



VOLVO GROUP CAPITAL MARKET DAY

Leif Johansson
President and CEO
Volvo Group

AB Volvo

Capital Market Day 2009 - Leif Johansson

1 2009-06-16

VOLVO

Agenda



DOWNTURN MANAGEMENT

STRUCTURE & CULTURE

STRATEGIC DIRECTION

- PROFITABLE GROWTH

- PRODUCT PORTFOLIO

- OPERATIONAL EXCELLENCE

PRIORITIES

DOWNTURN MANAGEMENT



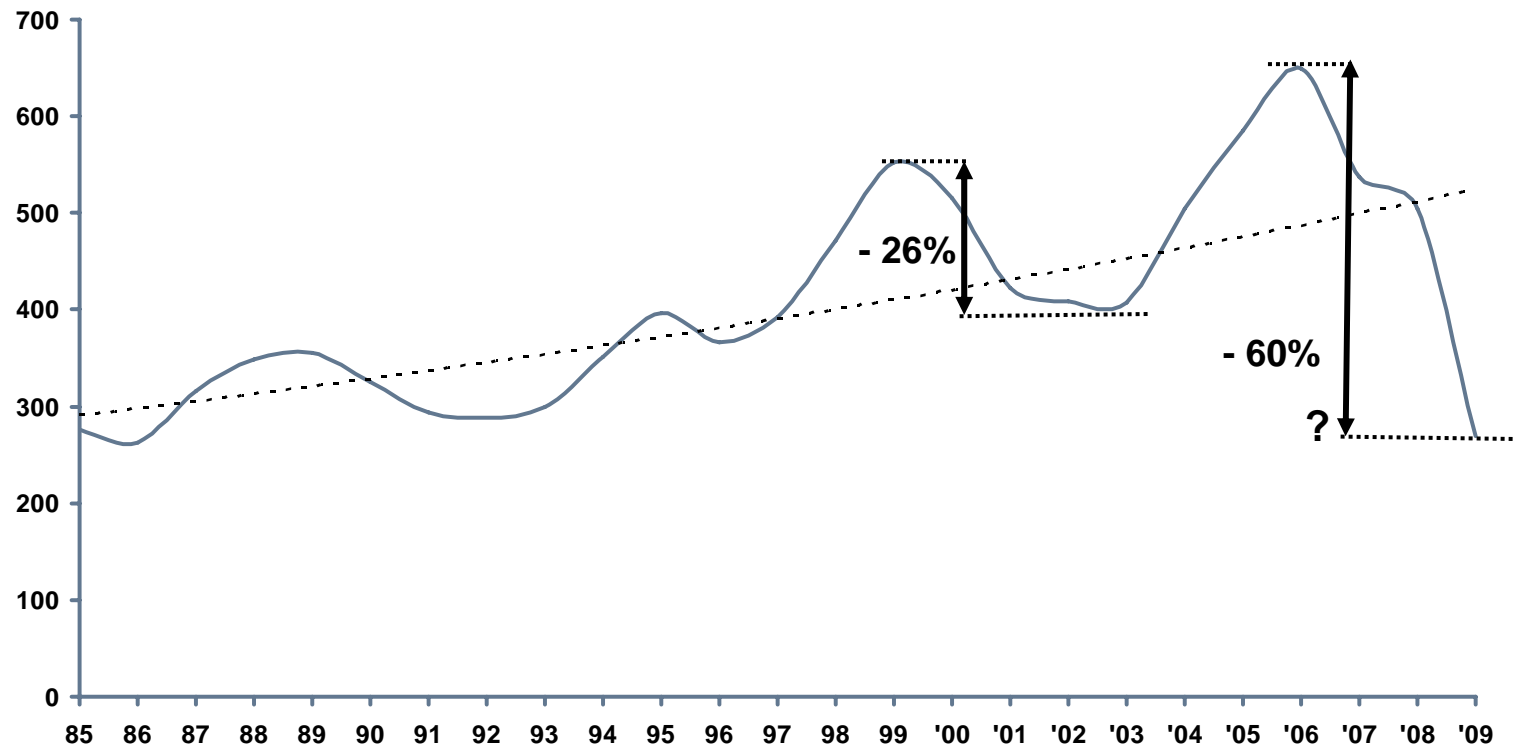
- ▶ Europe – prepare for possible protracted downturn
- ▶ North America and Japan
– increase readiness for upturn
- ▶ International markets
 - South America stable
 - Middle East still weak
 - India and China improving

Unprecedented drop - both speed and depth

– Combined market in Europe & North America



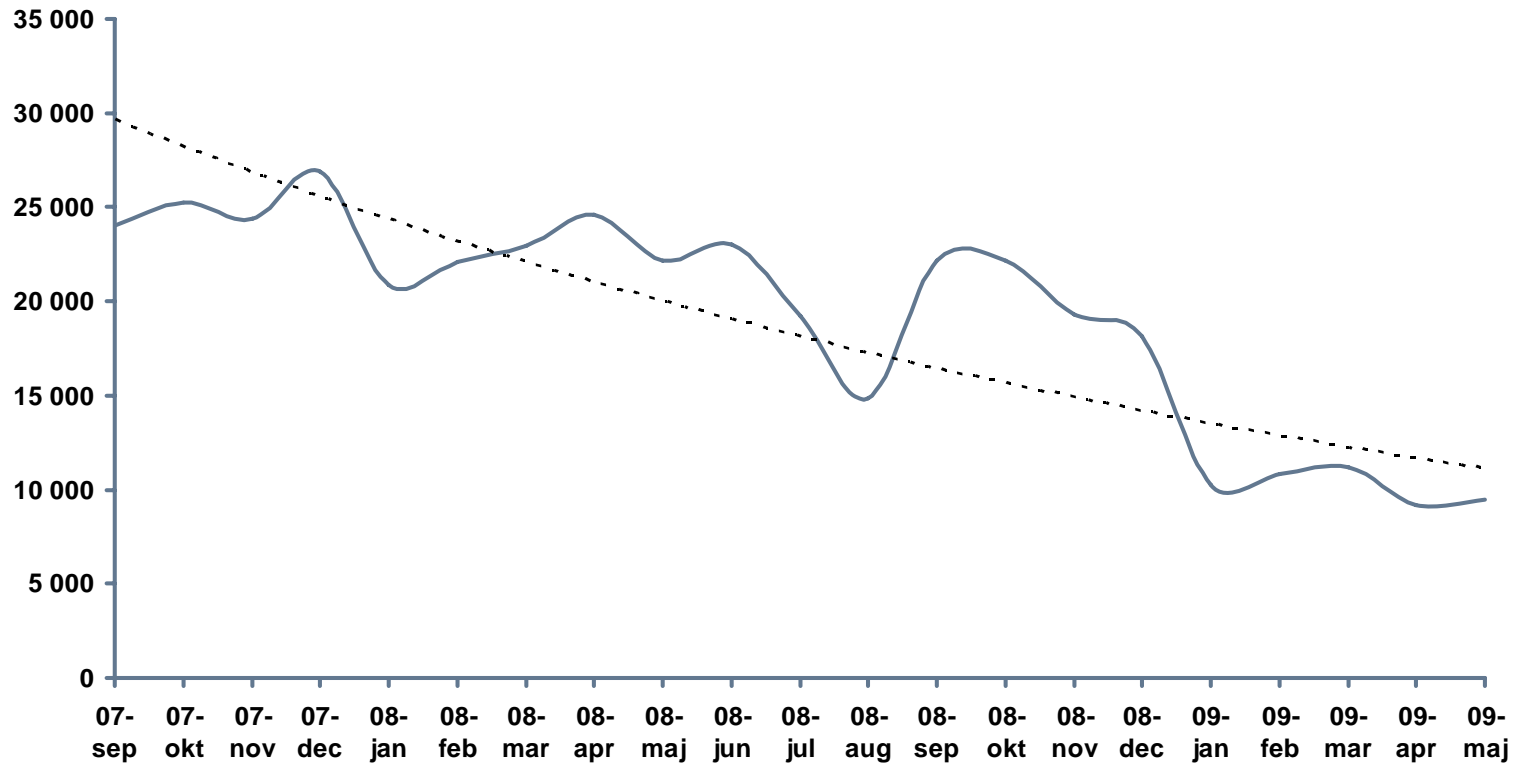
Units, Thousands (heavy trucks)



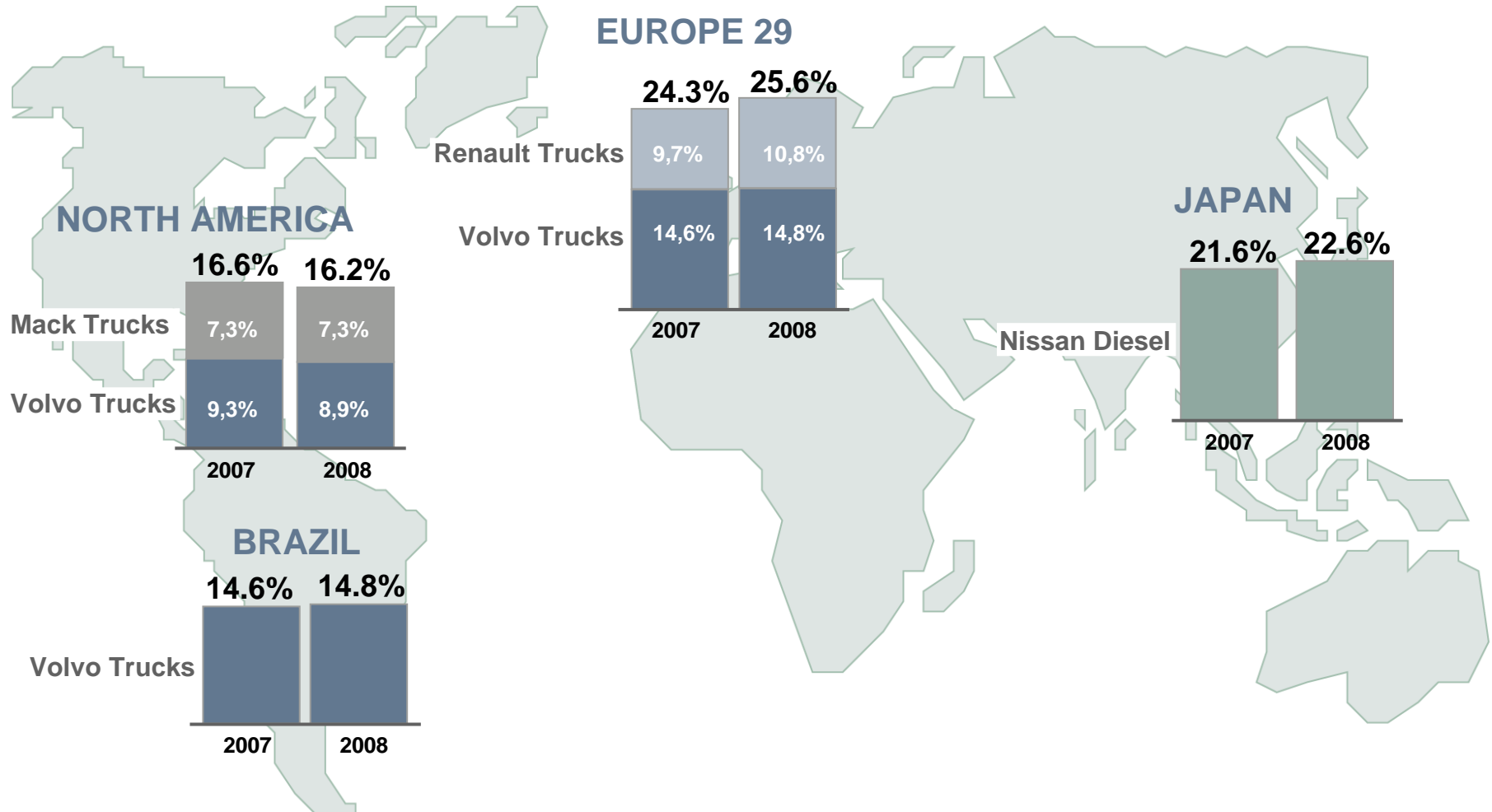
Unprecedented drop – now stabilizing on low level – Volvo Group truck deliveries globally



Units, Thousands



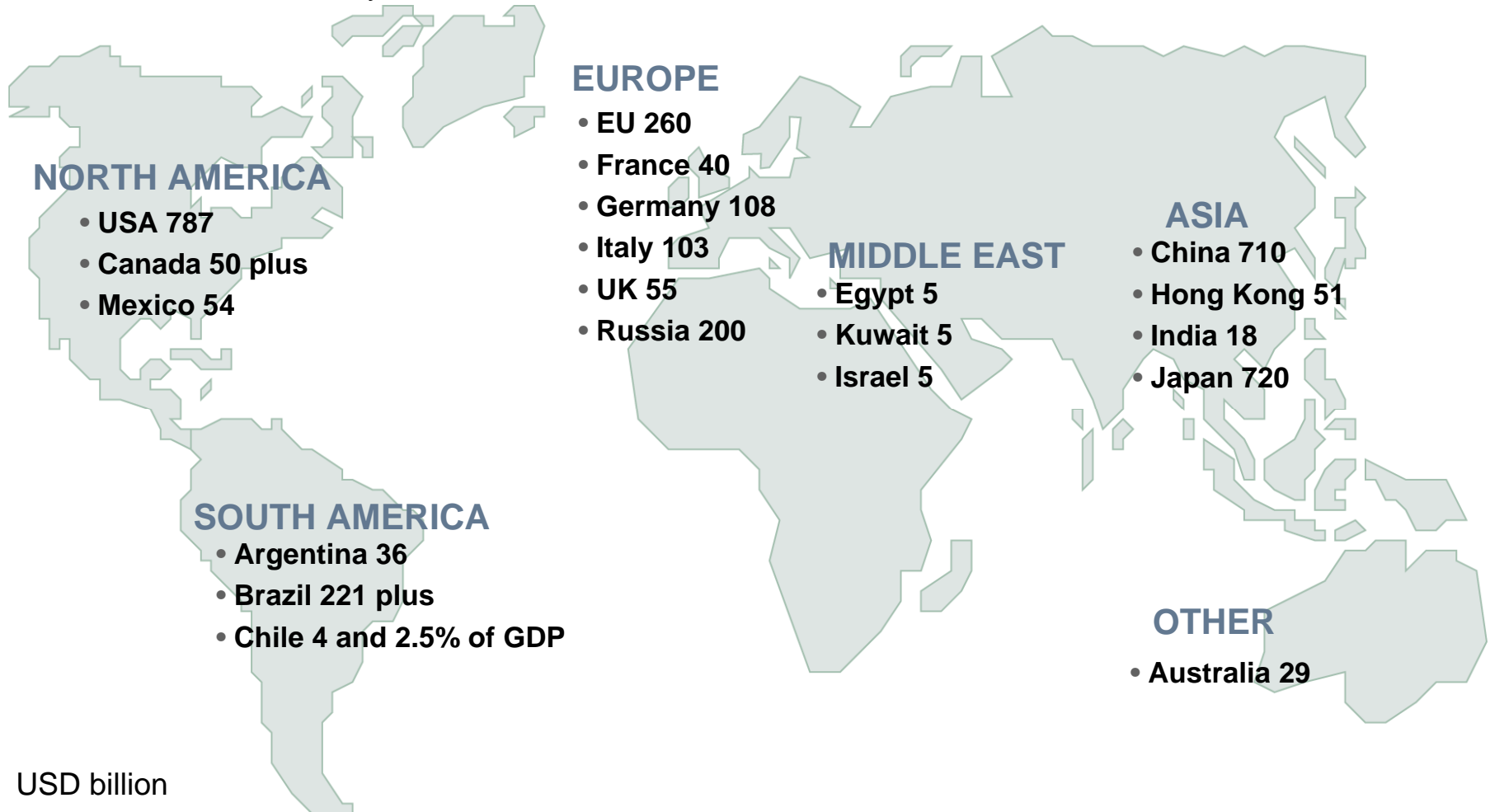
Good market positions and maintained market shares – Heavy duty trucks



Stimulus plans worldwide

→ Considerable amounts into infrastructure

→ Central banks at very low interest rates



USD billion

Downturn management

SHORT TERM ACTIONS

Cutting production to adapt to demand and to maintain price levels on new products

- Cutting production rapidly and drastically in Q4 2008 through Q3 2009
- Significantly reduce workforce
- Reducing operating costs
- Strict control of capital expenditures
- Prioritize R&D projects
- Release excess inventory to generate cash
- Continued under absorption of costs in coming quarters until inventory and operating cost is in balance with current demand
- Secure key suppliers

Different national tools to handle over capacity

	Swe	Fra	NA	Jpn	Bra	Bel
• Flex time banks	Ongoing	Ongoing	N/A	Ongoing	Ongoing	Ongoing
• Release temps	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing
• Release hired services	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing
• Release consultants	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing
• Partial layoffs with governmental support	N/A	Ongoing	N/A	Ongoing	N/A	Ongoing
• Partial layoffs without governmental support	Ongoing	N/A	Ongoing	N/A	N/A	N/A
• Notice of redundancy	Ongoing	Not used	Ongoing	Not used	Ongoing	Ongoing
• Salary cuts	Not used	N/A	Ongoing	Ongoing	N/A	Ongoing

Ongoing means tool is able to use and also applied in country. **N/A** means either not able to use or not applied due to legal or other reasons. **Not used** means able to use but not applied

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PRIORITIES

Volvo Group

Structure at high level stable, however structural changes within Business Areas and Business Units to improve organizational efficiency

Business Areas



Volvo Trucks

Renault Trucks

Mack Trucks

Nissan Diesel

Volvo Buses

Construction
Equipment

Volvo Penta

Volvo Aero

Financial
Services

Business Units

Volvo 3P

Volvo Powertrain

Volvo Parts

Volvo Logistics

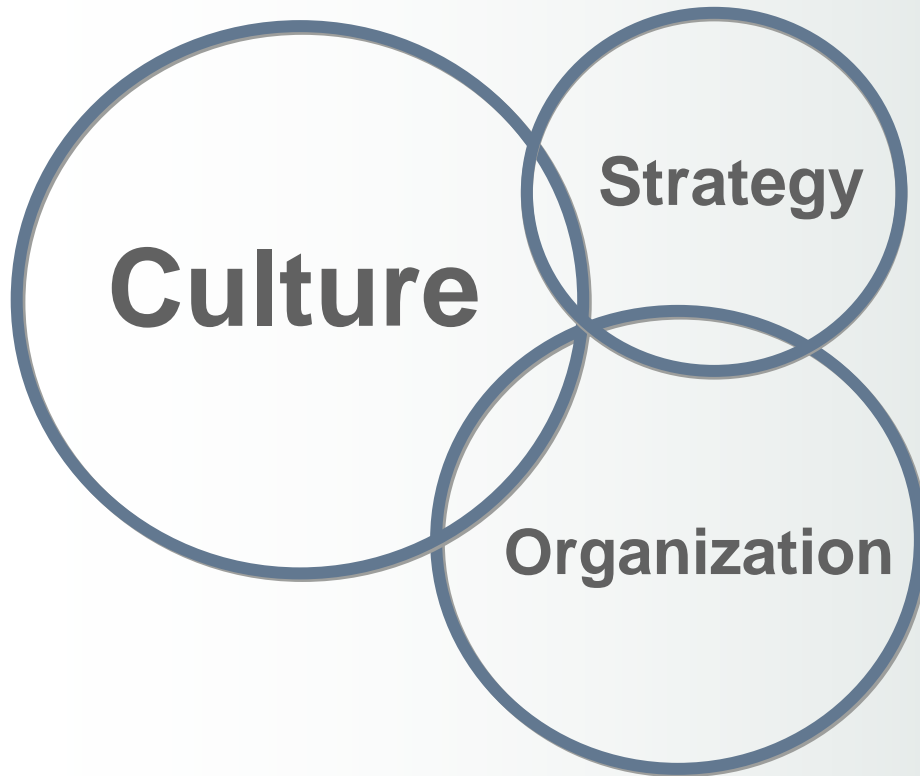
Volvo Technology

Volvo Information Technology

Volvo Group Real Estate - Volvo Business Services

Building a competitive global culture

Good cultural integration, now increasing focus on profitability



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STRATEGIC DIRECTION 2010-2012

Changing focus

Profitable Growth

**Required scale in all
business areas achieved**



**Product Cycle
Management**

**Capitalize on scale
to optimize R&D based on
shared technology and
common architecture**

Operational Excellence

**Reduce operating cost to
improve profitability**

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Required scale achieved

- No need for structural growth

- Heavy duty trucks: 180,000 units (#2)
- Construction equipment: 64,000 units (#3)
- Heavy duty engines: 200,000 units (#2)

- Good brand portfolio
- Good regional market shares
- Well performing distribution channels globally
- Foothold in developing economies
 - India
 - China



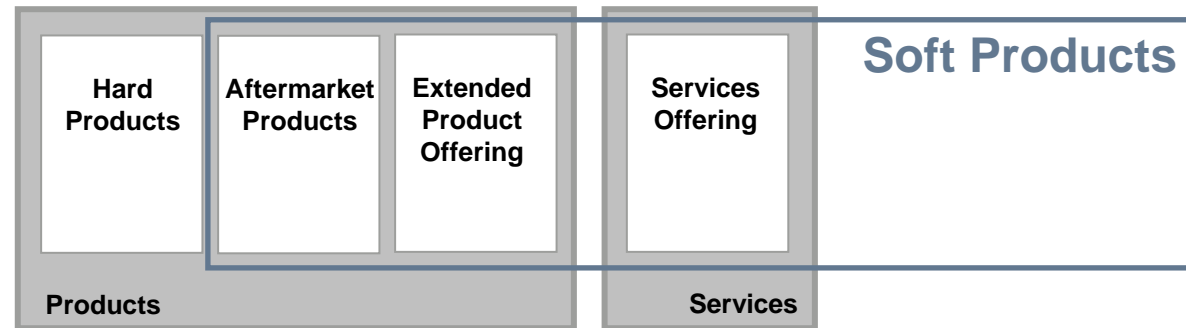
- **Organic growth in line with market development, except soft products to grow faster**

- **Address non-performing businesses**

- **Low priority and only opportunistic approach to acquisition driven growth**

Focus on soft product sales

- to build customer satisfaction and loyalty



Aftermarket Product Areas

<p>SPARE PARTS</p> <ul style="list-style-type: none"> New parts Used & re-manufactured Parts Extended Parts 	<p>SOFTWARE</p> <ul style="list-style-type: none"> Vehicle Software 	<p>ACCESSORIES</p> <ul style="list-style-type: none"> Accessories Non-Volvo Accessories Merchandise products 	<p>SERVICE PRODUCTS</p> <ul style="list-style-type: none"> Service literature Service tools
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Service Offering Areas

<p>EXTENDED PRODUCT OFFERING</p> <ul style="list-style-type: none"> Used vehicles Trailers and superstructures Attachments 	<p>UPTIME SERVICE</p> <ul style="list-style-type: none"> Service planning Maintenance and repair Updates and Upgrades Service Contracts Parts Service 	<p>CUSTOMER OPERATION SERVICES</p> <ul style="list-style-type: none"> Transport management Driver time management Vehicle management Security, safety & environmental Navigation Infotainment 	<p>SUPPORT SERVICES</p> <ul style="list-style-type: none"> Competence development Fleet & asset management Call centre services Consultancy Services Information services 	<p>FINANCIAL SERVICES</p> <ul style="list-style-type: none"> Vehicle/leasing Rental / operative lease Insurance
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Strong focus to grow soft product sales

Soft product sales in 2008, excl. VFS

~82 BSEK (28% of the Volvo Group)

Soft product sales Q1 2009, excl VFS

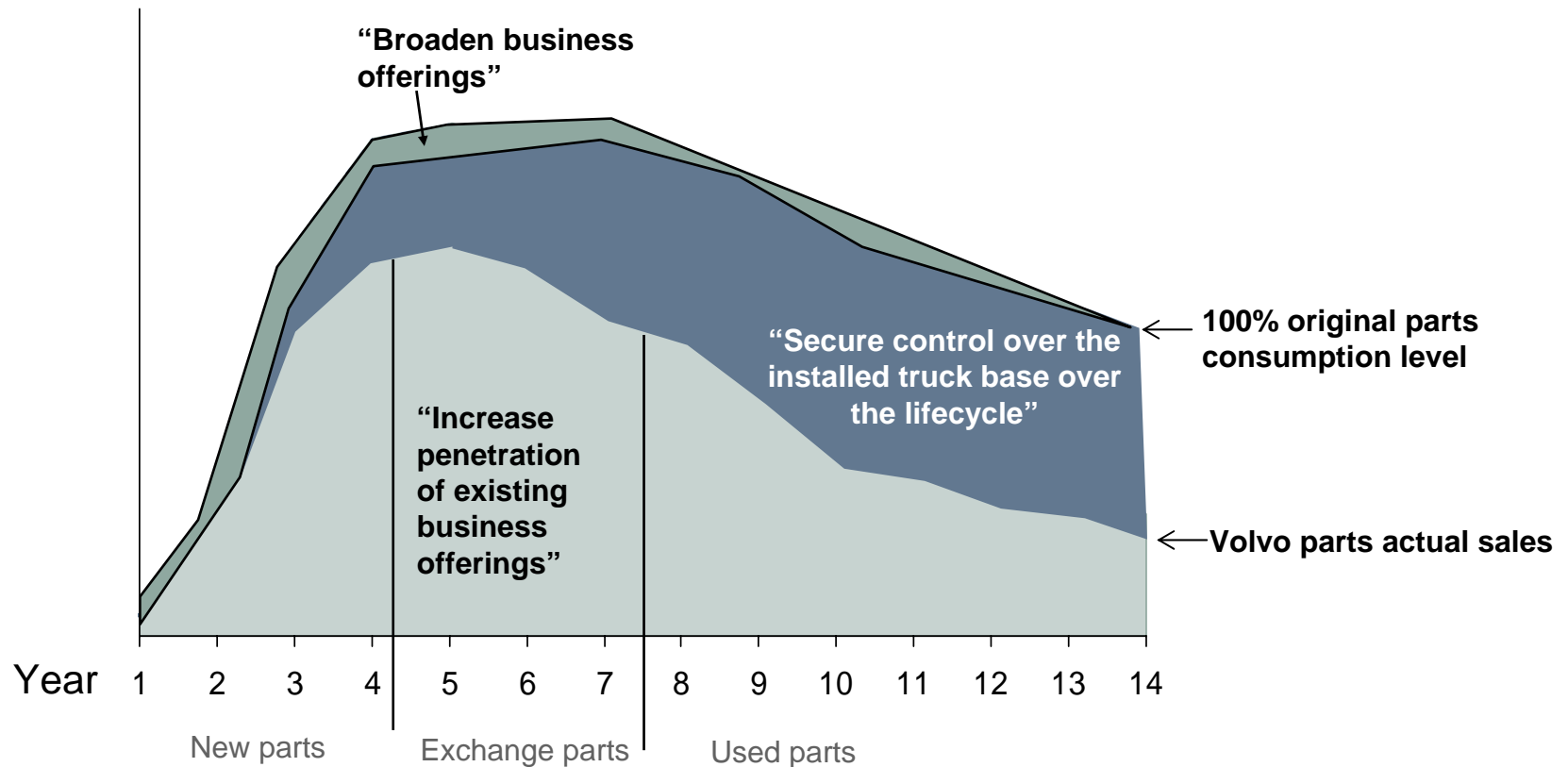
-3% growth, 39% of the Volvo Group

Soft products

**Opportunity
for growth,
at high margins**

Example – increase capture of parts sales

- ➔ From parts sales to sales of service (with parts)
- ➔ From brake down repairs to preventive maintenance



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Product Cycle
Management

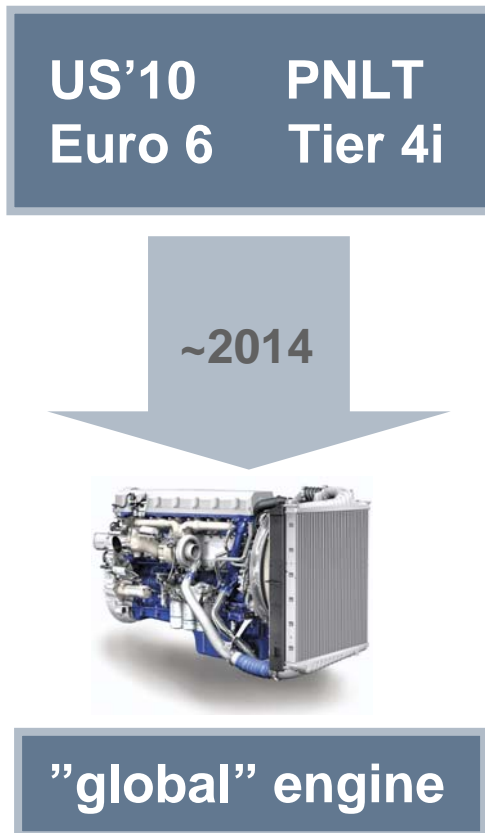
Capitalize on scale
to optimize R&D based on
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Operational Excellence

Reduce operating cost to
improve profitability

Emission regulations and technology convergence

EGR+SCR+DPF for the global engine



- To meet upcoming emission regulations with competitive solutions
- Capitalize on converging technologies across products and markets to drive:
 - R&D efficiency
 - Competitive product cost
- Window of opportunity for other product changes
- Volvo Group HD engine platform in all HD trucks

Competitive products on their way...

- Good news for both our customers and the environment

Well prepared for new emission technology

- US'10**
 - Using existing engine platform – adding SCR
 - Significantly lower complexity in transition compared with US'07
 - 33 trucks with customers, 3,7 million test miles - excellent reception
 - Very good fuel consumption – lower operating cost
- JP'10**
 - “Same” engine as US'10 (EGR+SCR+DPF)
 - 12 trucks with customers, 2.8 million km test
 - Maintained leadership in fuel efficiency expected
- Tier4i (2011)**
 - Project well under way
 - Base technology known (EGR+DPF), focus on packaging



New Euro V engines already introduced

Much cleaner – more power, less fuel



	Fuel Savings	Status
▶ Euro V	~3%	✓
▶ US'10	~ 2-3%	
▶ PNLT	~same	

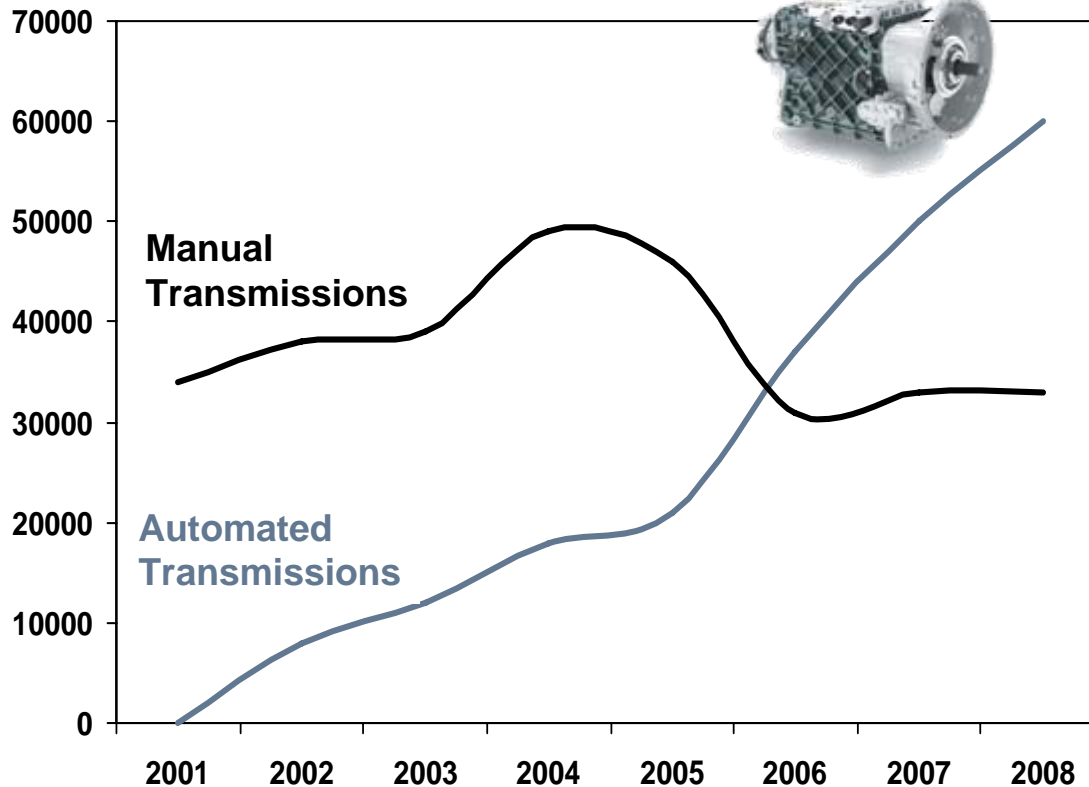
Launching in-house medium duty engine platform for trucks and buses



- Volvo Group volume base 2008: ~70,000 engines
- New MD engine project part of Nissan Diesel acquisition
- New MD engine platform to be launched in 2010
- Economy of scale with HD engine platform in R&D, Purchasing and Production
- New manufacturing system with common global processes
 - MD and HD engines produced on the same line in Ageo, Japan

Enhance leadership in AMT:s

Develop global platform for Automated Mechanical Transmissions



- Big customer success
- Global platform
- Investments done
- Captive spare parts
- Into more products and markets
- Trend shift continues

Total volume growth from 34 000 to 93 000 transmissions annually

The hybrid future is arriving

Moving to commercialize hybrids with Group-wide technology

Lyon



Göteborg



London



Real life experiences of fuel savings > 30%

Sum-up



- Volvo Group HD engine platform in all HD trucks
- To meet upcoming emission regulations with competitive solutions - Capitalize on converging technologies
- Launch in-house medium duty engine range in trucks
- Further develop leadership with in-house platform for AMTs
- Commercialize group-wide technology for diesel-electric parallel hybrids

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Required scale in all business areas achieved



Product Cycle Management

Capitalize on scale to optimize R&D based on shared technology and common architecture

Operational Excellence

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OPERATIONAL EXCELLENCE 2010-2012

Efficiency and productivity in every step

- Manufacturing
- Purchasing
- Research and Development
- Sales and Administration

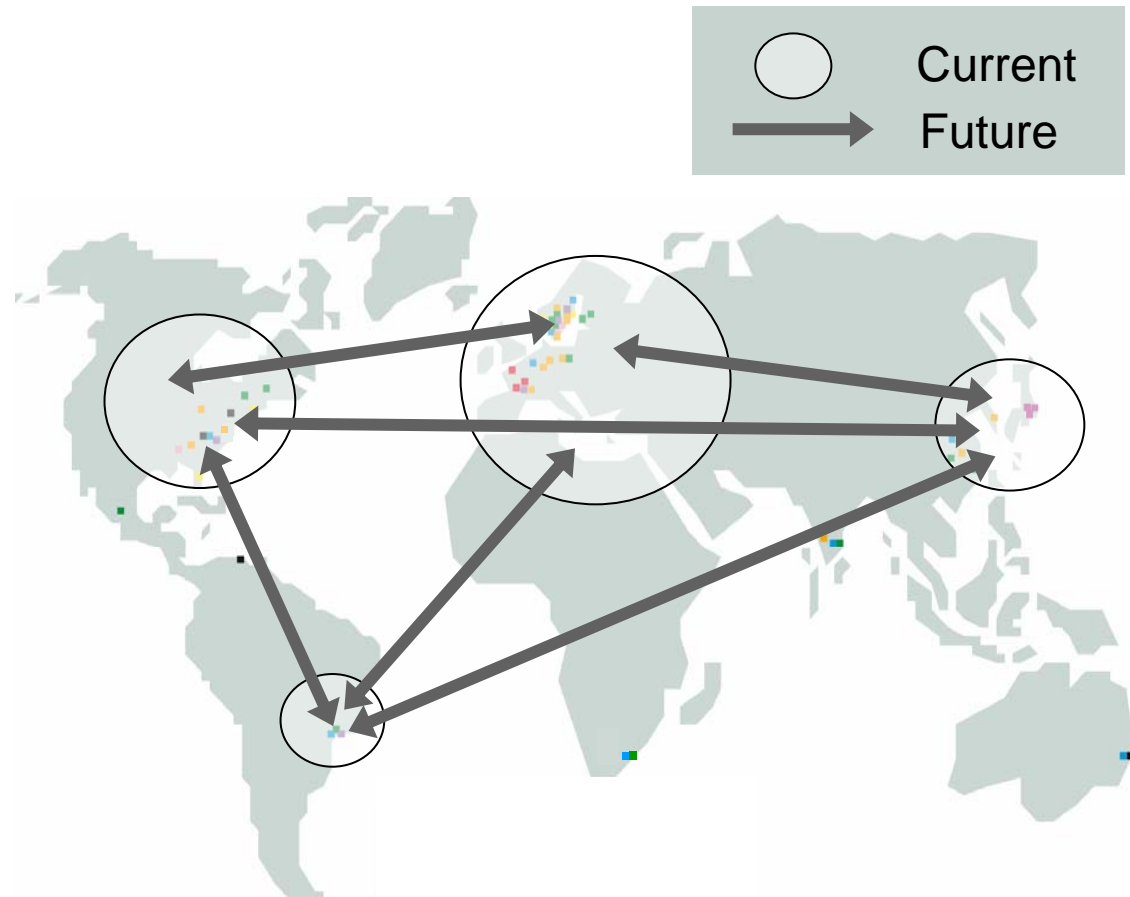


Manufacturing

Create global production capacity

Move from regional to global engine production

- Manning flexibility within plant – workforce
- Product flexibility within line – Lyon, Ageo and Köping
- Geographical flexibility between plants – “One global engine”
- Total capital efficiency



Manufacturing

Focus on productivity and quality

Optimize production efficiency and reduce quality cost



- Window of opportunity to drive productivity, post integration and demand peak
- Drive best practice across Group, Nissan Diesel to lead in new quality standards
- Reduce capital expenditures (PPE) by 30-50%

Purchasing

Move to high-performing suppliers

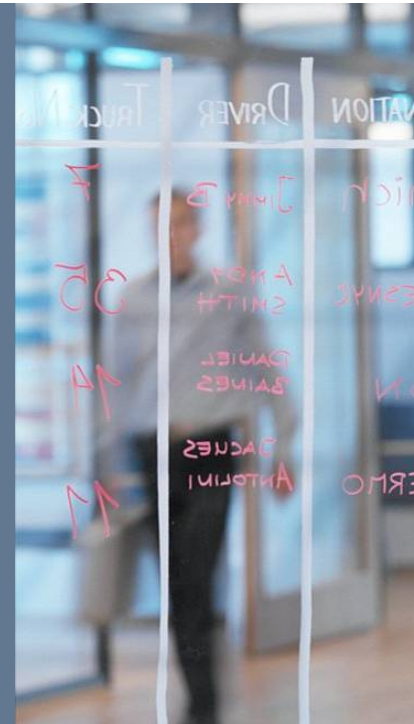
Opportunity to further leverage volumes



- Focus on performing suppliers
 - Quality, Delivery, Financially...
- Converging technology and globalizing products improving opportunity for cost rationalization
- Leverage entire Volvo Group purchasing volumes
- Asian presence - opportunity across the Group
- Drive standardization and L-T partnerships with preferred suppliers within Non-Automotive Purchasing

Research and Development

Sufficient scale to invest in key technologies, but...
...opportunity to improve organizational efficiency



- Global development processes to drive productivity
- Improve productivity and take out overlaps:
 - Volvo CE
 - 3P and Volvo Powertrain
 - Purchasing/R&D interface
 - Volvo Powertrain/Business Area interface
- Flexibility with consultants and global footprint

Sales and Administration

A decade of very strong sales growth

Present downturn gives opportunity to kick-start efficiency work in S&A



- Re-set cost structure in current downturn, and keep it
- Improve profitability in owned distribution
- Drive global processes through Business Units

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PROFITABILITY

SHORT-TERM

- ▶ Cash flow
- ▶ Cost structure

LONG-TERM

- ▶ Competitive products
- ▶ Profitability among industry leaders