



**VOLVO GROUP**

**CAPITAL MARKET DAY 2010**



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Capital Market Day - June 2010  
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**Leif Johansson**  
President and CEO Volvo Group

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## 2009 – A historical year

- Strategically positioned
- Well invested for the future
- Regional overview
- Business update
- Conclusions

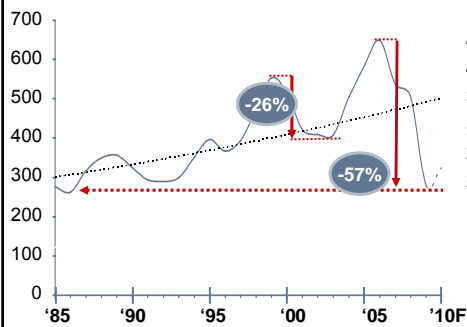


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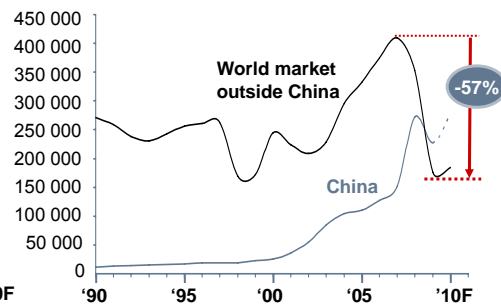
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## 2009 – A historical year Unprecedented global downturn - in speed and depth

**Heavy duty truck markets**  
EU29 + North America



**Construction equipment markets**  
GPE



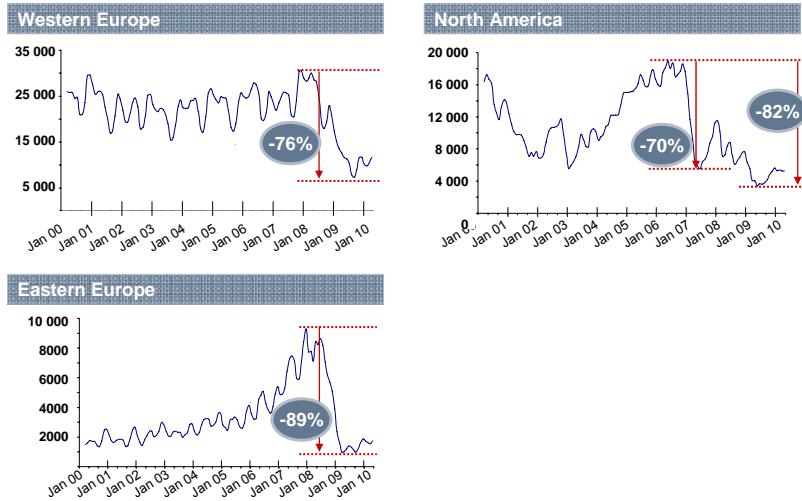
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2009 – A historical year

## Unprecedented downturn

Truck deliveries from the Volvo Group, 3months rolling



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2009 – A historical year

## Downturn management in 2009

Short-term actions presented in 2009 also implemented

### Overall objective

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

### Actions

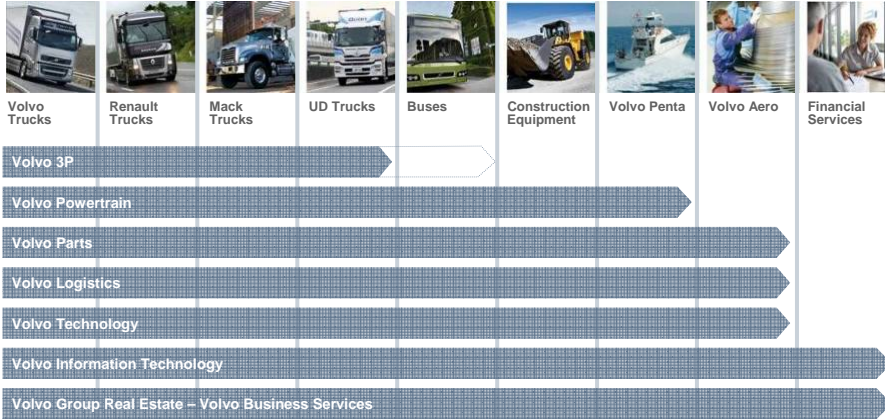
- ✓ Cutting production rapidly and drastically in Q4 2008 through Q3 2009
- ✓ Significantly reduce workforce
- ✓ Reducing operating costs
- ✓ Strict control of capital expenditures
- ✓ Prioritize R&D projects
- ✓ Release excess inventory to generate cash
- ✓ Continued under absorption of costs in coming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

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2009 – A historical year

## Combining sharp customer focus and delivery of shared global strength



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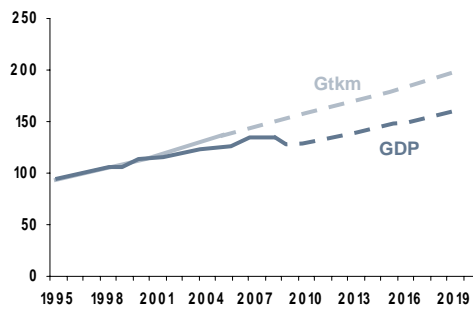
2009 – A historical year

## However, demand is expected to recover to trend

Transports and infrastructural development - A prerequisite for economic growth

Freight volumes to outgrow GDP - Europe

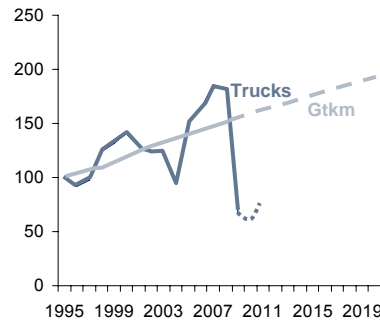
Index 1995=100



Source: Eurostat, Consensus Economics and European Energy and Transport – Trends to 2030

Freight volumes and truck registrations - Europe

Index 1995=100



Source: Eurostat, Consensus Economics and European Energy and Transport – Trends to 2030

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2009 – A historical year

## Conclusions

### 1. Transportation and infrastructure development critical for economic development

➔ Demand for trucks and construction equipment expected to return to trend lines

### 2. Volvo Group cost structure adapted to present demand

➔ Targeting a step-change in productivity through tight cost control in upturn

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2009 – A historical year

#### Strategically positioned

- Industries
- Geographically
- Services & Aftermarket

Well invested for the future

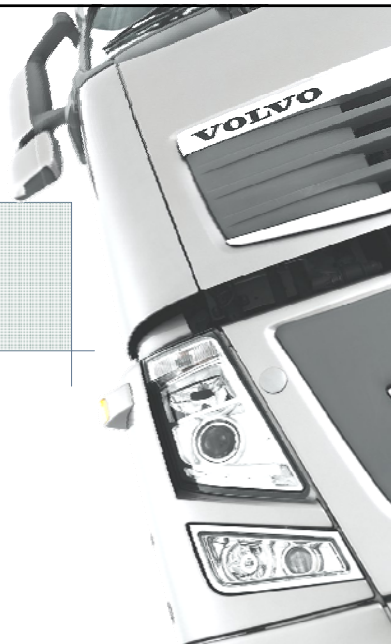
Regional overview

Business update

Conclusions

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Strategically positioned

## Sufficient size for economy of scale

- Global components and products
  - Engines
  - Axles
  - Transmissions
  - Wheel loaders
  - Excavators
- Well positioned in Western and Japanese truck segments
- Building presence in Asian truck segment through Eicher-JV

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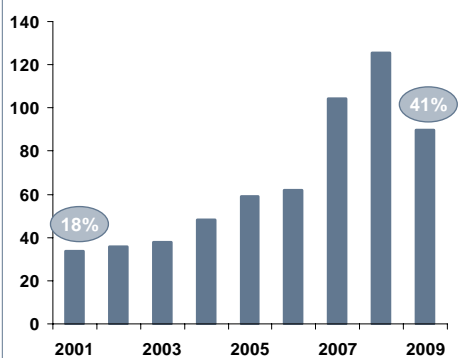
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Strategically positioned

## Successful inroads into new markets

### Sales development outside North America and Western Europe

SEK bn, % of group sales



### Organic growth

- Strong brand and distribution in Eastern Europe
- Product portfolio expansion and distribution in South America and Asia
- Grow acquisitions

### Acquisitions and JVs

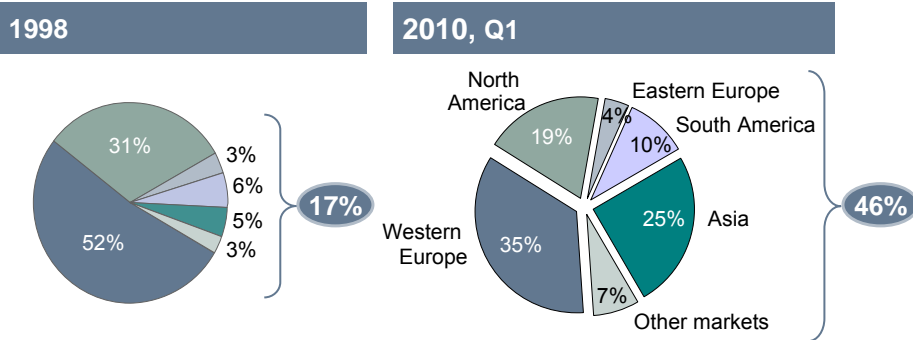
- Lingong, China
- UD Trucks
- Eicher
- Ingersoll Rand Road Machinery

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Strategically positioned

## Capturing growth in developing economies improves geographical balance



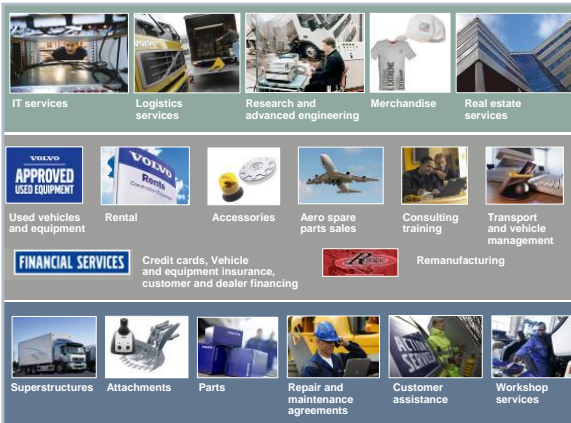
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Strategically positioned

## Service and Aftermarket products

Opportunity for growth at high margins



Share of Volvo Group sales	
2008	26%
2009	40%

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2009 – A historical year

Strategically positioned

**Well invested for the future**

Regional overview

Business update

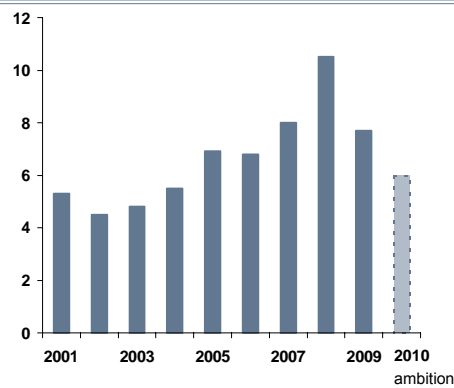
Conclusions

Well invested for the future

## Volvo Group – Modern industrial capacity

CAPEX

Investments in property plant and equipment  
SEK bn



### Today

- Completely new manufacturing footprint for HD engines with 220' unit capacity
- Modern equipment for manufacturing of axles, gearboxes and cabs
- Drive productivity as volumes improve

### Future - Building presence in Asia

- MD engine in India
- Assembly of excavators in India
- Axles and transmissions as well as excavator production in Lingong, China
- New product launches (Tier4, EU VI...)

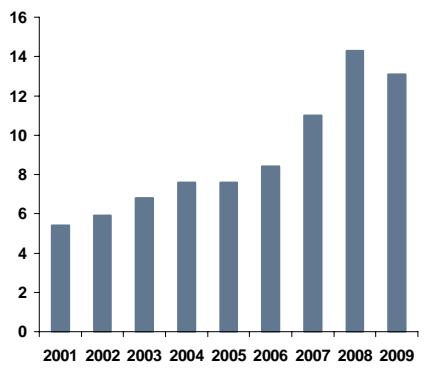


Well invested for the future

## Volvo Group – Future product portfolio secured R&D

### R&D Expenses

SEK bn



### Focus

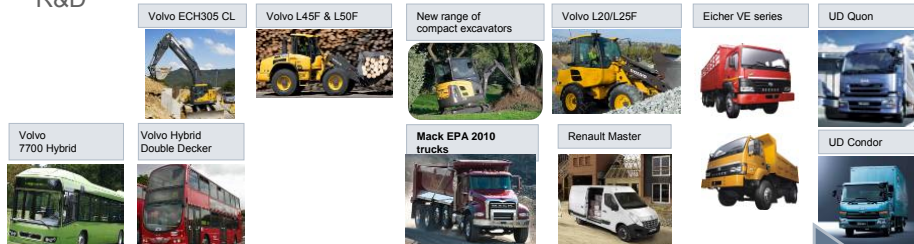
- Development and testing to secure EPA'10 engines
- Development and testing of Tier4, EU IV...
- Medium duty engine range
- Asian products
- Increase efficiency

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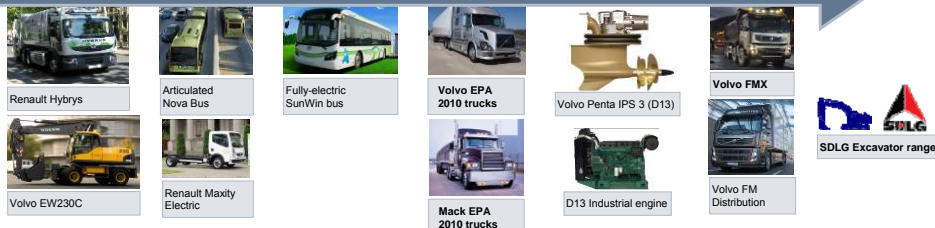
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Well invested for the future

## Extensive product renewal in the downturn R&D



### Product launches in 2009 and 2010



Well invested for the future

## Volvo Group – Well performing dealer networks

### Building quality

- Trained salesmen
- Trained service mechanics
- IT system support
- Customer financing
- OTC parts availability
- Highly efficient spare parts support
- Etc.

### Building geographically

- Russia
- China
- South America

- Came through 2009 better than expected
- Improving brand image

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2009 – A historical year

Strategically positioned

Well invested for the future

**Regional overview**

Business update

Conclusions



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## Regional focus

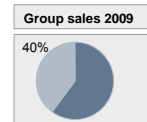
<b>Western Europe</b>	Consolidate positions & drive efficiency
<b>Eastern Europe</b>	Profitable expansion
<b>North America</b>	Improve profitability
<b>South America</b>	Profitable expansion
<b>Asia:</b>	
- <b>Japan</b>	Consolidate position & drive efficiency
- <b>China</b>	Profitable expansion
- <b>India</b>	Profitable expansion

## Regional overview Western Europe

<b>HD Trucks</b>	<b># 1</b>
<b>MD Trucks</b>	<b># 4</b>
<b>Construction Equipment</b>	<b># 1-2</b>
<b>Buses</b>	<b># 4</b>
<b>Volvo Penta</b>	
<b>Marine</b>	<b># 1</b>
<b>Industrial</b>	<b># 3</b>

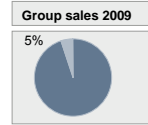
### Focus

- Introduction of products for EU VI and Tier4
- Strengthen market share in construction truck segment through new product offering
- Rollout hybrid city buses
- Launch completely new range of light trucks
- Prepare for modest growth
- Cost control in upturn

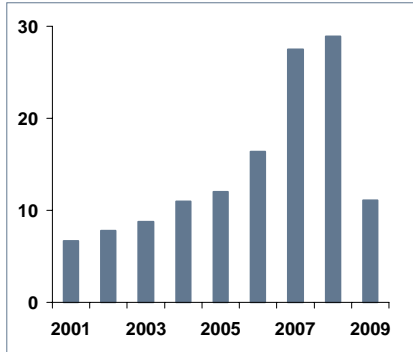


**Consolidate strong market positions  
and drive operational efficiency**

Regional overview  
**Eastern Europe**



**Sales development**  
 SEK bn



**Focus**

- Leverage on strong position in brand and distribution as market recovers in Eastern Europe
- Production ramp-up in Kaluga, Russia
- Expand distribution in Eastern Europe

Profitable expansion



Regional overview  
**North America**



- Goderich, Canada → Shippensburg, US 2009
- Asheville, NC → Shippensburg, US 2010
- Allentown → Greensboro, US 2010
- Mount Vale, New Jersey → Greensboro, US 2010
- Irving, Texas → Greensboro, US 2011

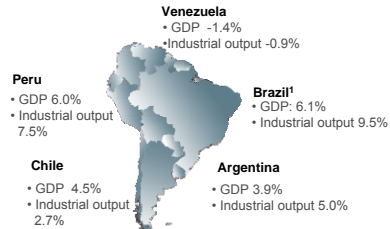
**Focus**

- Finalize consolidation of operations
- Very competitive EPA'10 engine solution
- Prepare industrial operations, including supply chain, for a potential steep production ramp-up

Improve profitability

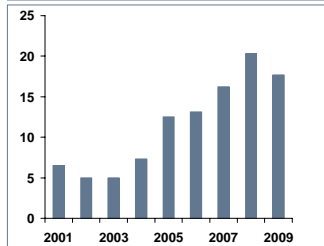


## Regional overview South America

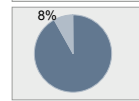


Source: Global Insight <sup>(1)</sup> Brazilian Central Bank

**Sales development**  
SEK bn



**Group sales 2009**



### Focus

- Grow excavator business
- Grow Bus Rapid Transport business
- Prepare for EU5
- Cost structure flexibility

Profitable expansion

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## Regional focus

<b>Western Europe</b>	Consolidate positions & drive efficiency
<b>Eastern Europe</b>	Profitable expansion
<b>North America</b>	Improve profitability
<b>South America</b>	Profitable expansion

### Asia:

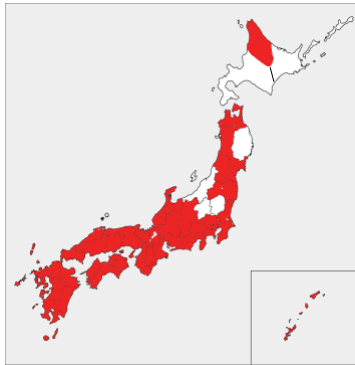
- **Japan** Consolidate position & drive efficiency
- **China** Profitable expansion
- **India** Profitable expansion

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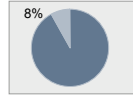
Regional overview

## Japan



UD Trucks owned, ~90% of truck sales  
6 independent dealers

Group sales 2009



### Focus

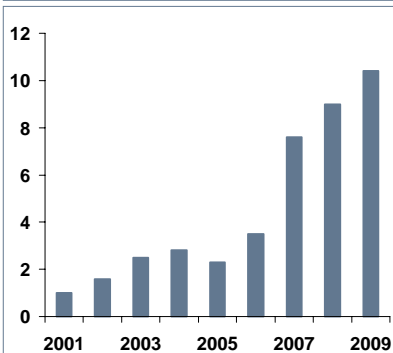
- Ramp-up production of Volvo Group engines 11L & 13L as well as a new 7L
- Launch new ranges of UD Quon and UD Condor
- Improve performance in owned dealer operation
- Up and running customer financing

Consolidate strong market positions and drive operational efficiency

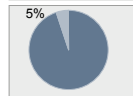
Regional overview

## China

Sales development  
SEK bn



Group sales 2009



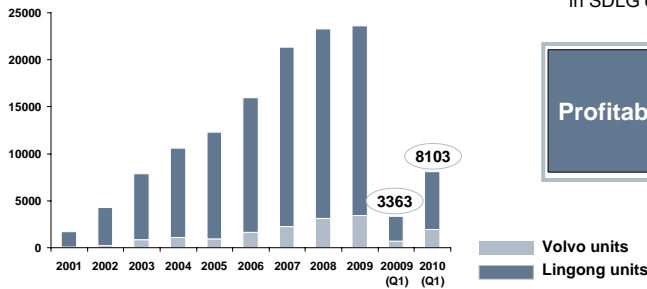
### Focus

- Leverage on excellent Volvo CE business position
- Building Group infrastructure through Business Units and customer finance
- Automotive policy slowing down Volvo Group growth in trucks and buses

Profitable expansion

Regional overview

## China – successful entry within construction equipment



**Focus**

- Lingong excavator entry (4 new SDLG models)
- Further improve product quality in Lingong to drive image and price
- Develop aftermarket support and capability in SDLG distribution

Profitable expansion

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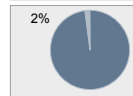


Regional overview

## India

Combining Japanese engine technology with Indian low cost production

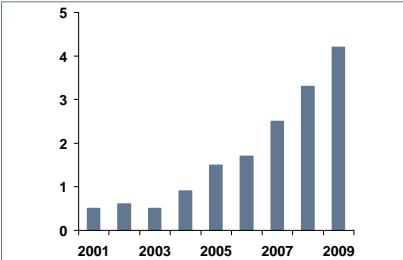
Group sales 2009



**Eicher Market Shares**

	2009	2010
MD Trucks: 7-12T	35.7%	37%
HD Trucks: >16T	1.1%	1.8%
LD Buses: 5-12T	11.2%	12.2%

**Group sales**  
SEK bn



**Focus**

- Production of new medium duty engine range in VECV – joint venture
  - Investments in fabrication and assembly
  - Secure local sourcing
  - Secure Japanese production performance and quality standards
- Grow market shares in HD trucks, YTD +250%
  - Updated range launched beginning 2010
- Excavator assembly in Bangalore
- Utilize presence of Volvo 3P and Volvo IT globally
- Leverage on strong Volvo and Eicher brands

Profitable expansion

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Regional overview

## Eicher product portfolio

**L/MCV**  
The 5-12Ton Range



**BUSES**  
21-69 SEATER



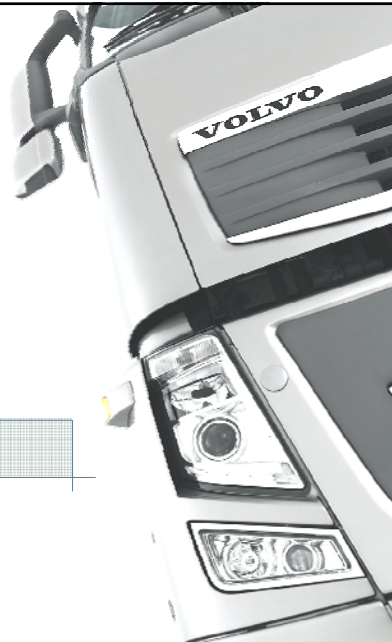
**HCV**  
The 16-40Ton Range



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- 2009 – A historical year
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- Conclusions



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## Business Update



- Weak Southern Europe
- Improved demand in Central and Northern Europe
- Improving in Eastern Europe



- Improved for highway trucks
- Still sluggish in construction equipment and construction trucks
- Improving demand for used trucks

## Business Update



- Japan improving
- China strong
- India strong



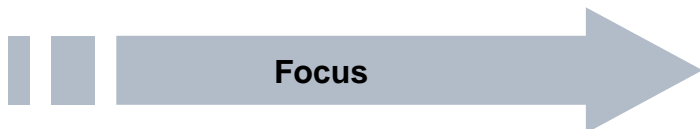
- Demand for trucks still strong
- Continued gradual improvement in construction equipment



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**Conclusions**

## STRATEGIC DIRECTION 2010-2012



Profitable Growth	Product Portfolio Management	Operational Excellence
Required scale in all business areas achieved	Capitalize on scale to optimize R&D based on shared technology and common architecture	Reduce operating cost to improve profitability
✓	Good progress	Good progress