



Welcome to

# VOLVO GROUP CAPITAL MARKET DAY

**AB Volvo**

Capital Market Day 2008 - Leif Johansson

1 2008-06-18

**VOLVO**



# Volvo Group

Leif Johansson  
President and CEO  
Volvo Group

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**VOLVO**

# Agenda

TRANSFORMING THE VOLVO GROUP

DIRECTION 2008 →

BUSINESS AREA UPDATE

PRIORITIES



# TRANSFORMING THE VOLVO GROUP

## ▶ 1998 – 2007

- Exit cars and focus on commercial products
- Build presence in developing economies

## ▶ 2007 – Strong growth

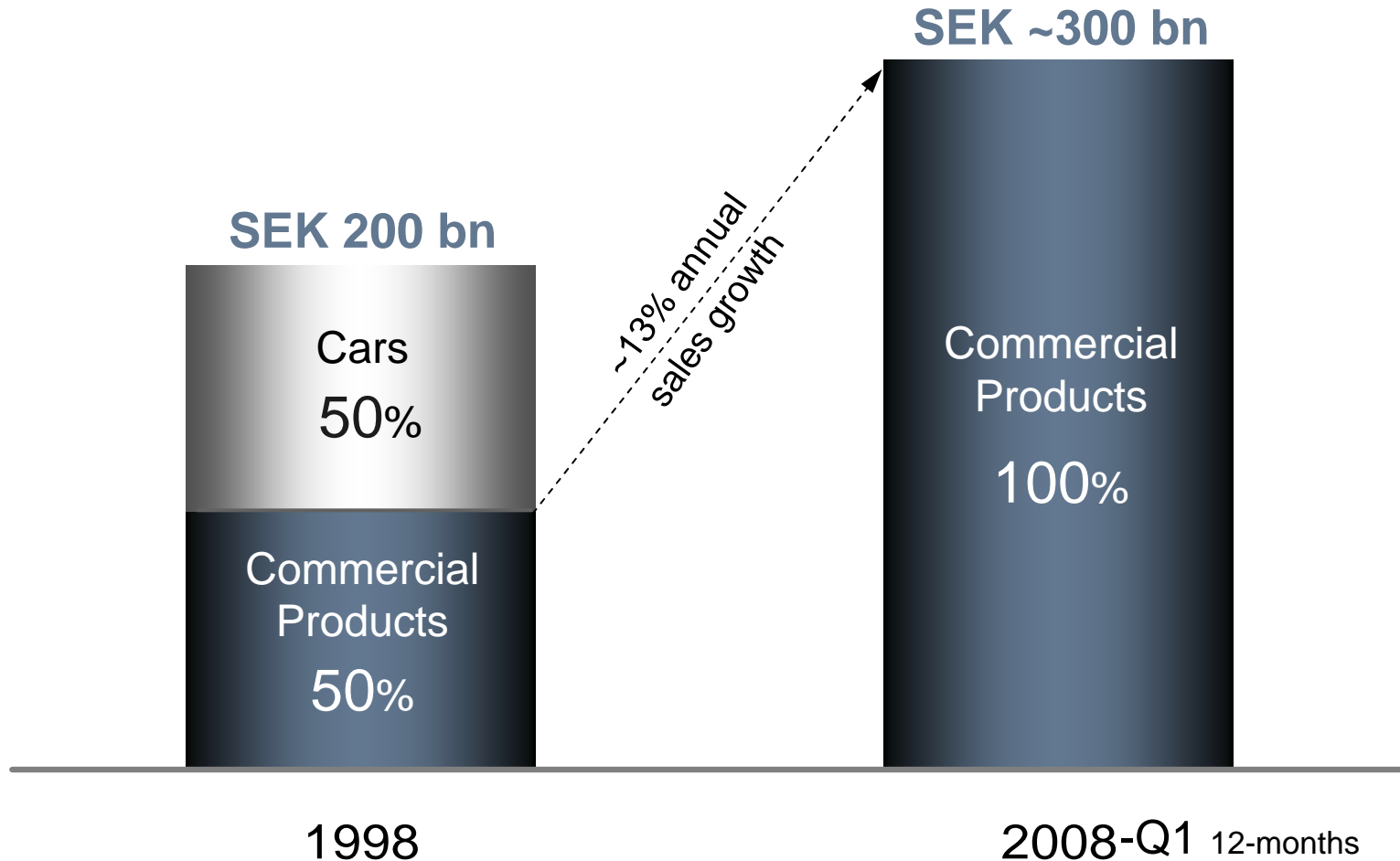
# Volvo Group Vision

To be valued as the world's leading provider of commercial transport solutions

Wanted positions in each of our businesses:

- Number 1 in image and customer satisfaction
- Number 1 or 2 in size or superior growth rate
- Sustainable profitability above average

# Exit Cars to build strong Commercial Product business





# TRANSFORMING THE VOLVO GROUP

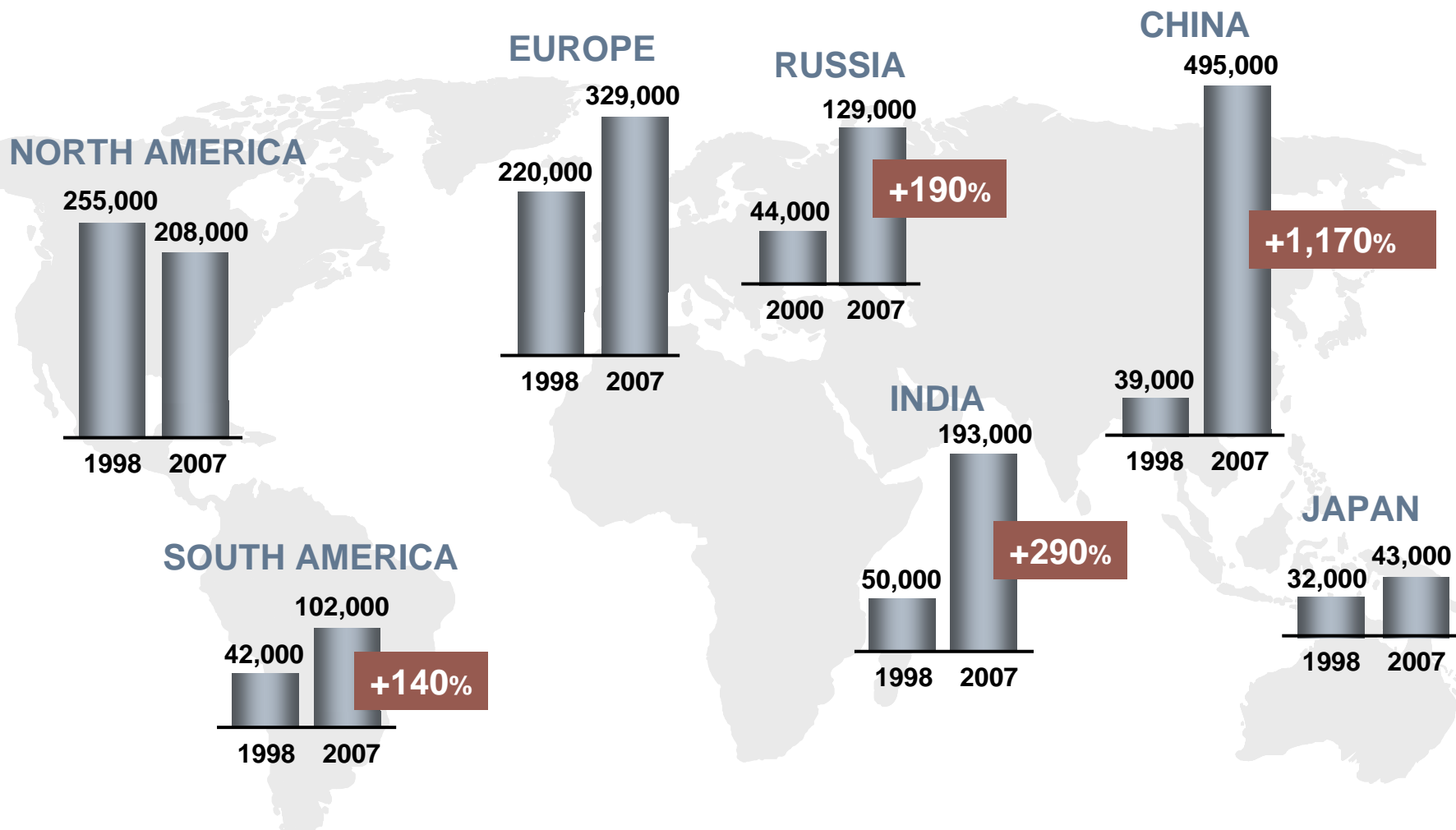
## ▶ 1998 – 2007

- Exit cars and focus on commercial products
- Build presence in developing economies

## ▶ 2007 – Strong growth

# Strong growth in developing economies

## Heavy duty truck market 2007

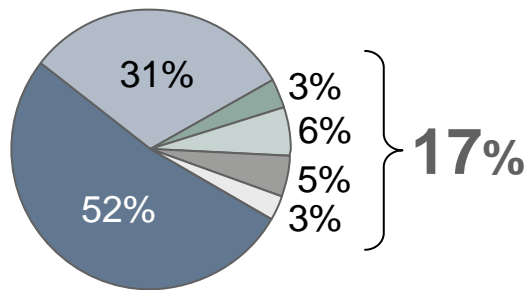




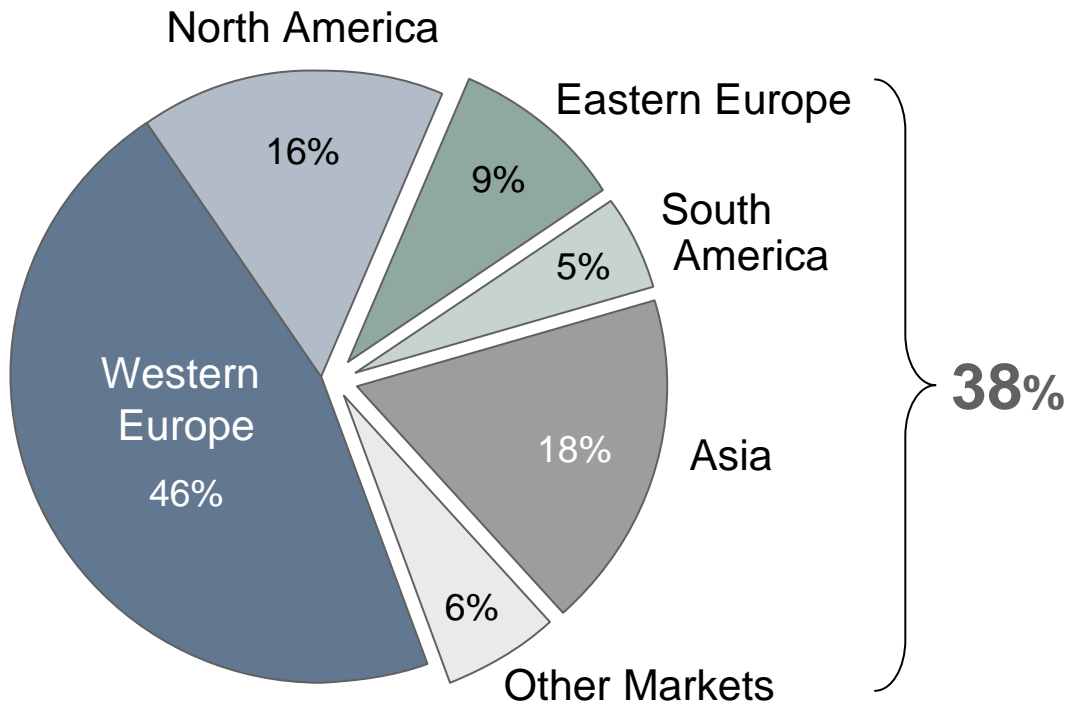
# Capturing growth in developing economies improves geographical balance

Q1 2008

1998



SEK 100 bn



SEK ~300 bn



# TRANSFORMING THE VOLVO GROUP

- ▶ 1998 – 2007
  - Exit cars and focus on commercial products
  - Build presence in developing economies
- ▶ 2007 – Strong growth

# Agenda at CMD 2007

Strong organic growth and acquisitions to get a foothold in Asia

## Organic growth

- ▶ Greater Europe +16% (EE +69%)
- ▶ Soft offers
  - Spare parts +8%
  - Workshop services +15%
- ▶ Competitive products
  - US'07 trucks launched
  - Hybrids on their way to market
- ▶ Investing for growth and productivity
  - Program for 2008-2009 of SEK 6 bn

## Growth through acquisitions

- ▶ Nissan Diesel Integration under way
- ▶ Ingersoll Rand Integration under way
- ▶ Lingong Leverage sales and profitability
- ▶ Eicher Motors JV Entry into India and new truck segment

## DIRECTION 2008 →

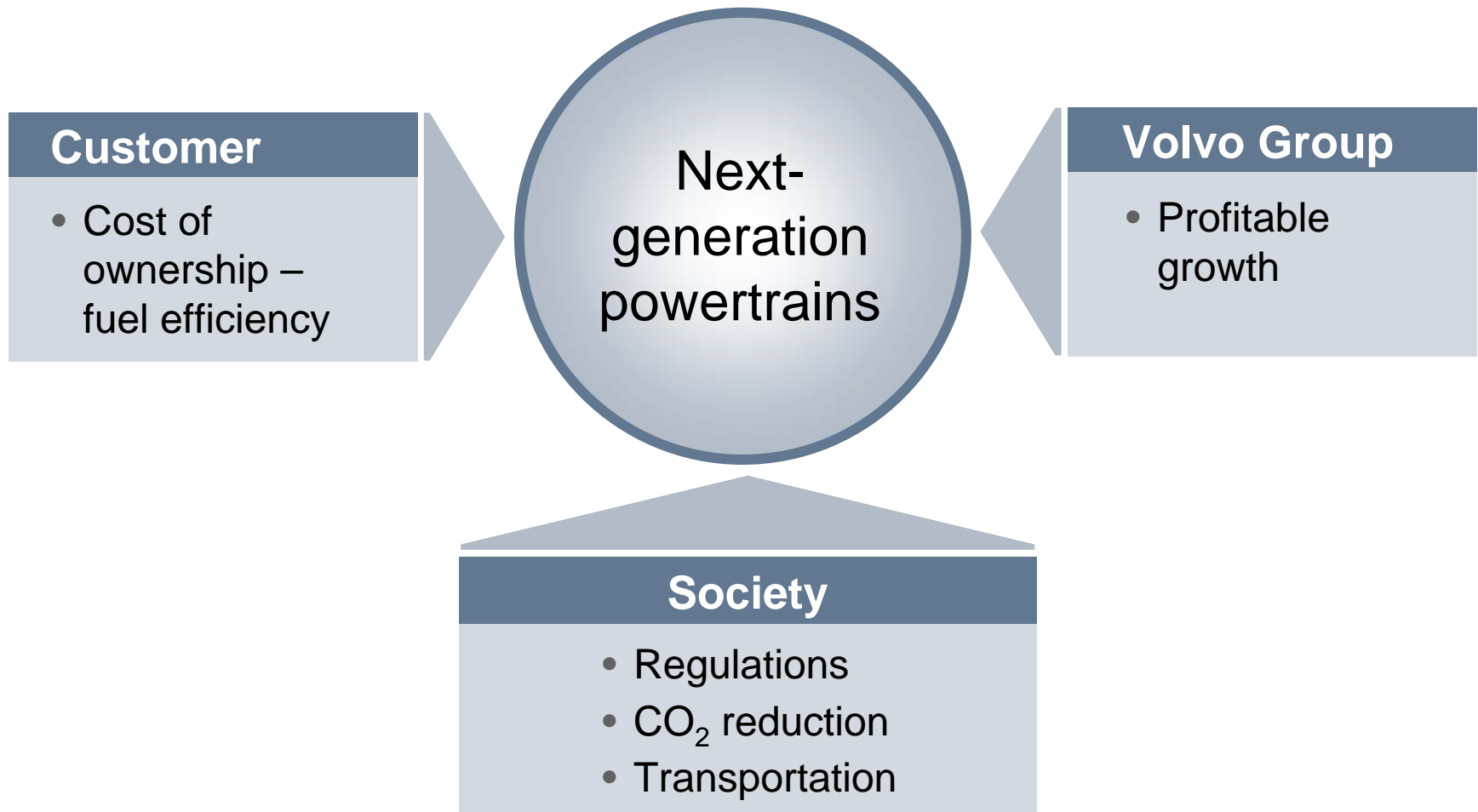
### DRIVE ENERGY EFFICIENCY

- ▶ Products
- ▶ Production

### DRIVE PRODUCTIVITY AND PROFITABILITY

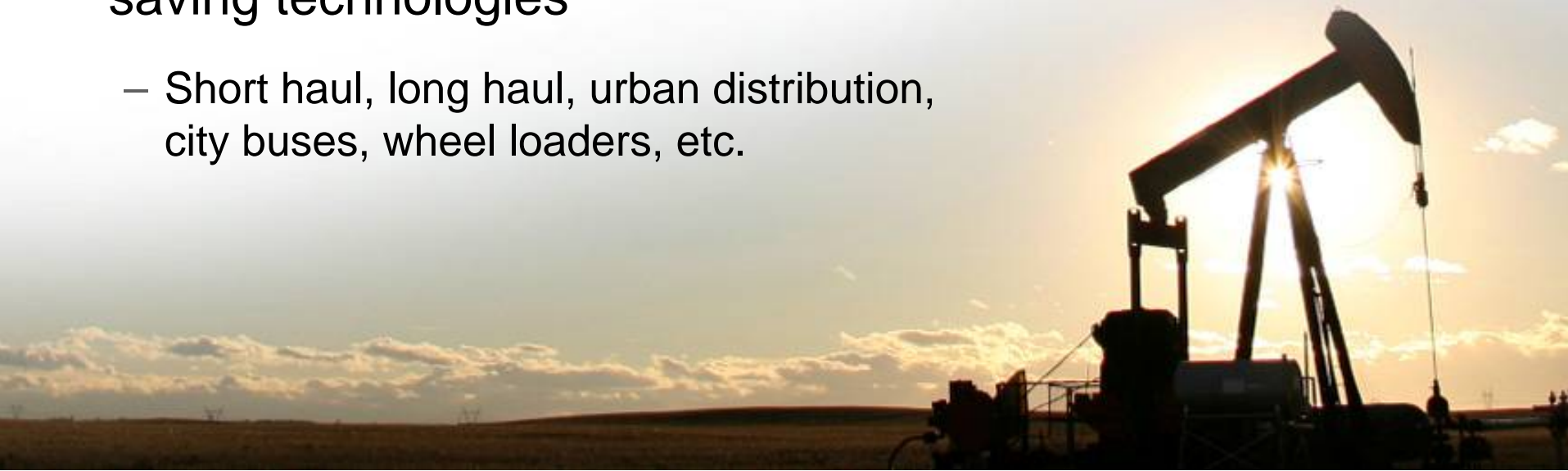
- ▶ Volvo Production System
- ▶ Productivity enhancing investments
- ▶ Business Units

# Drivers of the next generation of powertrains



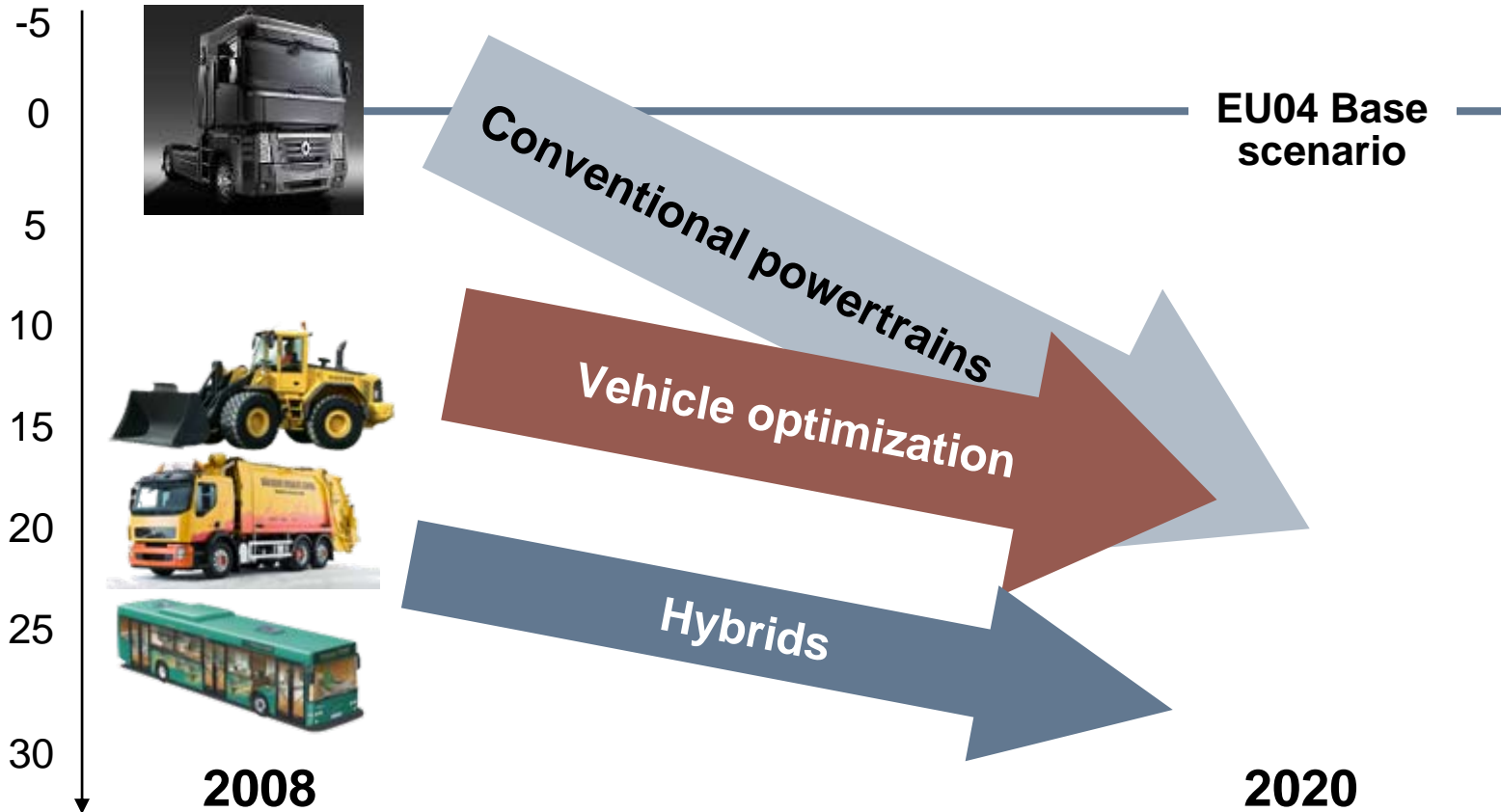
# Rising energy prices improves business case

- Fuel price drives technology development
- Quicker return on investment
- Quicker market entrance for all fuel saving technologies
  - Short haul, long haul, urban distribution, city buses, wheel loaders, etc.



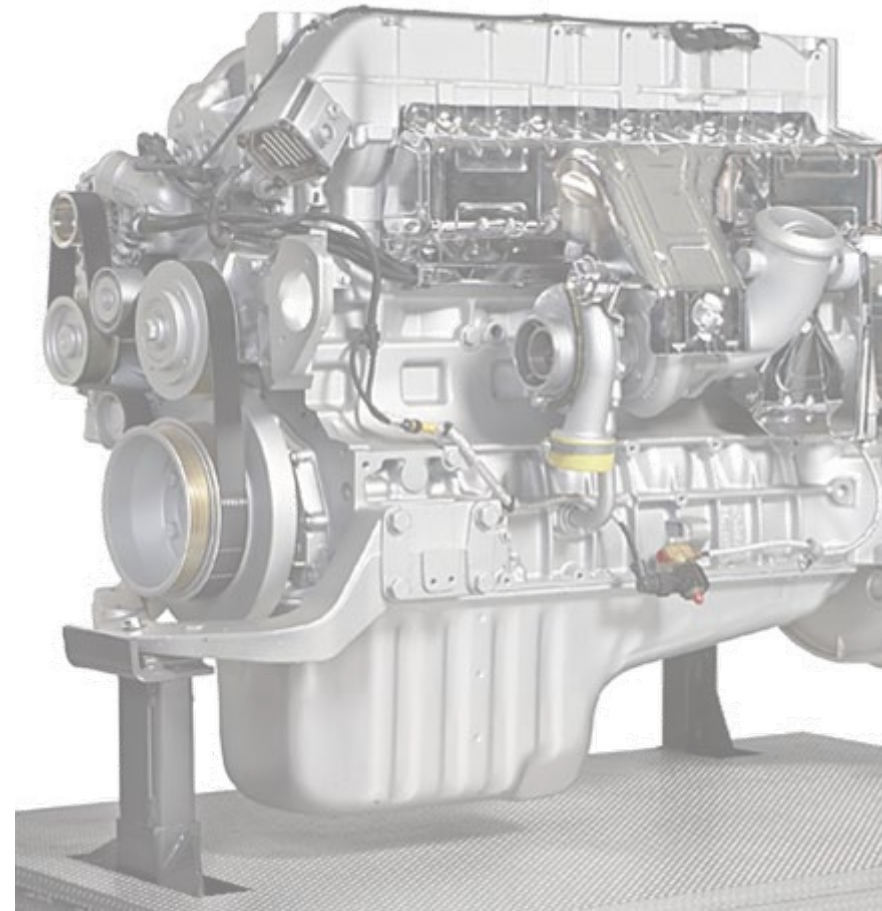
# Potential to reduce fuel consumption

Potential reduction (%)



# Technology for a potential reduction of ~25% in fuel consumption

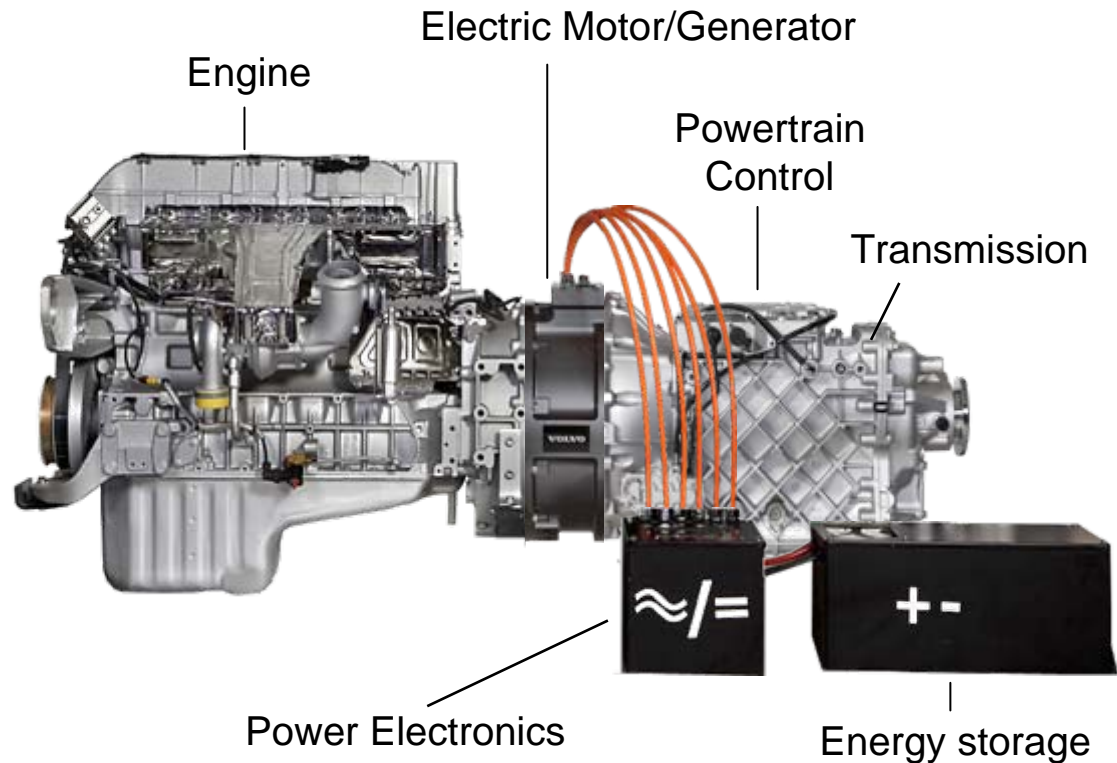
- Vehicle adaptation
- Reduce parasitic losses and friction
- Combustion development
- After treatment systems
- Waste heat recovery
- Hybrid technology
- Engine downsizing





# Volvo hybrid system the superior choice

- The parallel hybrid will fit a wide range of the Volvo Group vehicles
- Excellent performance
- Lower cost compared to all available hybrid systems
- Double electrical power and torque capacity as compared to available parallel hybrid systems
- True system optimization through full control



# One Group-wide technology generates economy of scale

## SHARED HARDWARE

Battery management unit

Control system

Electric architecture, voltage levels

Motors

Cables and connectors

Energy storage

DC/DC converter

Inverter



- Commonality
- Short development times
- Volumes of key components



# Entering industrialization phase on hybrids

- Diesel-electric hybrid technology platform established
- Medium duty to heavy duty applications
- Substantial fuel saving demonstrated
- Prospects discussed with customers
- 25 hybrid vehicles built 2008
- Serial production 2009



## DIRECTION 2008 →

### DRIVE ENERGY EFFICIENCY

- ▶ Products
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- ▶ Volvo Production System
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- ▶ Business Units

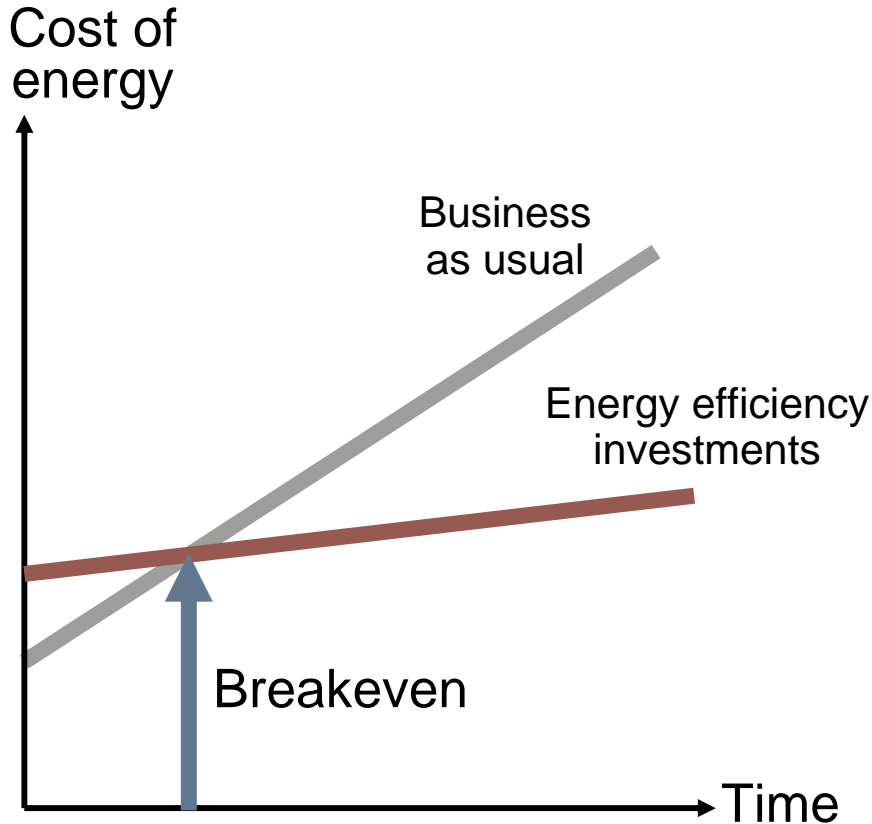
# Volvo Trucks' assembly plant in Ghent, Belgium – CO<sub>2</sub> neutral



- 15–20 years leasing agreement: no capital investment for Volvo
- Co-operation on energy saving activities:
  - Windmills
  - Solar panels
  - Skylight windows
  - Bio energy

# Investments in reduced energy consumption

Good for both environment and shareholder return



## Ghent, Belgium

- Breakeven reached already **year 1**
- Estimated cost savings
  - 2009: SEK 5 M
  - 2020: SEK 20 M

## DIRECTION 2008 →

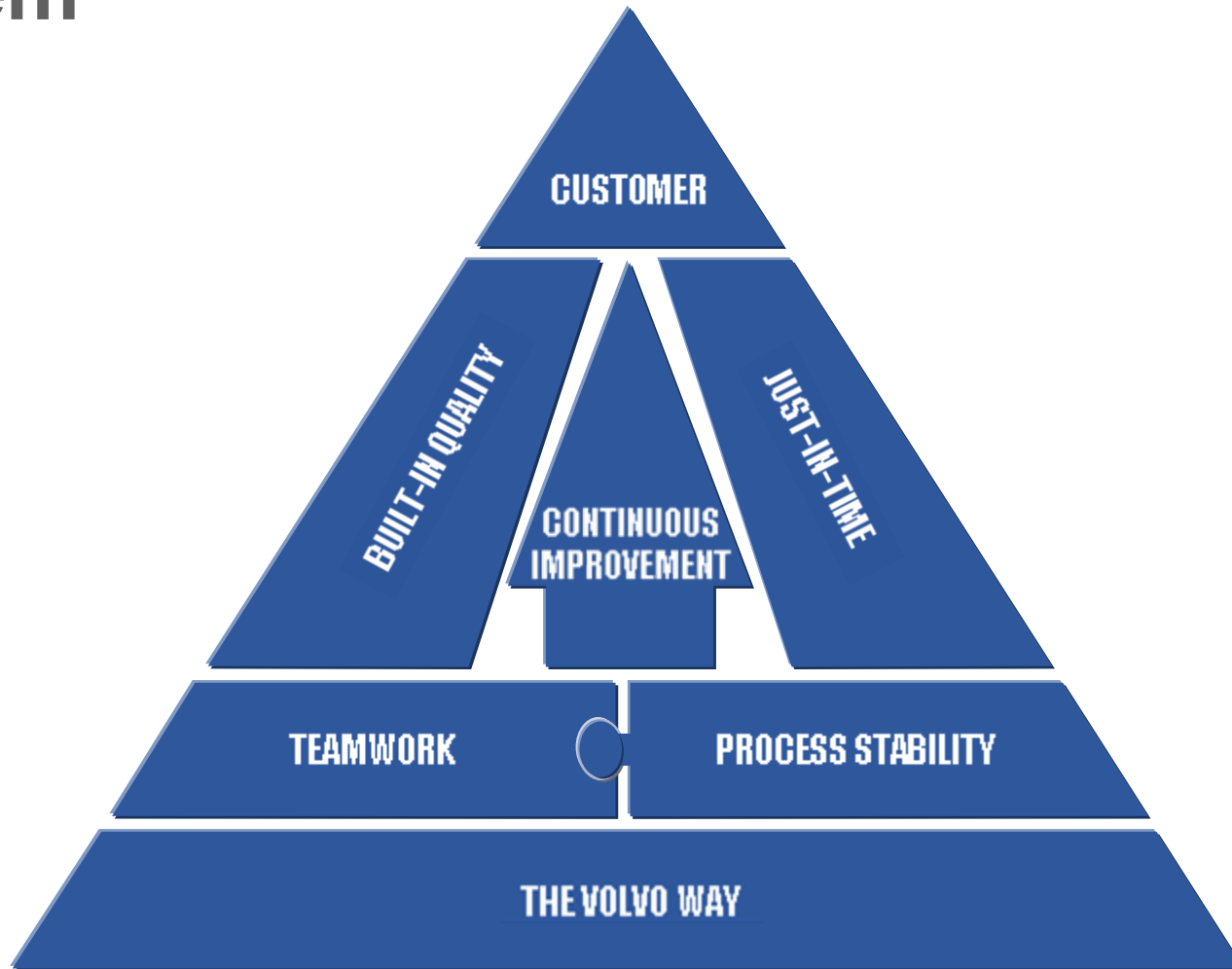
### DRIVE ENERGY EFFICIENCY

- ▶ Products
- ▶ Production

### DRIVE PRODUCTIVITY AND PROFITABILITY

- ▶ Volvo Production System
- ▶ Productivity enhancing investments
- ▶ Business Units

# Implementation of Volvo Production System





# DIRECTION 2008 →

## DRIVE ENERGY EFFICIENCY

- ▶ Products
- ▶ Production

## DRIVE PRODUCTIVITY AND PROFITABILITY

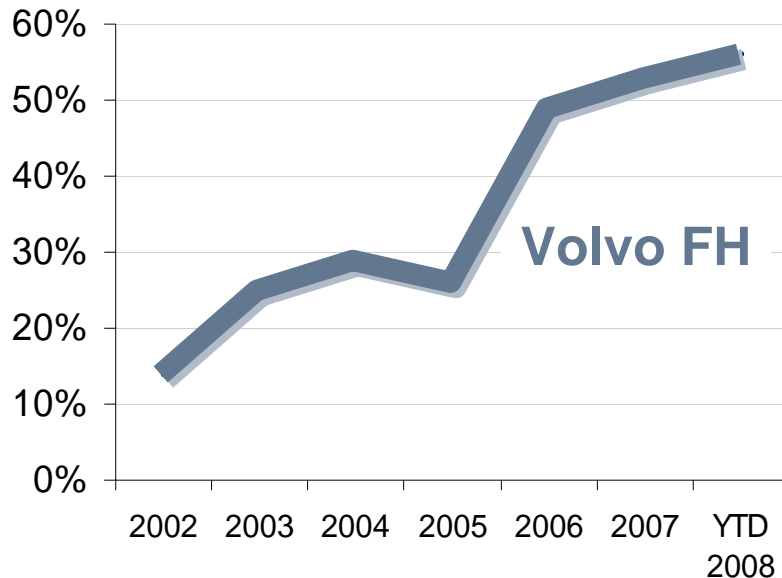
- ▶ Volvo Production System
- ▶ Productivity enhancing investments
- ▶ Business Units

# Productivity enhancing investments

## Example: Automated Mechanical Transmission (AMT)



### Penetration of AMT

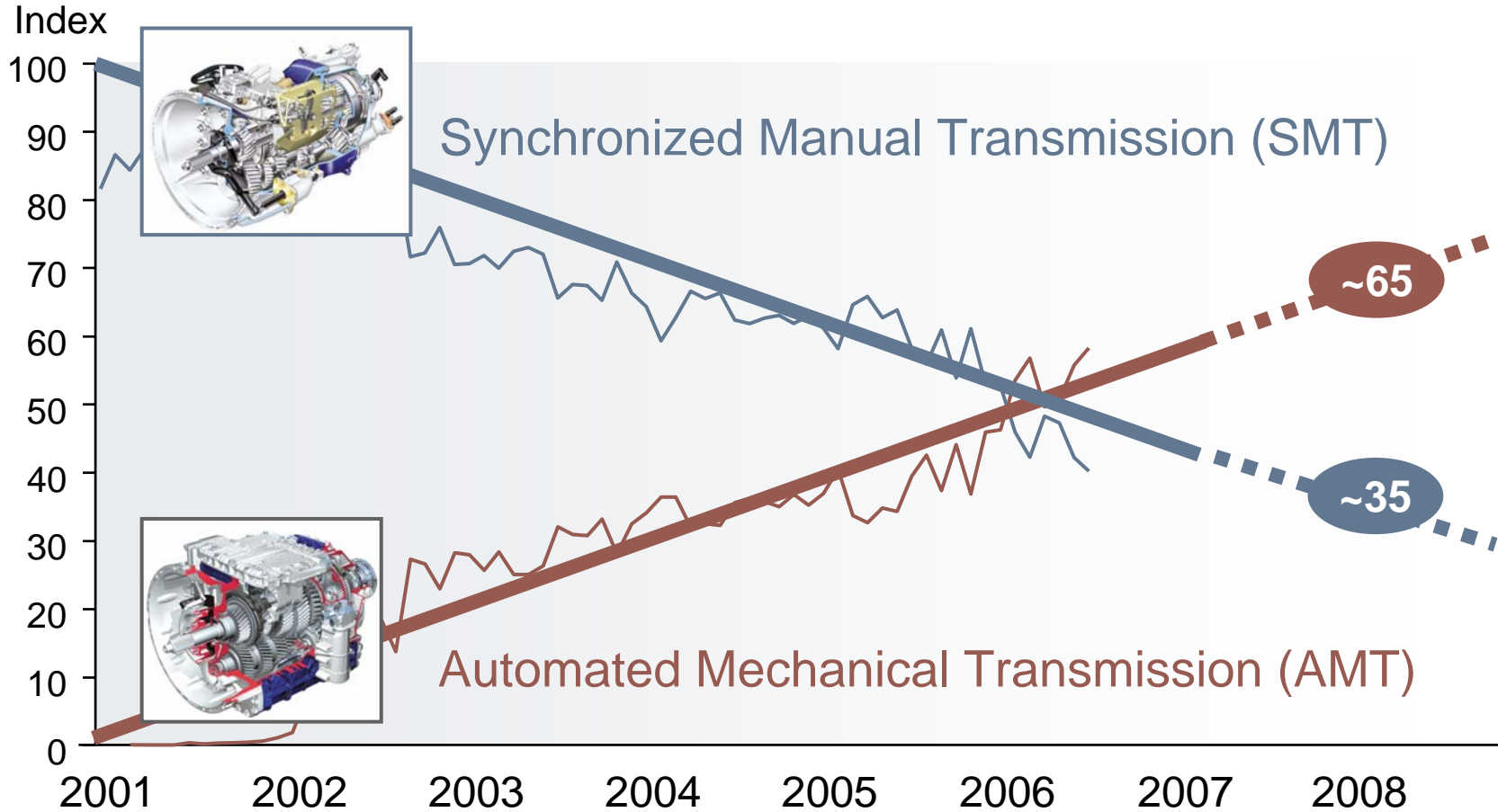


### Success factors

- Automated manual transmission, advantages:
  - low weight
  - low friction
  - few moving parts
- Widened offer – now construction and up to 80 tons
- Low fuel consumption
- Good drivability – attract new drivers
- Matured product – Strong brands

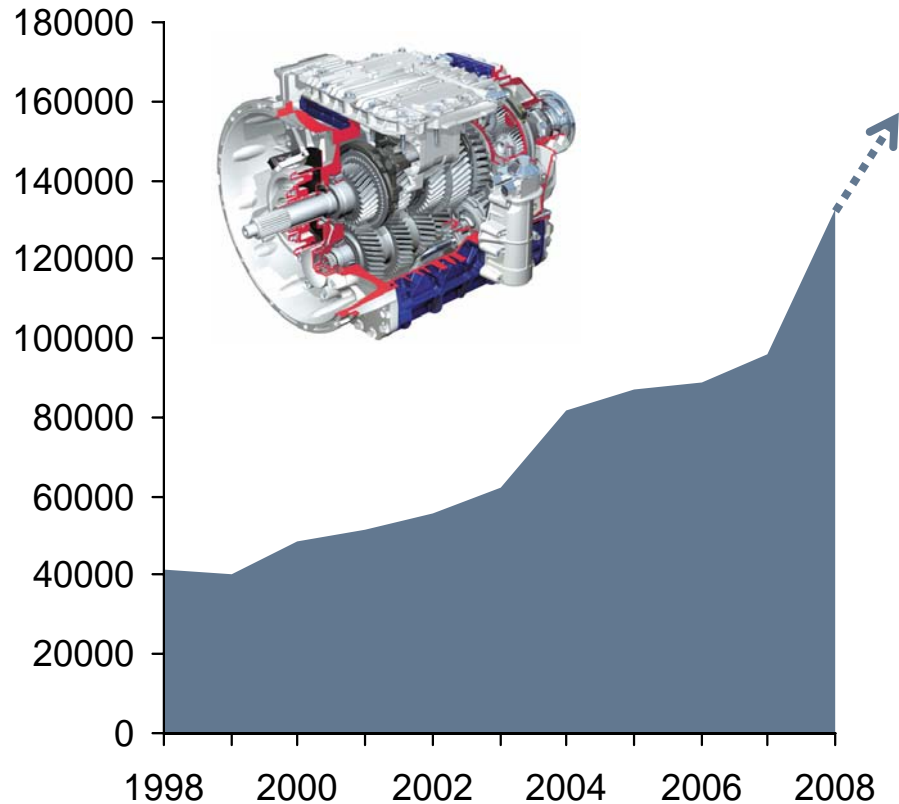
# AMT gearbox the new truck standard

Deliveries from transmission plant in Köping, Sweden 2001-



# Capacity investments in AMT

Volume development of in-house heavy duty transmissions since 1998



## Investment of SEK 400 M

- Capacity increase **+55%**
- Productivity increase **>25%**
- Improved flexibility through merged SMT+AMT assembly lines
- Manning: **-15%**
- Reduced lead times – inventory effect

## DIRECTION 2008 →

### DRIVE ENERGY EFFICIENCY

- ▶ Products
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### DRIVE PRODUCTIVITY AND PROFITABILITY

- ▶ Volvo Production System
- ▶ Productivity enhancing investments
- ▶ **Business Units**

DRIVE PRODUCTIVITY AND PROFITABILITY

# Volvo Group

Organized to deliver sharp customer focus and shared global strength

## Business Areas



Volvo Trucks



Renault Trucks



Mack Trucks



Nissan Diesel



Volvo CE



Volvo Buses



Volvo Penta



Volvo Aero



Financial Services

## Business Units

Volvo 3P

Volvo Powertrain

Volvo Parts

Volvo Logistics

Volvo Information Technology

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**VOLVO**

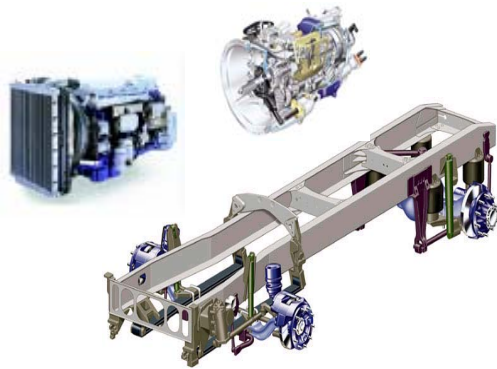
# Volvo 3P and Volvo Powertrain

## Business units to drive integration and internal efficiency

### INDUSTRIAL EFFICIENCY

#### Example

- Volvo 3P
- Volvo Powertrain



#### Focus on:

Products and features, synergies, economies of scale, cost and quality

### CUSTOMER FOCUS



- Sales
- Distribution
- Final Assembly
- Marketing
- After Market
- Customer Offer

#### Focus on:

Customer satisfaction, brand image, profitability and cash flow

CUSTOMER

# Volvo IT

- Providing IT support for more than 100,000 Volvo Group employees
- Present in 40 locations worldwide
- Established in Poland
- Established in India





# Volvo Parts

## Parts logistics for the whole Group



Reno



Toronto



Ghent



Moscow



Seoul



Dallas



Dubai



Singapore



Curitiba



Johannesburg

### Key facts

- 40 warehouses/sites worldwide
- >40,000 users of diagnostic tools, service and parts information
- Over 600,000 stocked part numbers
- 32 million order lines per year
- Deliveries to customers in 120 countries

# Volvo Logistics

- Optimizing Volvo Group transportation flows for
  - In-bound
  - Out-bound
- Scale in purchasing transportation services

## Key facts

- Present in 34 locations world-wide
- Inbound in 2007 – 5,420,000 tons
- Outbound in 2007 – 755,000 vehicles
- Pallet and package transactions: 104 million annually



DRIVE PRODUCTIVITY AND PROFITABILITY

# Volvo Business Services

Drive productivity through centralization and process simplification



Greensboro



Göteborg



Wrocław



Lyon



Curitiba

## Key facts

- 3,300,000 AP invoices processed annually
- 525,000 customer payments per year
- 50,000 calls to Front Line at global HR Service Center

# BUSINESS AREA UPDATE

- ▶ Volvo Trucks
- ▶ Mack Trucks
- ▶ Volvo Buses
- ▶ Volvo Penta
- ▶ Volvo Aero
- ▶ Volvo Financial Services

# Volvo Trucks

## NEW TRUCK LAUNCH

- Competitive product range
- News
  - Safety and Security
  - Driver focus
  - Lighter engine, D11
- Total transport solutions
  - Grow soft product business
  - Sales training 3,500 people



# Volvo Trucks

- The new trucks launch
- Price management
- Business cycle management
- Retail business
  - Forward integration
- Capacity and productivity enhancing investments
  - Increased flexibility and efficiency
- Europe
  - Safeguard strong performance
- International markets
  - High growth potential
- North America
  - Operational performance
  - US10



# Mack Trucks

- Particularly impacted by weakness in housing construction
- New Titan by Mack model and 16-liter MP10 engine continue a period of intense product renewal resulting in strongest ever portfolio
- Very positive customer response to the new Mack MP engine series, particularly improved fuel economy
- Strong dealer profitability and customer service support despite downturn
- Delivery of Mack US'10 SCR customer test vehicles underway



# Buses

- Europe
  - Consolidation and improved city bus performance
  - Synergies with Trucks in network, service and parts
- North & South America
  - Export from Mexico
  - New coach range in Brazil
  - Bus Rapid Transit in focus
- International
  - Export from India and China
- Product cost rationalization
  - Direct assembly hours cut by 50% in next generation
- Introduction of hybrids in 2009





# Volvo Penta

- Continue to build on the strong momentum for Volvo Penta IPS – Inboard Performance System
- Broadening customer offering and sales of soft products like:
  - Joystick
  - GPS based anchor
- Leverage sales of industrial engines based on the new Volvo Group engine offer
- New order-to-delivery system for increased efficiency and shorter lead times



# Volvo Aero

- Product cost reduction
  - Raw material inflation
  - Weak USD
- Manage supply chain ramp-up for 2009-2010
- Capitalize on composite knowledge
- Continue aftermarket profitability improvement



# Volvo Financial Services

- Disciplined portfolio and asset management
- Downturn management in North America
- Expansion in Region International
- Growth opportunities in Greater Europe
- Employee Development



# Priorities

1998-2007

## GROWTH 1998-2007

- **Build competitive industry positions**
  - Trucks
  - Volvo CE
  - Engines
- **Intense period of large scale integration**
  - Industrial restructuring
  - Engine consolidation
  - Common truck architecture
  - Consolidate post acquisitions in Volvo CE

# Priorities

2008 →

1998-2007

## INTEGRATION/EFFICIENCY 2008 →

- Execute industrial investments
  - Eliminate bottle-necks
  - Improve productivity
- Integration in Asia and Volvo CE
- Grow aftermarket & service and other soft products