Speech by Leif Johansson at the Volvo Group's AGM 2003

Distinguished shareholders:

Ladies and gentlemen:

As you certainly have noticed, we have made a number of changes in this year's Annual General Meeting. We are holding the meeting earlier this year, whereby we are closer to the actual fiscal year. We have tested a new concept in order to be able to relate more about our operations in a less formal manner. I am speaking of the seminar we held this morning.

We are pleased that so many of you participated and we would like to feel that this was a sign that this initiative was appreciated. I hope that it was enjoyable, that it provide more in-depth information and perhaps a lead in knowledge about the Volvo Group. That was our purpose.

The main topics during the seminar were our driveline operations and how we view the growth opportunities in Trucks.

I will touch on that to a certain extent but will naturally offer a more complete picture of the Group's total operations during 2002.

Last year we reported on the difficult market conditions, notably in North America. There were hopes for a stronger 2002. But, as you all know, this year was also a difficult one for most industries.

For us, it meant continued low demand in North America, a sharp downturn in South America and a leveling off in Western Europe. Volvo Aero, which lost a fourth of its sales as a result of the crisis in the aviation industry, was affected primarily. Buses was also affected by low travel and a weak tourist industry, Demand for construction equipment was weak for the fourth year in a row in North America and declined in Europe. The market for trucks in North America was again very weak.

Considering these circumstances, many employees have reason to feel proud.

In this difficult market we have undertaken the major structural measures that we announced earlier.

At the same time we have implemented one of the most comprehensive product launches in Volvo's history.

We increased operating income by SEK 3.5 billion, compared with 2001. And, thanks to a positive cash flow of SEK 5.1 billion from operations, we have created opportunities for a continuing good dividend on our shares and – no less important – we have been able to maintain the pace of product development.

While 2002 was certainly a disappointing year for many, in particular where the stock market was concerned, I hope that our shareholders have felt that Volvo – despite a rapid rate of change – is on firm ground, with a comparatively stable share.

The improvement in earnings is due to a strong year for Volvo Trucks in Europe, to yet another top performance by Volvo Penta, to stable operations in Volvo Financial Services, and to sharply reduced losses in Buses and in our North American truck operations. With these results and improvements we were able to more than offset Volvo Aero's and Construction Equipment's weaker results.

Let us then see how we stand today, relative to our financial objectives.

Sales in 2002 amounted to SEK 177 billion, which means that we again are Sweden's largest company.

When we have adjusted for the effects of foreign exchange movements and structural changes, this is equal to an increase of 2 percent, compared with 2001.

Growth during the most recent five-year period amounts to 17 percent per year. This is much higher than the objective of 10 percent.

Operating income amounted to SEK 2.8 billion and shows a distinct improvement during the year. The average operating margin during the most recent five years is 4.2 percent. This is just under our objective of between 5 and 7 percent over an economic cycle. Considering the background of the sharp downturn that began in 2000, we believe that the objective is within reach.

Our financial position is still very strong, with an equity/assets ratio of 42, which is within the framework for our objective.

Before I go into more detail about our operations and how we created the conditions for actually achieving the financial objectives, I would like to take up one of the most frequently asked questions that we have received from shareholders prior to the Meeting. It deals with how we view salaries and other compensation for members of management, a subject on which we also reported in quite some detail during the Meeting last year.

First and foremost, I want to note that all salary terms at Volvo are handled in accordance with something we call the grandfather principle. This means that all managers – regardless of their level – must get acceptance for a salary increase and benefits one step upward in the organization. Thus no one, acting on his own, can determine salaries and terms for their subordinates.

As before, the top managers have salaries that consist of a fixed and a variable portion. The variable portion cannot amount to more than 50 percent of the fixed portion. To reach that, special objectives for both operating income and cash flow must be met.

Our operating income clearly improved but is still below our objective. Consequently, I and my associates at the Group level received far from a full return on operating income. We received 11 percent out of a possible 25 percent.

We did better with the cash flow, which yielded 15 percent out of a possible 25 percent. The outcome for business area managers varies, depending on the profit. For example, the variable portion of the salary in Penta was high. In Aero and Buses it was low.

We show management's salaries and pensions in detail in the usual way in the Annual Report. There, we report all our salary costs, including the options program and the profit-sharing plan that covers all Group employees.

I am as convinced as I was earlier that variable salaries, combined with options programs, are an effective tool for getting everyone to jointly devote even more energy to achieving our objectives. That is to say, to develop the company in a way that benefits our customers and you shareholders.

Let me now describe the measures we have taken in 2002. They comprise a mixture of short-term adaptations to low demand, and structural changes designed to improve profitability.

Some measures have been very painful. We have dismissed a large number of employees and we have closed plants. These have been necessary measures.

We reduced the number of truck plants in North America from three to two. This was done by moving the assembly of Mack's long-haul trucks in South Carolina to the Volvo Trucks plant in New River Valley, Virginia. As a result we are now producing both Mack and Volvo Trucks in New River Valley.

The other remaining truck plant in North America is in Macungie, Pennsylvania, where Mack Truck produces mainly trucks used in the construction industry.

At the same time we reorganized the production in New River Valley for Volvo Trucks' new models.

These two major changes were made during the fourth quarter. It was a well-chosen period since we expected to see low demand as a result of the introduction of the exhaust-emission requirements in the United States.

We have now, step by step, set production at the level required in order to meet demand -- but with one less plant than before.

During 2002 we also began a substantial strengthening of the dealer network for trucks in North America.

We have for some time seen certain risks in Volvo Trucks' dealer network in North America. We are now creating a partly common dealer network for Mack Trucks and Volvo Trucks. This will not only strengthen Volvo Trucks' weak points but will also cover areas where Mack Trucks is less strong. Overall, Mack Trucks and Volvo Trucks will both have more service centers than before -- and thus better conditions for taking care of our customers in a proper manner. The project has gone more smoothly and has cost less than we had calculated earlier and is expected to be completed at midyear.

We closed down the bus plants in Roswell and Schenectady in North America. This occurred in connection with our withdrawing from the unprofitable market for city buses in the U.S. Volvo Buses' program to restore profitability yielded good results in the form of more efficient production and higher quality.

At the end of the year Volvo Construction Equipment began a review of our articulated hauler operations. This will result, among other changes, in the assembling of haulers in two plants instead of three.

During the year we concentrated production of wheel loaders by closing down production in Arvika, in Sweden.

A new distribution channel for construction equipment was established in Europe and North America. It is known as Volvo CE Rents and offers short-term leasing of construction equipment. The leasing is handled by franchise companies that we have linked to Volvo.

Financial Services strengthened its operations through a number of organizational changes in 2002 – in part through a new lending policy and through strengthening the management group. The program designed to stabilize operations continued in 2002, with good results. Risks declined, due in part to more selective lending and in part to broadening of the customer base which now includes Renault Trucks and Mack Trucks.

The deep crisis in the travel and tourism industries that followed September 11, 2001 had serious consequences for Volvo Aero. Demand for components and service for aircraft engines fell sharply and one fourth of the company's sales volume disappeared in 2002.

An overview of operations was begun at the end of 2001. As a result, approximately 400 employees had to leave the company in 2002. This was equal to about 10 percent of Volvo Aero's workforce.

The greater part of those who left the company worked in Sweden and Norway.

In other words, we were forced to allocate a lot of energy to adapt operations to lower demand. But we have also implemented efficiency enhancement measures with operations with high capacity utilization, such as the truck operations in Europe, for example. Renault Trucks' savings program, which resulted in nearly 900 persons leaving that company in 2002, is a prime example of this.

In this context, I would also like to name Volvo Penta, which continued to strengthen its competitiveness and compensated for weakening markets by capturing market shares.

The entire Group had a good trend of business in the growth markets in Asia and Eastern Europe.

Sales in Asia increased by 16 percent in 2002, and in China by a full 60 percent. This success is a result of our long-term program to build up efficient marketing organizations in these regions. The Group is also beginning to have an industrial structure in place in a number of important countries.

The base for development and production of tracked excavators has been localized in South Korea since 1998. Volvo Trucks and Volvo Buses have operations in a number of Asian countries, including India.

The rapid growth in China, with privatization of state-owned companies and rapid expansion of the highway network, is creating opportunities for new investments. Volvo Buses is already well established in the country and was honored with "Bus of the Year" and "Coach of the Year" awards in Shanghai in 2002.

Volvo Penta opened a plant in the country three years ago.

During the autumn of 2002 Renault Trucks concluded an important agreement covering the transfer of engine technology with China's second-largest truck manufacturer, Dong Feng Motors.

Volvo Trucks is negotiating a joint venture with China National Heavy Trucks, China's third-largest producer of heavy trucks.

Volvo Trucks has held a strong position in the Chinese market for some time and is the largest imported make.

China is a strategically important market for the future. With 260.000 trucks sold there in 2002, it has become larger than both Western Europe and the US.

The Group is also growing rapidly in Eastern Europe, where sales increased by 17 percent. Our industrial operations are concentrated primarily in Poland, where we manufacture buses and the backhoe loader.

The Eastern parts of Europe and Asia combined account for 11 percent of Group sales and have begun to develop substantial volumes of business.

In addition to an effective marketing organization, the successes in Europe and Asia are based on our aggressive product renewal.

Volvo Trucks' new series of trucks, an investment of more than SEK 7 billion that has been under way for four years' is by far the largest project in recent years.

Sales of the new Volvo FH and Volvo FM models began in Europe and Asia in the early part of 2002. The new series is a big success and has gained a market-leading position in Europe. Deliveries of the North American version, the Volvo VN, began at the end of the year.

With the Volvo VN, the Volvo Group is the only producer that can offer a complete truck that is adapted to the new exhaust-emission regulations in the US.

Volvo Powertrain, which is a common resource of Volvo, Renault Trucks and Mack Trucks, has performed outstanding development work and its entire engine program was certified during the autumn in accordance with the new American rules. We are the only producer to be so certified.

We believe the new engine series is not only the cleanest in the world but the most competitive. We succeeded in exceeding customer expectations in limiting the increase in fuel consumption that the new and cleaner technology requires.

We are also well prepared for the EURO-4 requirements that, according to plans, are to be introduced in the European Union in 2005.

Renault Trucks' new Renault Magnum truck that was introduced in the autumn of 2001 has been received very well by our customers. It has helped Renault Trucks to increase its market shares, and was also named "Truck of the Year" by Spanish journalists in 2002.

I also want to note that Mack Trucks successfully defended its leadership position in the difficult American market through its Granite series that was introduced in 2001.

Volvo CE launched new series of excavators, wheel-loaders and motor graders, all of which are equipped with Powertrain's new engines. Our construction equipment is thereby a very well ahead in terms of efficiency and environmental compatibility.

The compact segment of the line was broadened in part through two wheel-loaders and the new excavator that is made in Poland.

Production of the acquired Skid Steer program was begun in Volvo CE's plant in the US at the end of the year.

The broadening of the compact segment is important for the success of Volvo CE's new short-term leasing program that I described earlier.

Volvo CE introduced a total of 28 new products during the year.

With the introduction of Buses TX platform in 2001 we achieved a higher percentage of standard components and better quality. We thereby laid the foundation for more efficient production of buses.

Despite weak markets, the new buses based on the TX platform scored major successes in 2002. The largest orders were received in Mexico, one of the world's biggest bus markets, where two of the country's largest operators selected Volvo as their principal supplier. The two orders combined amount to 1,800 buses, equal to approximately SEK 3 billion.

Volvo Penta's diesel engines manufactured in Vara have given us a special position in the marine industry. Manufacturers of motorboats throughout the world are demanding the most recent engine, the KAD-300, and are selling four times the number expected. The new diesel engines for sailboats have become noted for their characteristics by both professionals in the Volvo Ocean Race and by more common sailors.

Volvo Penta's new diesel engines for commercial craft have become s common sight on China's nearly endless waterways. This new engine, also known as the "work horse," has created opportunities for expansion.

Volvo Penta has had a very aggressive program of product renewal during the past two years and you will see more exciting innovations in 2003.

Last year we became the first company in the marine field to introduce telematic services – a satellite-based system for safety related services that makes boat ownership more pleasant and safer. The system is a good example of the "soft" products that we are developing in order to broaden our line of products. Soft products are important as a means of realizing the vision of becoming the leading supplier of transport solutions. Indeed, we began this Meeting by presenting our internal technical prize for a new IT innovation.

Calculated in terms of volume, the financial services, including customer financing and insurance, are the most substantial of our soft products.

One pleasing performance associated with product development is that we have been able – in weak or declining markets – to be paid for new features that we have developed. This shows that we have created distinct customer values, and it has increased the loyalty of our customers. Our strong and well-established brands are an extremely valuable resource in this area.

The new products have strengthened our positions in the world market. Together with the large volumes of strategically important components, this has given us a strong platform on which to continue to build. We are the world's largest producer of heavy diesel engines and are among the world's largest players in all business areas. Our strong challenge in the years immediately ahead is naturally to be able to fully utilize this strength to increase profitability.

I want to say that we are well on the way. The first two years with Renault Trucks and Mack Trucks in the Group have developed very well despite the difficult economy. The planned synergies have been realized and the integration is proceeding according to plan.

Two units in particular have roles in the integration. One is Volvo Powertrain – the world's largest producer of diesel engines in the range between 9 and 16 liters, and a large manufacturer of axles and transmissions.

The second unit is Volvo 3P, a common unit serving the truck companies. 3P coordinates purchases, product planning and product development for the entire truck operation.

We are now developing common architectures for engines and trucks of the future. This will offer substantial synergies in future generations of products. In the engine sector alone, for example, we are going from 18 families of products to two.

Where the development of global product families and concepts for common components is concerned, we have made more progress than anyone else. We are well on the way to implementing this development that our largest competitors as yet have only visualized on paper.

As before, the basis for our operations rests on the Group's core values: quality, safety and environmental care. These values are not only the foundation for the Volvo brand but also guide our other brands. This not mean, however, that we will allow the identities of our different brands to become blurred.

Renault and Mack both have long histories. Longer than Volvo. Their brands are strong in their respective principal markets and are associated with distinct values. This offers us substantial opportunities.

Our multiple-market strategy is based on the premise that each brand should achieve a position of leadership among its customers.

Coordination and the mobilization of technical strength are decisive in our efforts to strengthen our brand names. We shall continue to offer customers true Mack, Renault and Volvo products, but with better performance, quality and cost-effectiveness than each company could develop on its own.

The two first years with Renault Trucks and Mack Trucks in the Group have thus been successful. We have had -- and continue to have -- a high level of activity. We have made major changes at a rapid rate in a difficult business climate. This is a good foundation as we now continue on this journey together.

It may sometimes be tempting to get lost in discussions of volumes of business and improved technical conditions that our acquisitions have contributed to the Group. But I want to emphasize very clearly that the great addition of expertise and knowledge is a very important competitive factor.

When we brought together the more than 100 top executives in the Group during the past winter around 30 percent of the participants were from countries other than Sweden. Five or six years ago there were only a handful.

This increasing diversity is extremely important for our development as a global enterprise.

The development of our organization, its leadership, the ability to attract the best employees, our ambitions and our knowledge are what are creating our future. Here, we see a promising trend.

We note that Volvo's corporate culture is perceived as something very positive and attractive by new and old employees throughout the world. This is extremely gratifying and stimulating and we are continuing to work very actively with "The Volvo Way," which is our guide for leadership and service as employees.

One area within diversity about which we have received many questions prior to the Meeting is the proportion of women and men in the Group. This is a type of diversity we also need and we are looking for ways to be better at competing for skilled women. Here we see great opportunities, in particular to bring about more diversified leadership that will develop the Group in a progressive direction.

We have many competent women within the Group but it is obvious that our way of recruiting managers has not functioned satisfactorily where the development of more women managers is concerned. As a result, we are about to change our forms of recruiting and create new forms of career paths. Changing attitudes where the recruiting of managers is involved takes time but we are accelerating this program. It is a priority objective. Between 2001 and 2002 the proportion of women managers increased from 8 to nearly 12 percent, despite the fact that we acquired heavy industrial operations.

Another current topic, about which we have received a number of questions prior to the Meeting, is our business ethics and the company's role as a member of society. These are issues that actually originate primarily in the US and the well-publicized events such as the Enron bankruptcy. My impression, before I came to Volvo and during my years with the Group, is that there are very good traditions to safeguard. There is great commitment and interest for these issues within Volvo – which naturally coincides well with our firmly established core values: quality, safety and environmental care. This is an important commitment. Being a responsible and credible citizen in society is a prerequisite for a sound and long-term business operations. By become a member of the UN's Global Compact in 2001, we further declared our ambitions in this area.

When we now look ahead we see many uncertain factors. We do not know how developments in the Middle East will affect the world and our business climate.

But we know that the transport industry will always be important. Throughout history transports have played a key role in trade and social development. The connection between economic growth and efficient transports has always been strong.

Economies are integrated through transports – in the European Union, for example, and between Western and Eastern Europe. Efficient transports are a key issue when such growth countries as China and India increase their domestic and international trade.

We are a leading player in this development.

We expect to have good growth over time, and we are well equipped to benefit from it. We look forward to creating greater value for our shareholders and customers.

Thank you.