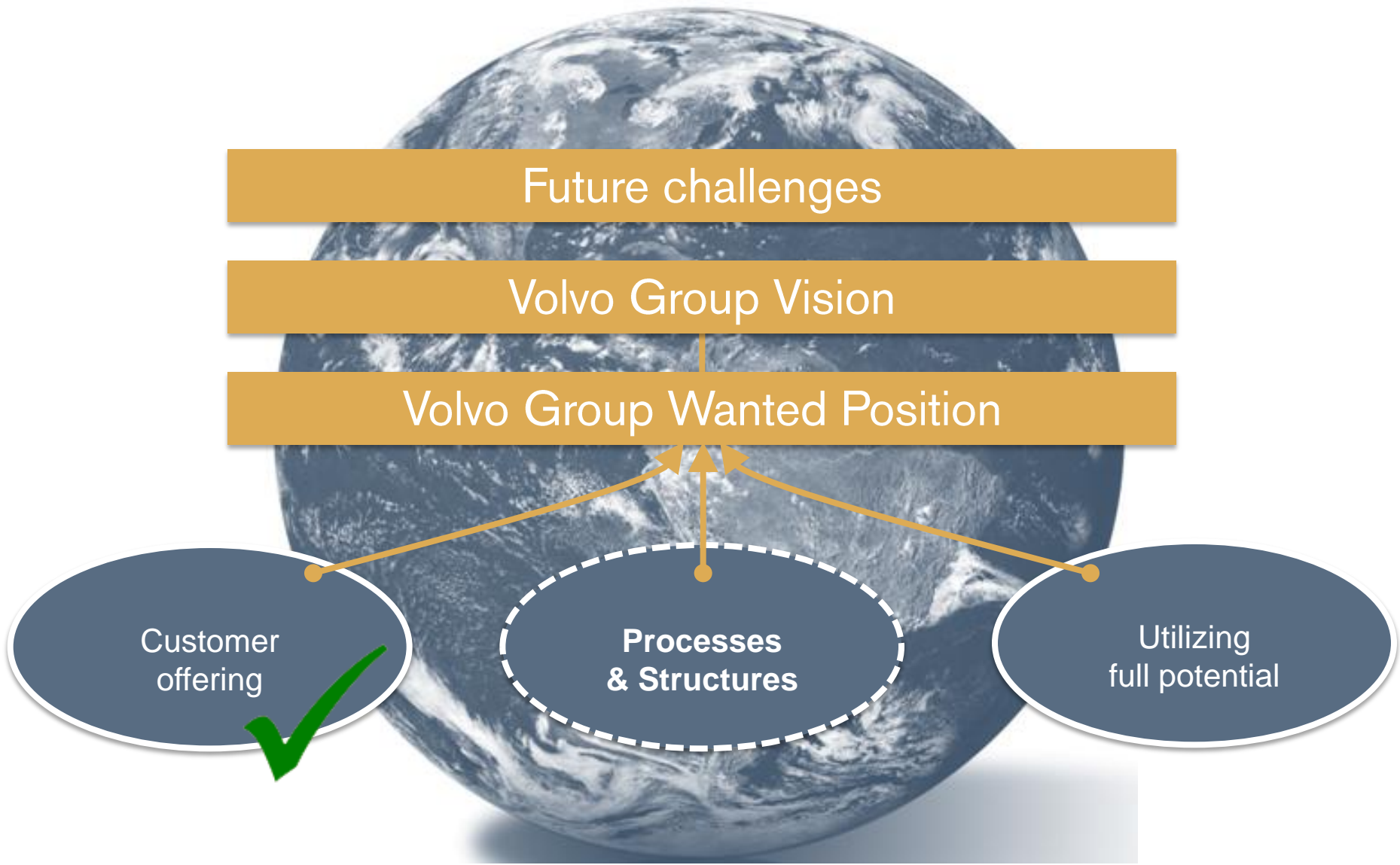


We are a global team of high performing people



We have a competitive product portfolio





”Every organization is perfectly aligned to the results that it gets”



Modified Gailbrath's Model

The matrix organization served us well during the acquisition phase

Business Areas

Trucks



Buses



Construction Equipment



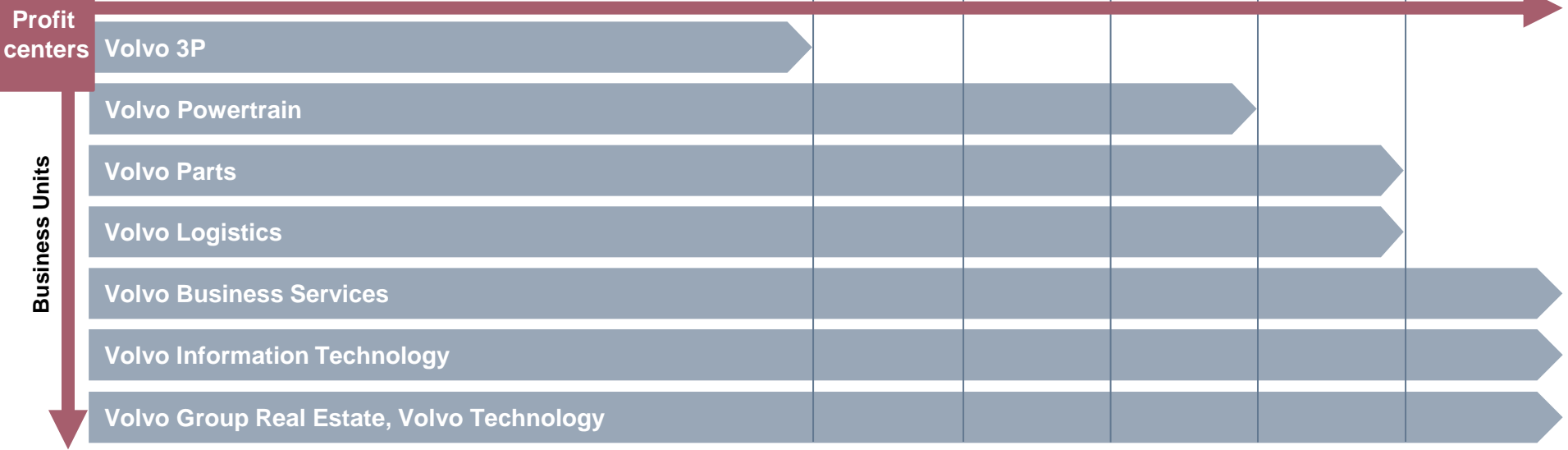
Volvo Penta



Volvo Aero



Financial Services



In a matrix organization most stakeholders are involved in most processes



- | | | | | | | |
|--|--|---|---|---|---|---|
| <ul style="list-style-type: none"> • Volvo Trucks • Renault Trucks • North American Trucks • Trucks Asia • Volvo Powertrain • Volvo 3P | <ul style="list-style-type: none"> • Volvo Trucks • Renault Trucks • North American Trucks • Trucks Asia • Volvo Powertrain • Volvo 3P | <ul style="list-style-type: none"> • Volvo Trucks • Renault Trucks • North American Trucks • Trucks Asia • Volvo Powertrain • Volvo 3P • Volvo Parts | <ul style="list-style-type: none"> • Volvo Powertrain • Volvo 3P • Volvo Parts | <ul style="list-style-type: none"> • Volvo Powertrain • Volvo 3P • NAP | <ul style="list-style-type: none"> • Volvo Trucks • Renault Trucks • North American Trucks • Trucks Asia • Volvo Powertrain • Volvo Logistics | <ul style="list-style-type: none"> • Volvo Trucks • Renault Trucks • North American Trucks • Trucks Asia • Volvo Parts |
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The top 150 managers have a clear view on improvement areas

Brand management

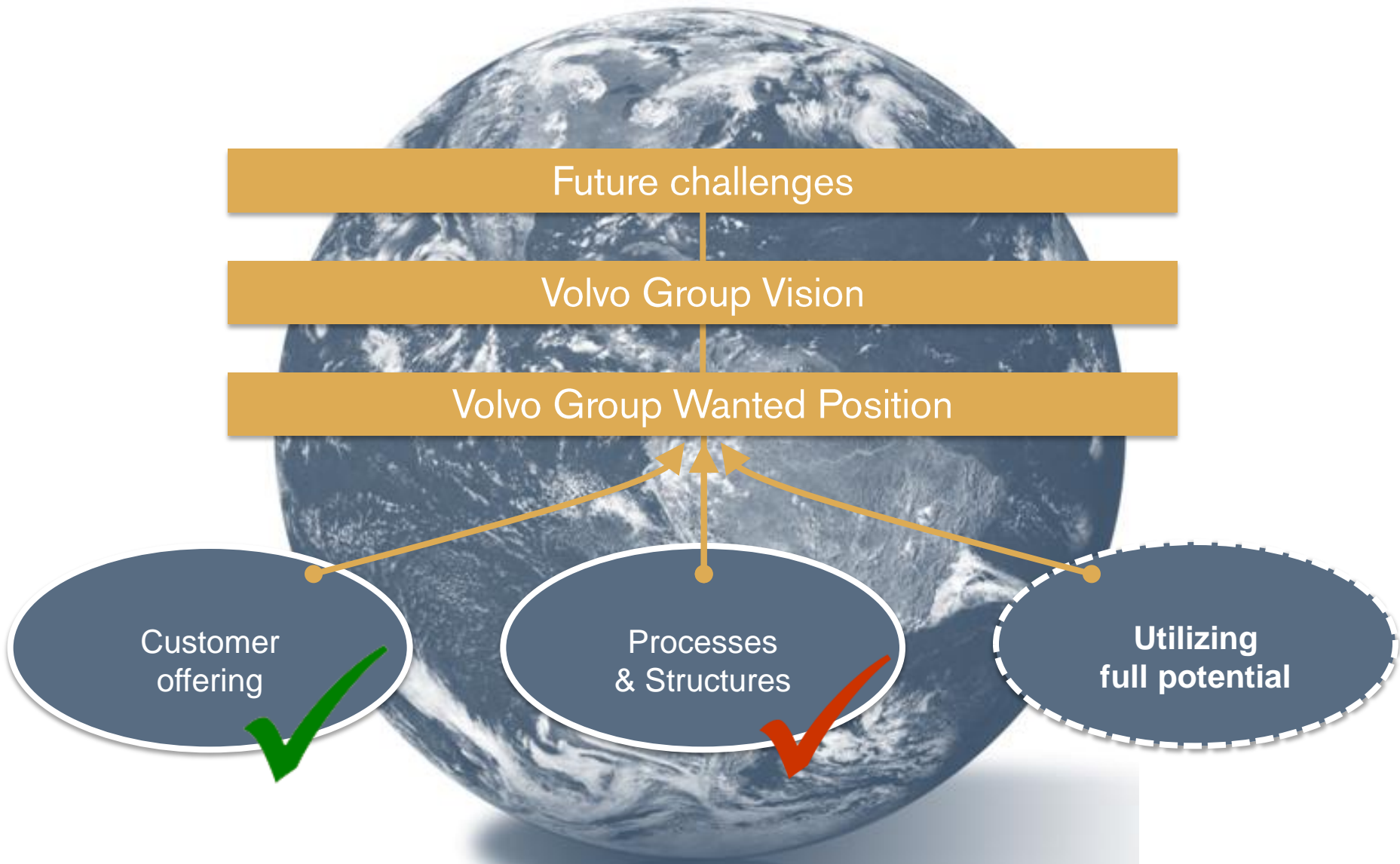
- Clarify brand positioning
- Clarify brand responsibilities
- Utilize truck brand assets further

Customer management

- Align our commercial focus
- Get structures and systems in place to provide excellent quality and service
- Improve authority and accountability to ensure excellent customer service

Internal efficiency

- Improve today's complex and slow decision making cross Group
- Improve the cooperation between Business Areas and Business Units
- Review role of Business Units
- Increase accountability
- Improve process maturity
- Improve internal mobility and reward systems



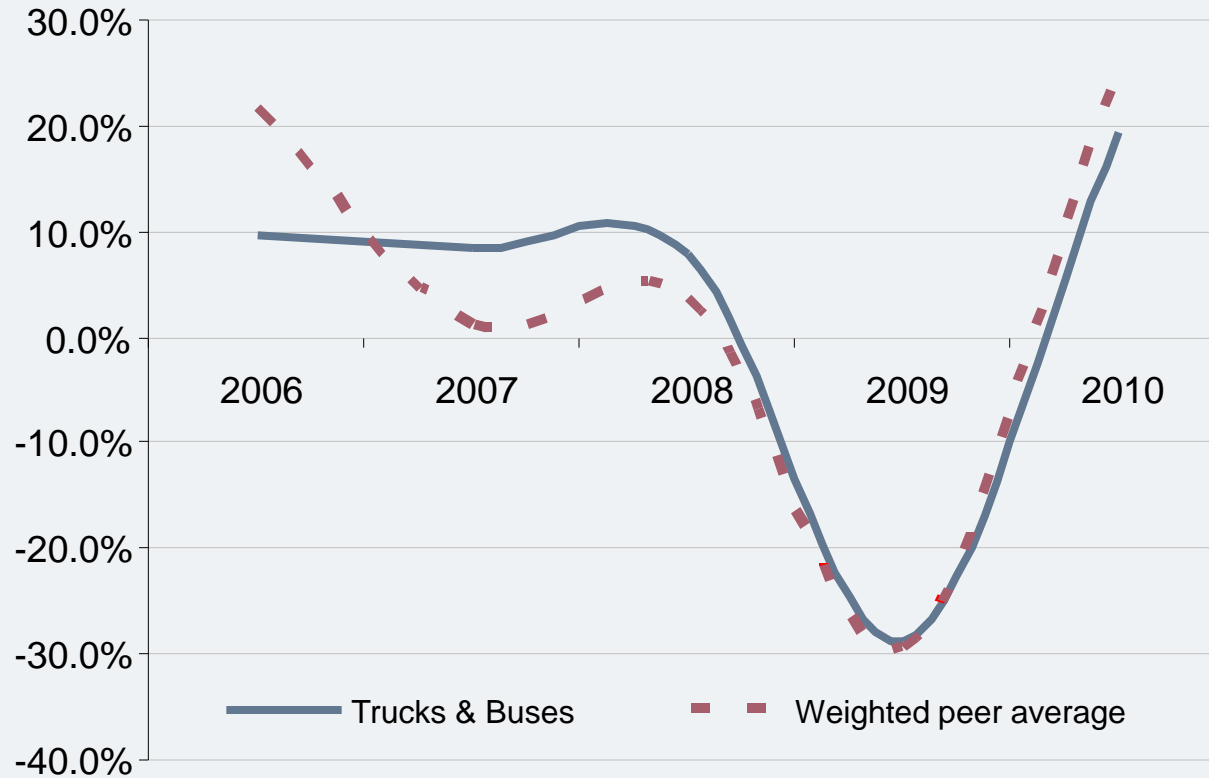
New and challenging financial targets require us to deliver

Key ratio	Definition	Target
Trucks & Buses, Volvo CE & Volvo Penta		
Net sales growth	Annual increase in net sales (organic)	Equal to, or higher, than peers' weighted average in respective industry ¹⁾
Operating margin	Operating income (EBIT) / Net sales	Top 2 in respective industry ¹⁾ compared to peers
Net debt / Equity <i>Industrial Operations</i>	Net financial debt / Shareholders equity	Below 40% under normal circumstances
Business Area specific		
Volvo Aero		
Return on equity	Income / Shareholders equity (allocated equity)	15-25%
Customer finance		
Return on equity	Income / Shareholders equity (with an equity ratio above 8%)	12-15%

1) Industry: Trucks & Buses, combined
Volvo CE & Volvo Penta, combined

Trucks & Buses - sales growth historically on par with peers

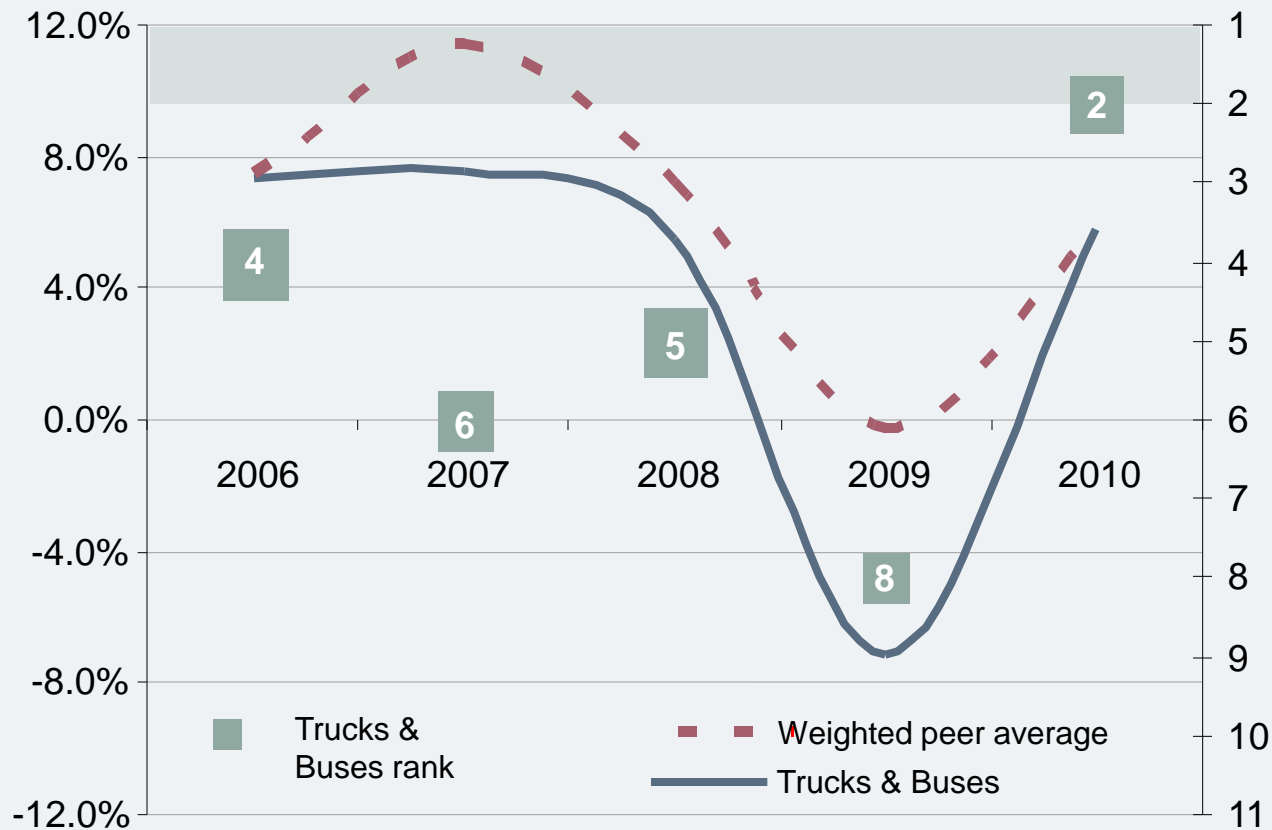
Sales growth



Trucks & Buses - profitability historically not in line with peers

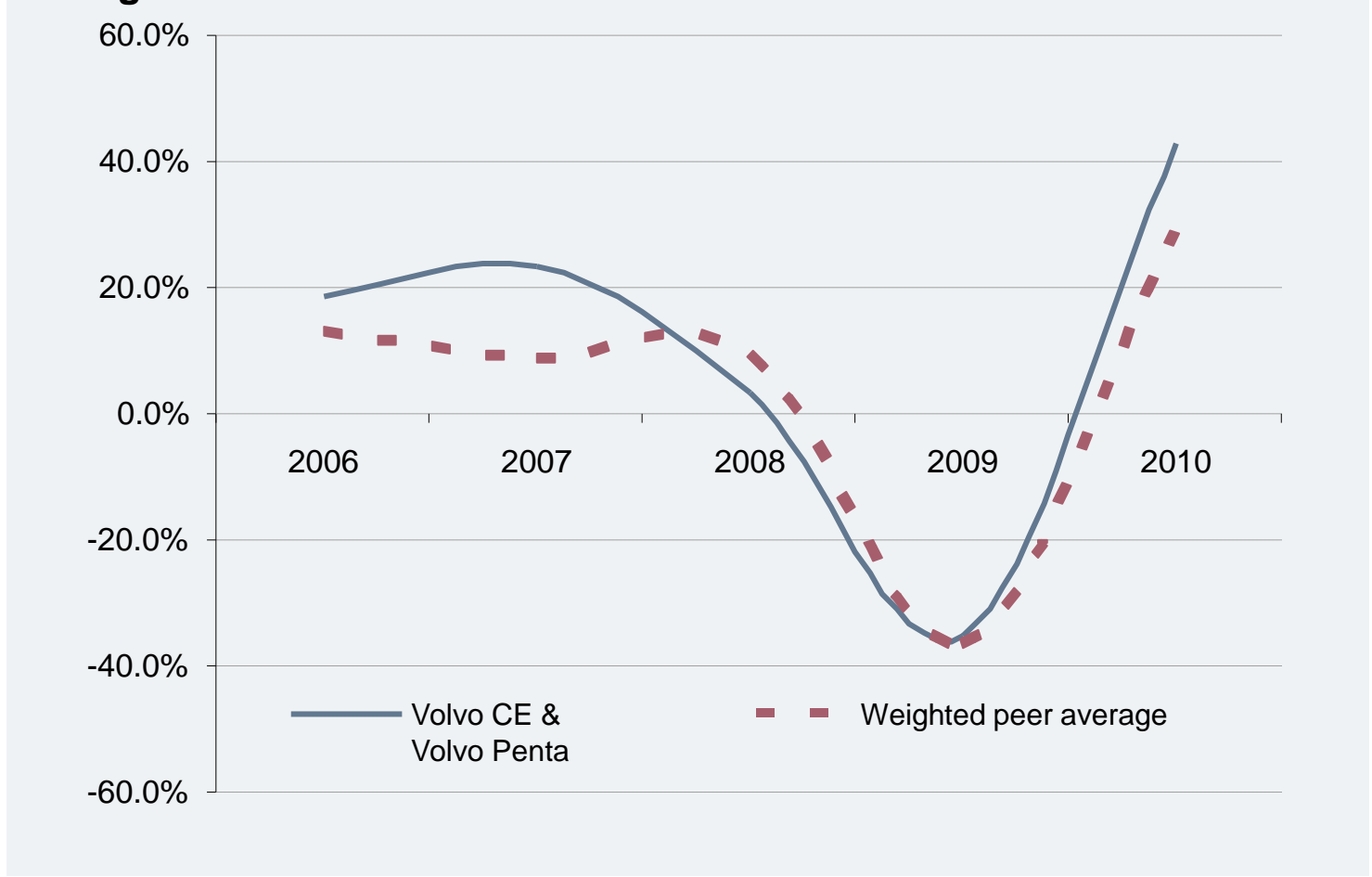
Operating margin

Rank

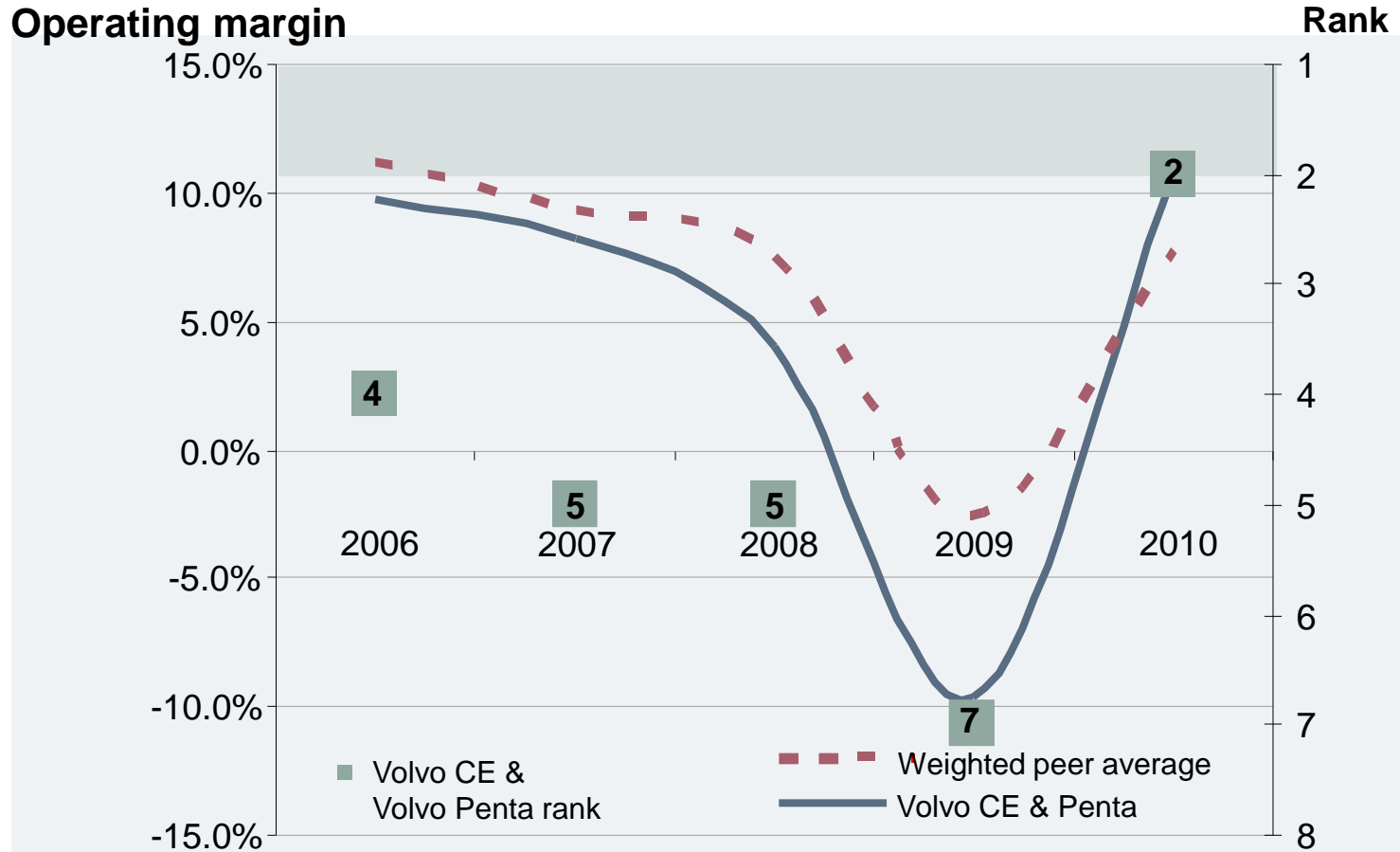


Volvo CE & Volvo Penta - sales growth historically on par with peers

Sales growth

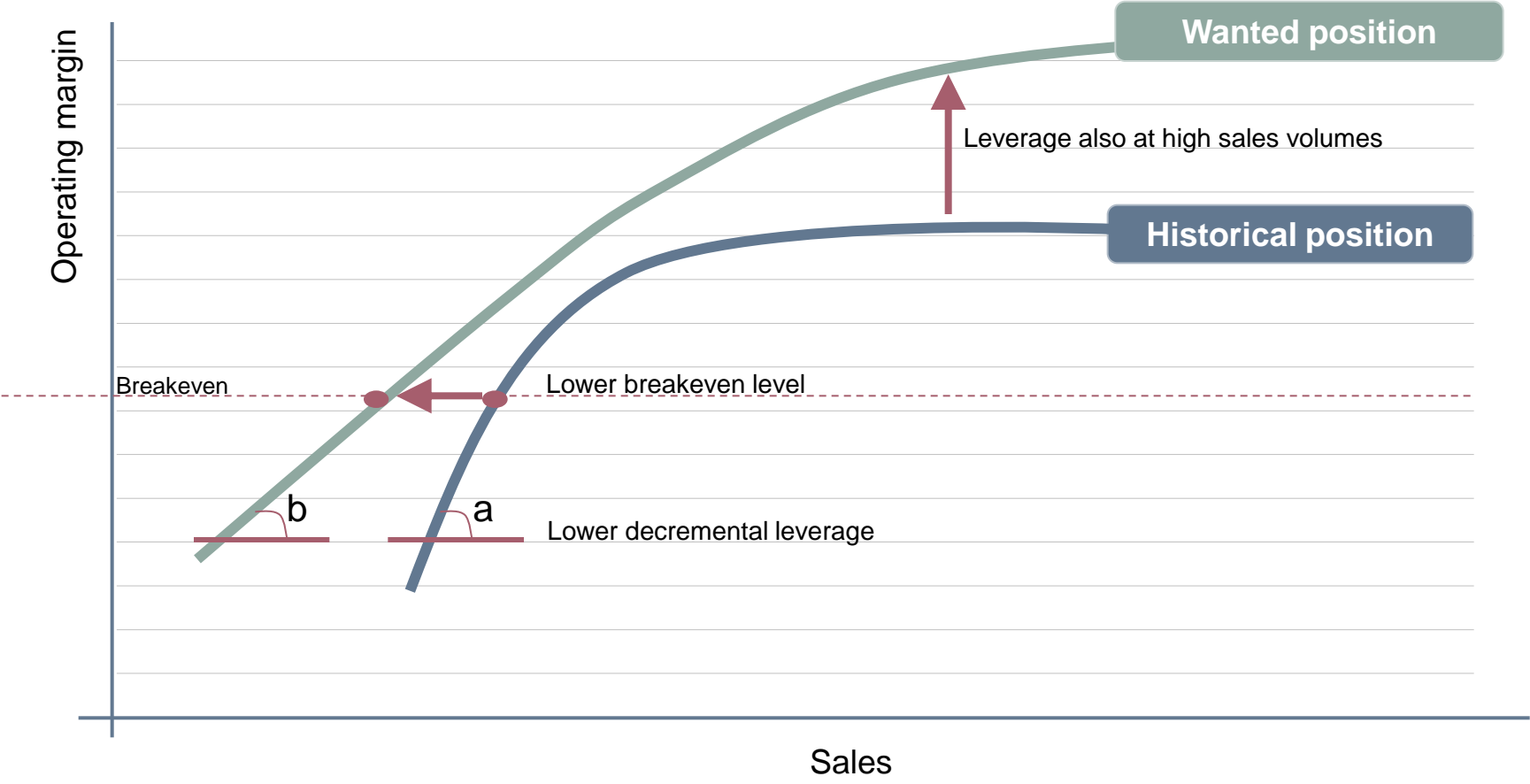


Volvo CE & Volvo Penta - profitability historically not in line with peers



We need to improve leverage – up and down

Schematic



Profit improvement potential through growth & efficiency, based on strong business portfolio

Sales

- Better utilizing our brand assets
- Develop distribution
- Penetrate new market segments

COGS

- Better leverage purchasing scale
- Productivity improvements through Volvo Production System

R & D

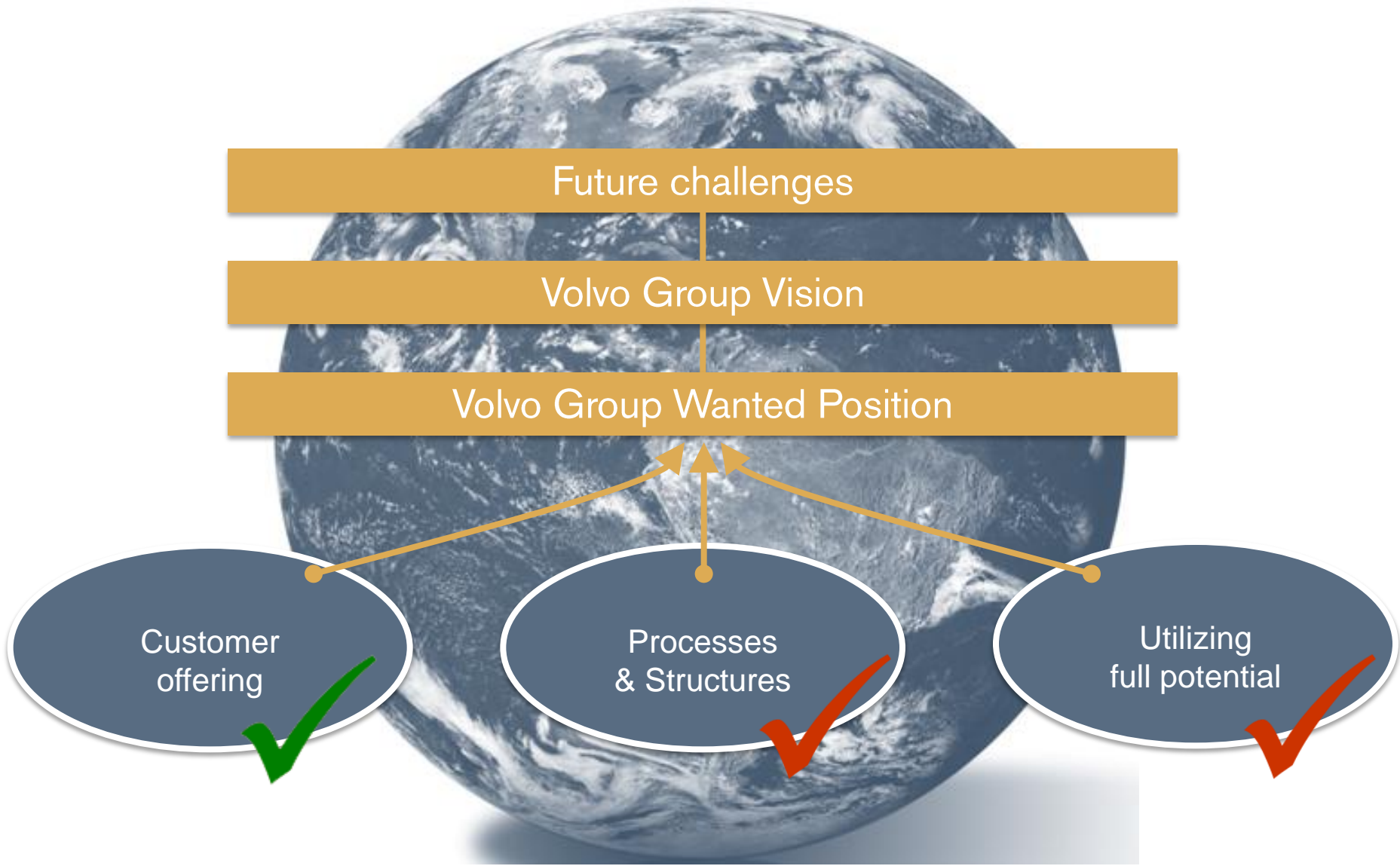
- Full utilization of R&D³⁰

Selling

- Coordination of dealer development activities
- Back office efficiency

Admin

Support functions more focused on efficiency



Coffee



What needs to be done?

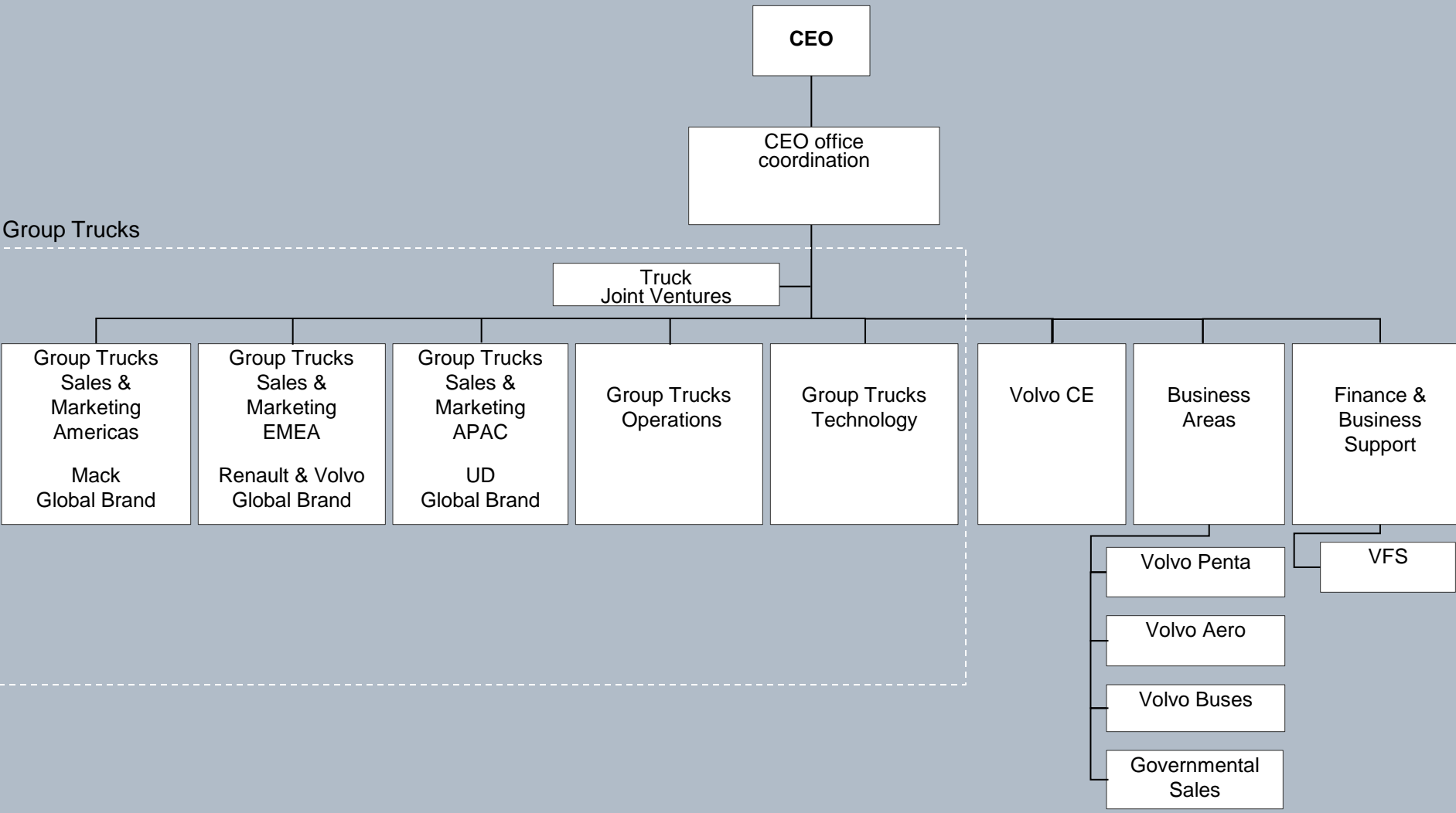


Processes & Structures

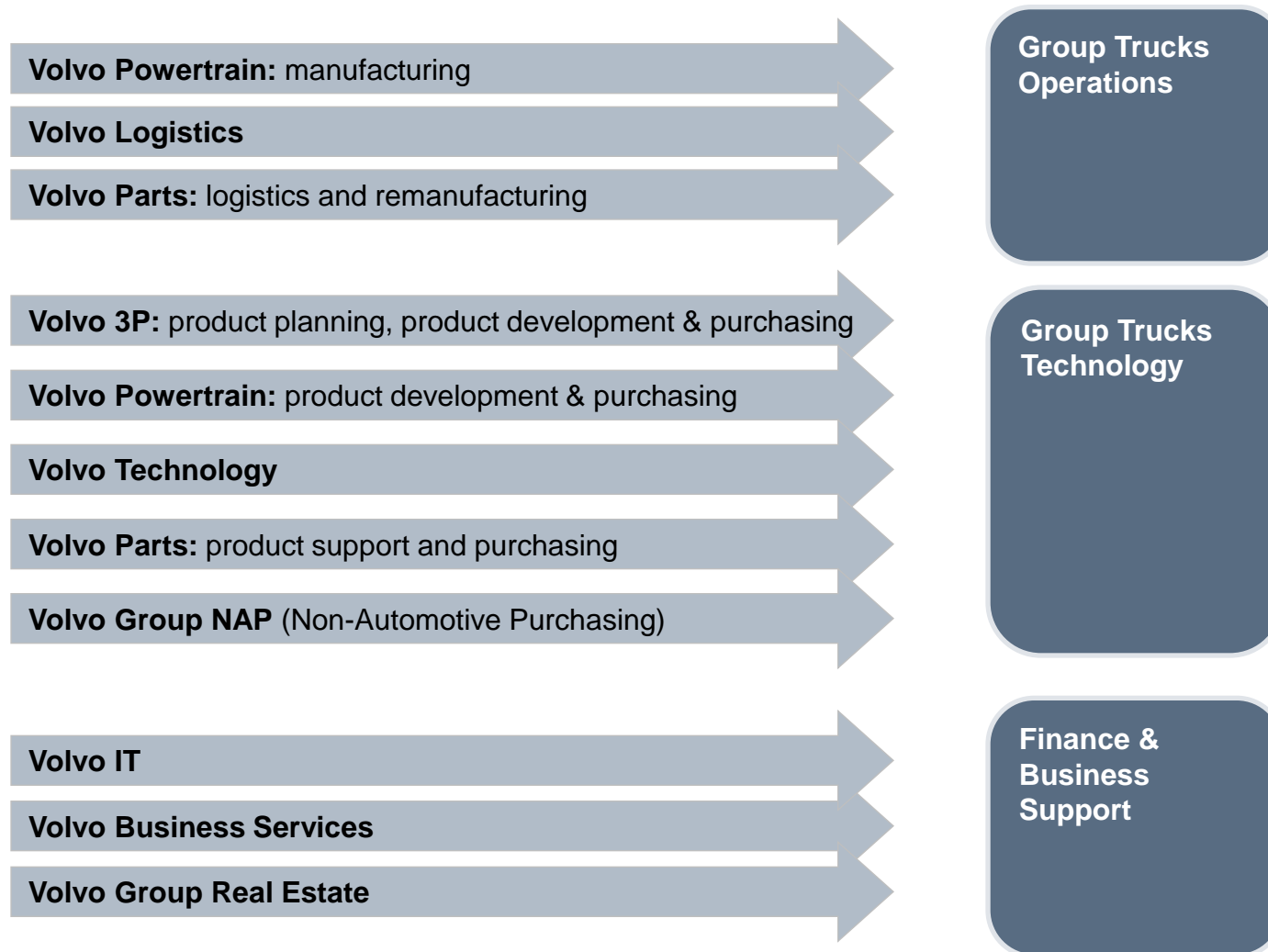
Customer offering

Utilizing full potential

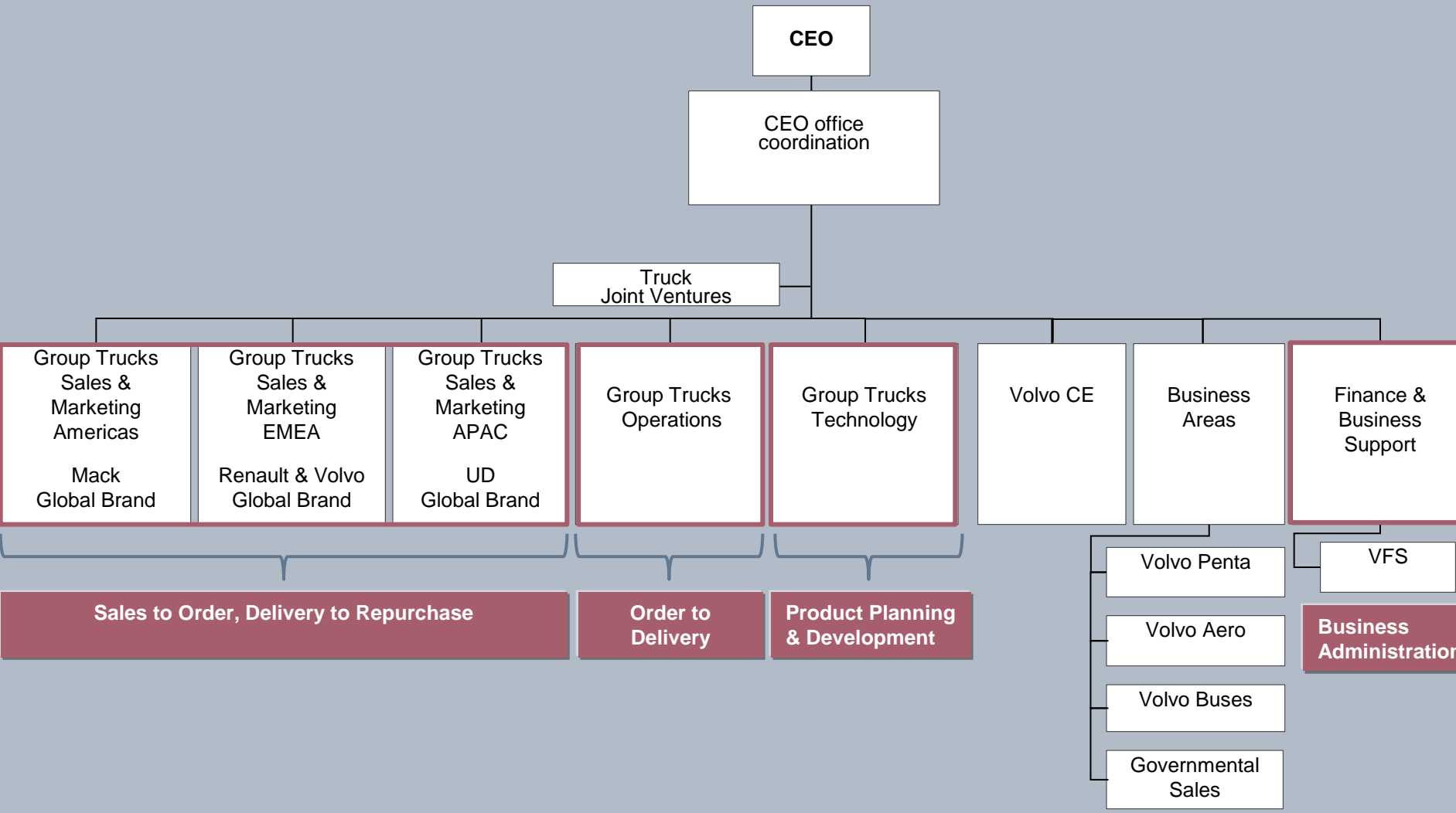
New organization to drive speed and efficiency



Consolidation into few functional organizations



Now with clear process ownership



Now with simplified process structure

Today



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| <ul style="list-style-type: none"> • Volvo Trucks • Renault Trucks • North American Trucks • Trucks Asia • Volvo Powertrain • Volvo 3P | <ul style="list-style-type: none"> • Volvo Trucks • Renault Trucks • North American Trucks • Trucks Asia • Volvo Powertrain • Volvo 3P | <ul style="list-style-type: none"> • Volvo Trucks • Renault Trucks • North American Trucks • Trucks Asia • Volvo Powertrain • Volvo 3P • Volvo Parts | <ul style="list-style-type: none"> • Powertrain • Volvo 3P • Volvo Powertrain • Volvo Parts | <ul style="list-style-type: none"> • Powertrain • Volvo 3P • Volvo Powertrain • NAP | <ul style="list-style-type: none"> • Volvo Trucks • Renault Trucks • North American Trucks • Trucks Asia • Volvo Powertrain • Volvo Logistics | <ul style="list-style-type: none"> • Volvo Trucks • Renault Trucks • North American Trucks • Trucks Asia • Volvo Parts |
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Now with simplified process structure

Tomorrow



Moving decisions into the line organization

Fast and efficient governance

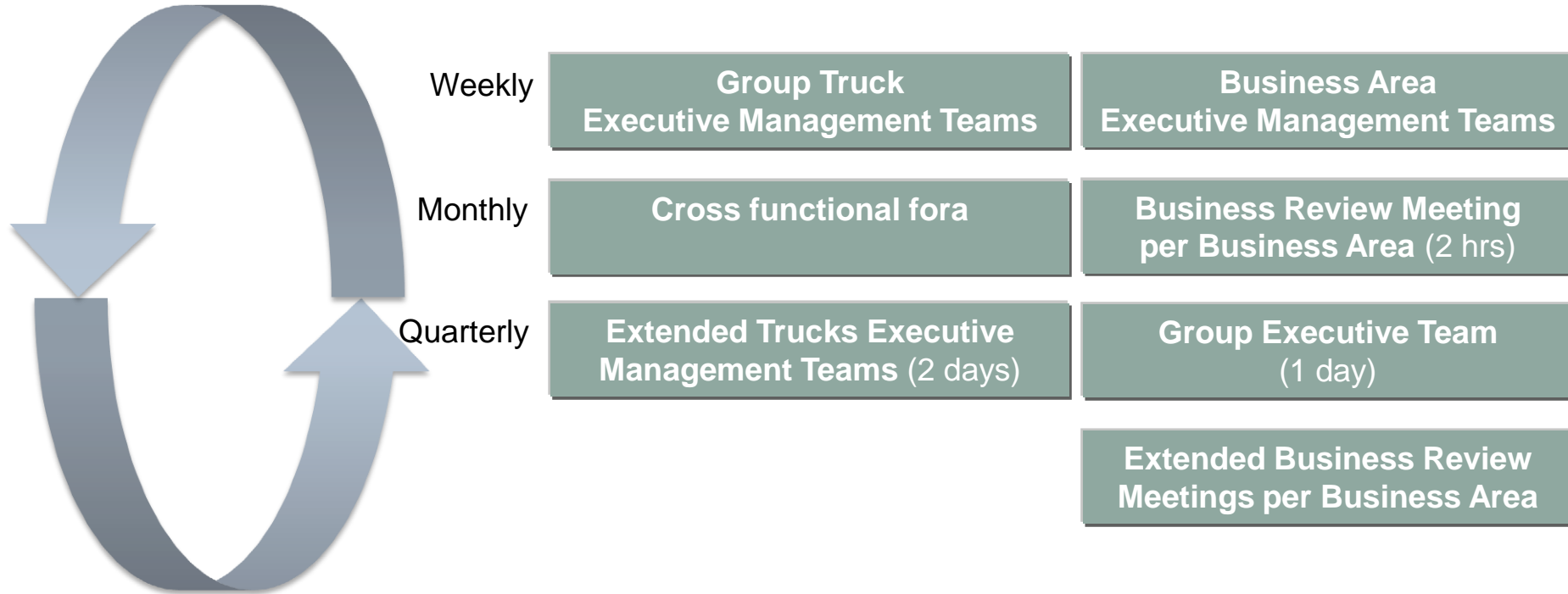
- ✓ Internal boards removed
- ✓ Several governance bodies to coordinate
Group-wide issues removed
- ✓ Decision moved to executive management teams
with clear mandate and accountability

Efficient internal set-up

- ✓ No internal profit centers for Business Units
- ✓ "No" internal transactions/invoicing
- ✓ Minimize internal cost allocations



High pace in decision making



Clear accountability and metrics

Group Trucks Financial KPIs

- Sales
- Operating Margin
- Cash flow
- CCC (Cash Conversion Cycle)
- ROC
- Etc.

Truck J-Vs

Group Trucks
Sales &
Marketing
Americas

Group Trucks
Sales &
Marketing
EMEA

Group Trucks
Sales &
Marketing
APAC

Group Trucks
Operations

Group Trucks
Technology

Volvo CE

Business
Areas

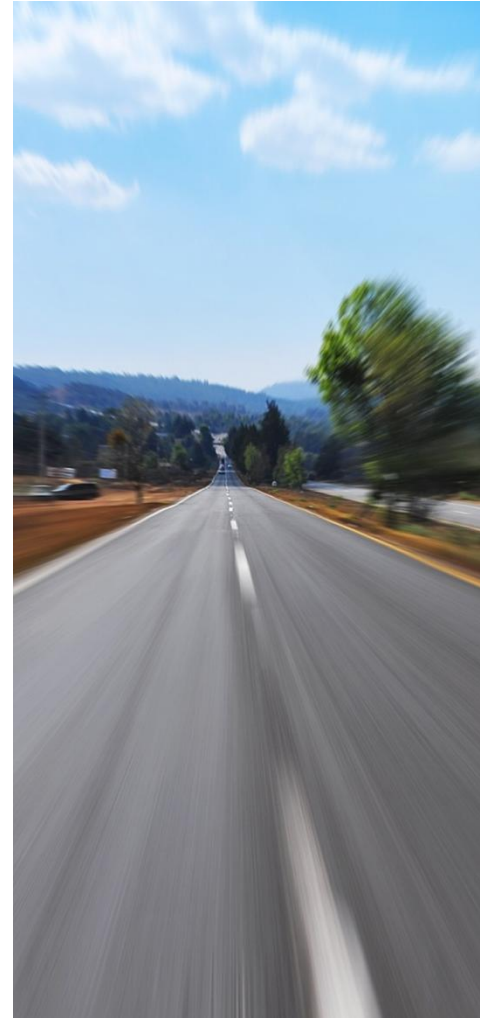
Finance &
Business
Support

VFS

	Group Trucks Sales & Marketing Americas	Group Trucks Sales & Marketing EMEA	Group Trucks Sales & Marketing APAC	Group Trucks Operations	Group Trucks Technology	Volvo CE	Business Areas	Finance & Business Support
Financial KPIs	<ul style="list-style-type: none"> • Sales • Gross profit • Selling & Administration costs • Regional contribution • Overdues • Finished goods inventory • PPE investments 			<ul style="list-style-type: none"> • SCOS (Standard cost of sales) • Variance • PPE investments • WIP inventory 	<ul style="list-style-type: none"> • Total expenses • Material costs • PPE Investments • Warranty costs 			<ul style="list-style-type: none"> • Sales • Operating Margin • Cash flow • CCC (Cash Conv. Cycle) • ROC • Specific for Fin. Oper. and Support functions
Operational KPIs	<ul style="list-style-type: none"> • Customer satisfaction • Dealer performance • Market share 			<ul style="list-style-type: none"> • Assembly Quality • On-time-delivery 	<ul style="list-style-type: none"> • QDCF • GPOT • Fault frequency 			<ul style="list-style-type: none"> • Market share • Specific for Fin. Oper. and support functions

A more agile organization

- Increased customer focus
- Strengthen the brands
- Clearer responsibilities and mandates
- Speed in execution of strategies and decisions
- Improved efficiency
- Improved accountability



What needs to be done?



Competitive products but a need to optimize the positioning of our brands

Globally maximize brand positions

- Optimize the brand portfolio from a Group perspective
- Define brand characteristics and brand promises for each brand
- Define brand position in the market and targeted customer segments

New and fully aligned product strategies

- Define brand distinction: Unique vs. Similar vs. Common
- Align features and specifications to support new brand position
- Create aftermarket and service offers (telematics etc.)

Revised product plans

- Create cost efficiency through Common Architecture and Shared Technology (CAST)
- R&D efficiency
- Purchasing leverage
- Industrial efficiency

Align commercial strategies to drive market share and profits

- Fully utilize each brand in each market
- Optimize and develop distribution channels – single or multibrand depending on market
- Commercial strategies better aligned with Financial Services
- Efficiency in sales and marketing
- and more...



Example - taking care of the opportunities in Asia

Developing competitive product portfolios

UD brand

- Japanese market ✓
- South East Asia and export out of Asia Ongoing
- Develop Chinese DND-JV Ongoing

Eicher brand - 3rd largest CV producer in India

- Complete product renewal with special focus on heavy duty trucks Ongoing
- Expand technical capacity from 48 000 → 66 000 units/year 2012
- Leverage on strong brand & distribution in India Ongoing

Start-up medium duty engine production in India 2012



What needs to be done?



Processes & Structures

Customer offering


Utilizing full potential

Realizing the hidden potential

-
- New organizations dedicated to sales and marketing
 - Optimized brand positioning for each brand
 - Right products in the right markets to the right segments
 - Asian opportunity
-



**Revenue
growth**



**Potential operating
margin improvement
of at least 3 percentage
points over time**

-
- Aligned product specification to brand position
 - New organization with clear responsibility and accountability:
 - Address overlaps
 - Production efficiency
 - Purchasing leverage
 - R & D efficiency
 - Support functions focused on cost and efficiency
-



**Cost
efficiency**

Shifting focus from acquisitions to organic growth



15 years of building a global #3 position through acquisitions

Volvo Construction Equipment today

- Broad and competitive product portfolio
- Committed and aligned distribution
- Dual brands to penetrate both high-end and low-end
- Good Tier4i-engines based on Volvo Group competence and scale
- #1 in China
- New organization

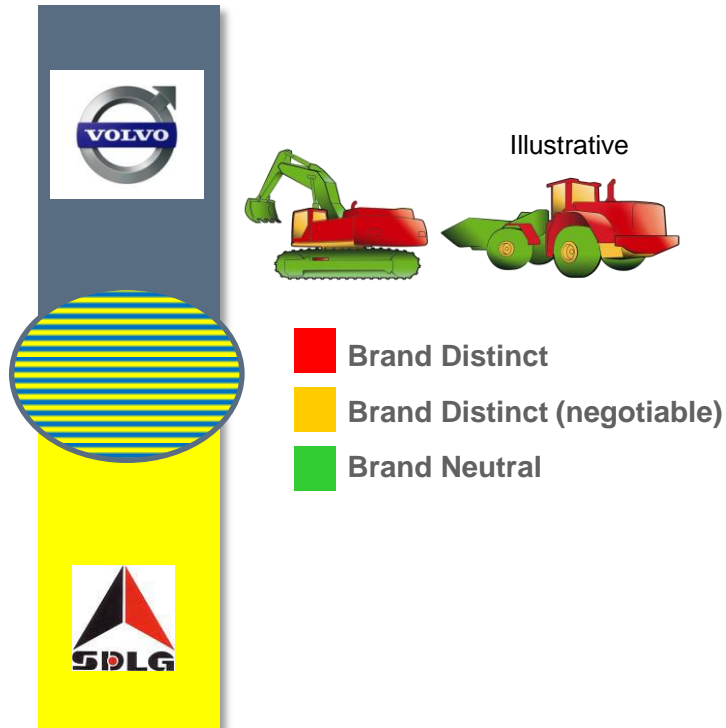


**Excellent basis
for organic growth**

Push for organic growth

Example: Volvo and SDLG positioned to capture both high-end and low-end of the market

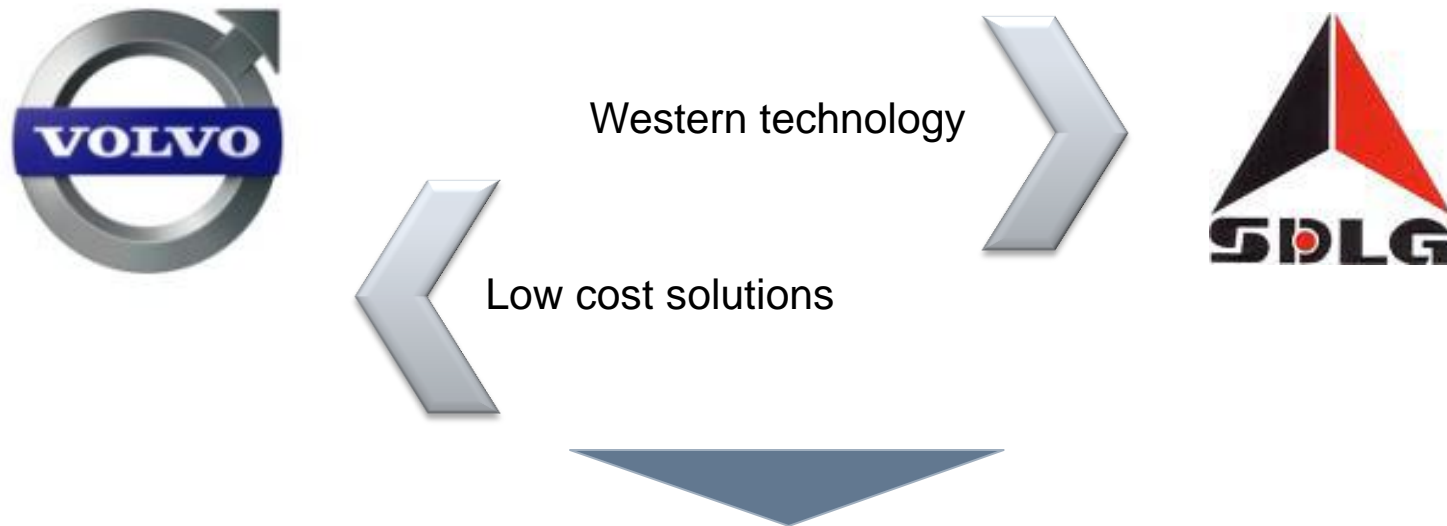
Brand position



- **Continued execution of the dual brand strategy**
 - Number 1 among Chinese Wheel Loader brands in Brazil
 - Expansion of SDLG to other markets as appropriate
- **Soft offer and after market expansion**
 - Attachments
 - Telematics
 - SDLG opportunity
- **Distribution development**
 - Dealer alignment and capability development
 - Dealer capitalization

Push for organic growth

Example of how to leverage brand platforms



- Aligned brand positioning and revised product plans
- 55 new or upgraded products in the next few years

Push for organic growth

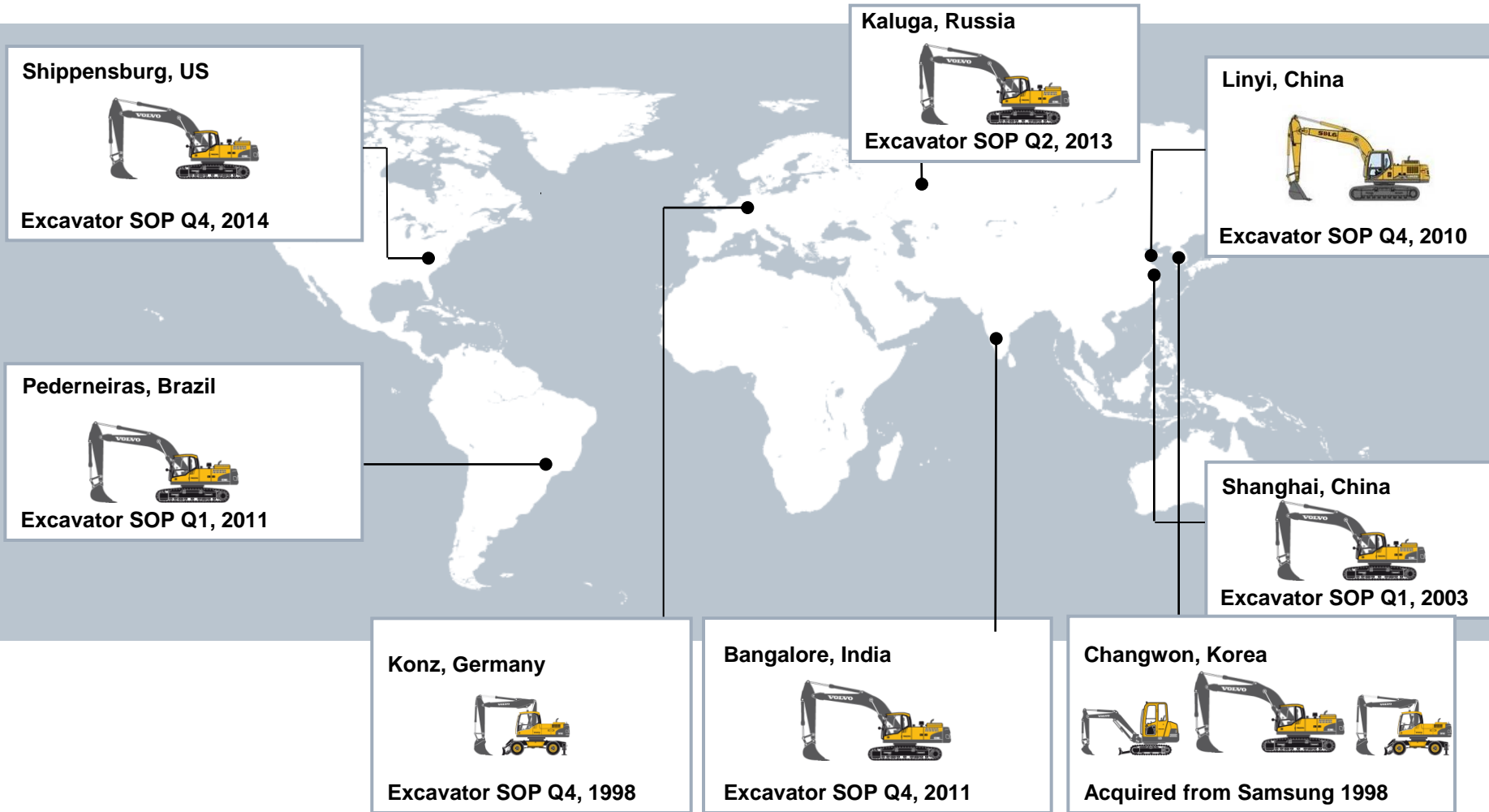
Example: Capturing new customers in Brazil with SDLG

- Chinese manufacturers account for ~40% of Brazil wheel loader market
- SDLG #1 Chinese wheel loader in Brazil with ~21% market share
- 92% of the SDLG Brazil customers are new to Volvo CE
- Products being distributed through same dealer ownership group with separate front end channels
- Profitable business day one



Push for organic growth

Example: Excavator expansion



There is still potential for growth and profit improvement

- Dual brand strategy: Volvo & SDLG
- Leverage brand platforms
- BRIC expansion



**Growth
potential**

- Leverage from existing industrial footprint
- Volvo Production System for productivity
- Efficiency in R & D



**Cost
efficiency**

**CAPTURE THE FULL POTENTIAL
OF A STRONG BUSINESS PORTFOLIO**





WWW.VOLVOGROUP.COM/INVESTORS