

# **VOLVO**

## **First Quarter Results, 2000**

April 26, 2000

# Strength in Diversity

## *First Quarter Results*

- Industrial diversity paying off
- Globally driven volume growth
- Volvo CE led the quarter
- Marin & Industrial momentum strong
- Bus turn around continues
- Improved result in Financial services

## *Key Events/Outlook*

- EU Commission stops Volvo's acquisition of Scania
- Volvo acquiring RVI and MACK in exchange for 15% of Volvo's shares
- Market outlook
  - Europe - strong and stable
  - N.America - weak performance, but long term positive outlook
  - Asia - gradually improved demand

# Sales by Market Area

## First quarter 2000

	Percent of Volvo's sales	First quarter, bln		Change %
		2000	1999	
Western Europe	54	16.6	15.5	+7
Eastern Europe	3	0.8	0.6	+40
North America	32	9.7	8.3	+17
South America	3	1.1	1.0	+6
Asia	6	1.7	1.1	+54
Others	2	0.6	0.5	+20
<b>Total</b>	<b>100</b>	<b>30.5</b>	<b>27.1</b>	<b>+13</b>

- Net sales increased in all markets
- Trucks nearly doubled deliveries in Eastern Europe
- Slow improvement in South America
- Asia turning

# Sales by Business Area

First quarter 2000

SEK M	Total %	First quarter		Change %
		2000	1999	
Trucks	51	15,129	14,215	+6
Buses	13	3,838	2,688	+43
Construction Equipm.	16	4,649	4,040	+15
Marine & Ind. Power Syst.	5	1,585	1,230	+29
Aero	8	2,286	2,167	+5
Finance	7	2,206	2,098	+5
Other & Eliminations		853	634	-
<b>Volvo Group</b>	<b>100</b>	<b>30,546</b>	<b>27,072</b>	<b>+13</b>

- Revenue growth in all business areas
- Volvo CE - Strong sales in Excavator and Compact Equipment
- Marine & Ind. - Robust sales of Marine Leisure and Industrial Engines in all regions
- Buses - Sales growth led by Europe & North America
- Trucks - No signs of less demand in Europe, market development in North America complex
- Aero - Still high volume in Aerospace Components and Engine Services

# Operating Income by Business Area

First quarter 2000

SEK M	Total %	First quarter		Change %
		2000	1999	
Trucks	40	645	830	(22)
Buses	2	33	(64)	nm
Construction Equipm.	19	311	182	+71
Marine & Ind. Power Syst.	6	103	45	+129
Aero	7	110	139	(21)
Finance	25	398	167	138
Other & Eliminations		(175)	(41)	
<b>Volvo Group</b>	<b>100</b>	<b>1,425</b>	<b>1,258</b>	<b>+13</b>

- Volvo CE - Successful investments and divestments
- Marine & Ind. - Continuing positive momentum and record results
- Buses - Continuing improvement, opportunity for further development
- Trucks - N. America volumes, demand mix Europe, FL changeover
- Aero - Lower margins and price pressure within The AGES Group
- Finance - Separate reporting since Q1 2000, stable operating income development

# First quarter 2000 - Consolidated Results

SEK M	First quarter		Adjustments		Normalized		Change %
	2000	1999	1999	1998	2000	1999	
Sales	30,546	27,072			30,546	27,072	+13
Operating income	1,425	27,953		(26,695) <sup>1</sup>	1,425	1,258	+13
Inc. ass. comp. & oth. inv.	375	20			375	20	
Interest net	111	(101)			111	(101)	
Other financial items	(23)	127			(23)	127	
Income after fin. items	1,888	27,999		(26,695) <sup>1</sup>	1,888	1,304	+45
Taxes	(629)	(435)		93 <sup>1</sup>	(629)	(342)	
Minority interest	8	(7)			8	(7)	
Net income	1,267	27,557		(26,602) <sup>1</sup>	1,267	955	+33
EPS	2.90	62.40			2.90	2.20	+33
Operating margin	4.7%	103.3%			4.7%	4.6%	

1) Excl. gain on sales of Volvo Cars

- Revenue growth due to geographic and industrial balance
- Operating income improvement in Volvo CE, Marine & Industrial Power Systems, Buses and Finance
- Improved Interest net
- EPS increased sharply, +33%

# Volvo Construction Equipment

## First Quarter 2000

SEK M	First quarter		Change
	2000	1999	
Sales	4,649	4,040	+ 15%
Operating income	311	182	+ 70%
Operating margin	6.7%	4.5%	+ 2.2
ROC, 12 M	20%	15%	+ 5.4

### Major factors

- Best Q1 ever in terms of sales and operating income
- Excavator business is paying off
- New product lines launched
- Growth in compact equipment
- World market growth
- Substantial growth in Korean market

### First quarter constraints

- Declining market and price pressure on Heavy Equipment in NAFTA

### In Focus

- Order backlog in value terms 40% higher than last year
- Gain from strong markets in Europe and growth in Asia and S.America
- No extraordinary gains in Q2

# Volvo Penta

## First Quarter 2000

SEK M	First quarter		
	2000	1999	Change
Sales	1,585	1,230	+29%
Operating income	103	45	+129%
Operating margin	6.5%	3.7%	+2.8
ROC, 12M	32%	8%	+24.0

### Major Factors

- Growth in all regions and segments
- Marine Leisure and Ind. Engines driving improvement
- Cost containment contributing positively
- Fully absorbing growing R&D investments
- Returns are high and improving
- Increased capital efficiency

### First quarter constraints

- Still low demand in Brazil and Eastern Europe
- Some supplier capacity constraints

### In Focus

- Product launches
- Strong order intake
- Capacity increasing activities in progress
- Execute decided Product Development Program



# Volvo Buses

## First Quarter 2000

SEK M	First quarter		
	2000	1999	Change
Volume (units)	2,626	1,822	44%
Sales	3,838	2,688	43%
Operating income	33	(64)	nm
Operating margin	0.9%	(2.4%)	3.3
ROC, 12M	5.4%	4.8%	0.6

### Major Factors

- Strong deliveries in Europe, Mexico
- Reduced costs for purchased material
- Deliveries to Iran started

### First quarter constraints

- High industrial start up costs in Mexico, Poland
- Body building capacity
- High capital tied up in North America
- Mix; not favourable

### In Focus

- Good orderbook and continuous strong demand in Europe and North America (mainly Mexico)
- Signs of positive change in Asia Pacific, South America
- Further reductions in purchasing costs
- Strong renewed product program

# Volvo Aero

## First Quarter 2000

SEK M	First quarter		
	2000	1999	Change
Sales	2,286	2,167	5%
Operating income	110	139	-21%
Operating margin	4.8%	6.4%	(1.6)
ROC, 12M*	20%	24%	(4.5)

\* excl. Aviation Support Services

### Major Factors

- Continued revenue growth
- Lower margin
- F414/GE agreement signed
- Divestment of Truck Engine Parts Manufacturing

### First quarter constraints

- Increased competition and pressure on margins within The AGES Group

### In focus

- Take advantage of structural opportunities
- Capital Management
- Exploiting synergies in manufacturing

# Volvo Trucks

## First Quarter 2000

SEK M	First quarter		
	2000	1999	Change
Volume (units)	20 226	19 799	2%
Sales	15,129	14,215	6%
Operating income	645	830	-22%
Operating margin	4.3%	5.8%	
ROC, 12M	27%	28%	

### Major Factors

- Strong markets in W. Europe
- Industry inventory problems in N. America
- Reduced line rates in N. America
- Increased deliveries in Asia and Eastern Europe

### First quarter constraints

- Lower deliveries in N. America
- FL change over
- Capacity constraints in Europe
- Change of demand mix in Europe

### In focus

- Capacity and sales mix Europe
- Increased sales in Asia and E. Europe
- New products in Europe (Volvo FL) and N. America
- Market development in N. America

## Volvo to join forces with RVI and Mack

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- Consolidated strength in Markets and Products
  - Strong industrial logic
  - Positive financial terms for Volvo shareholders
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## Merger Logic

Global Position - Volvo and Renault VI trucks/Mack



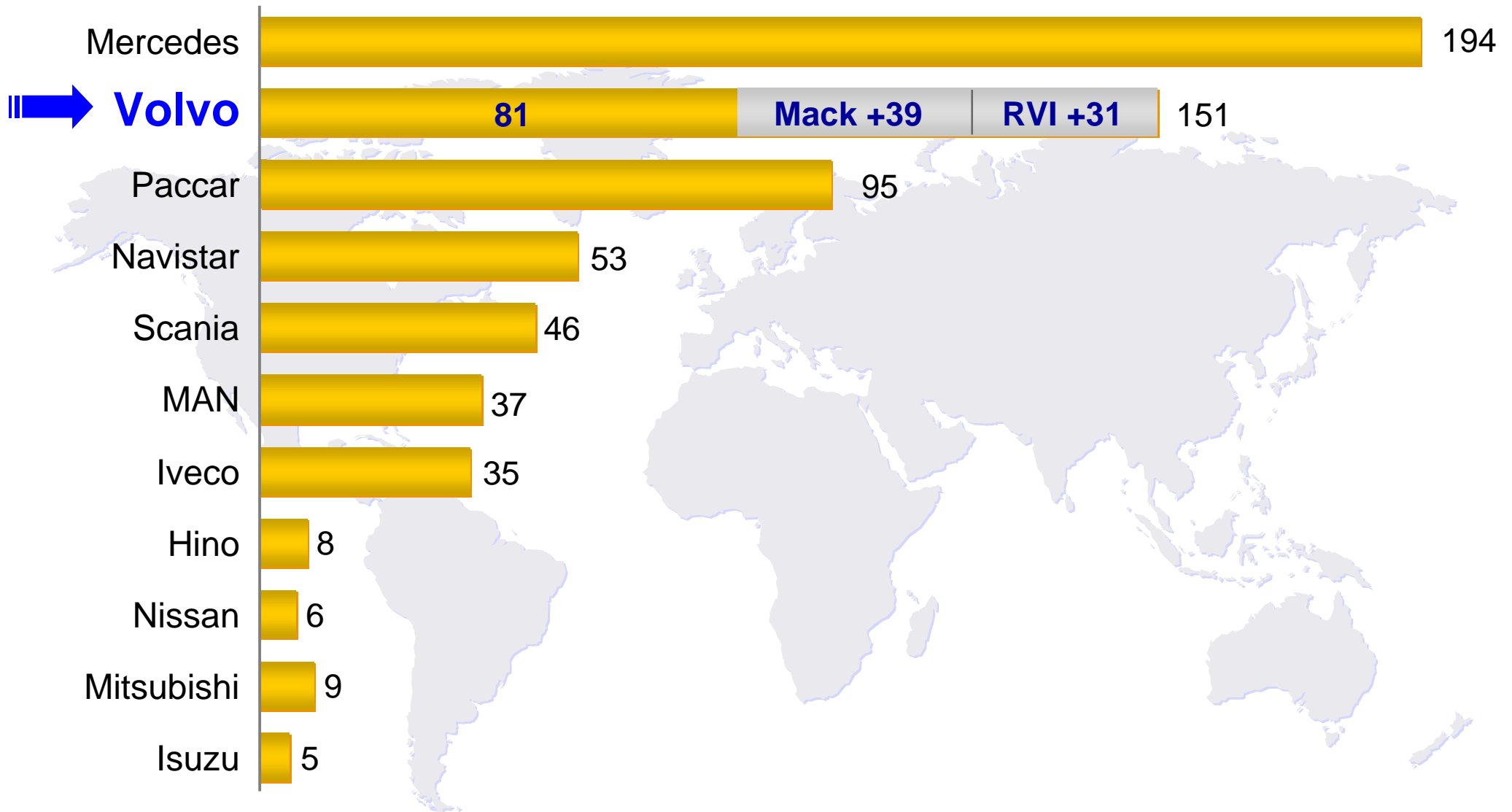
No. 1 in Heavy Trucks in Europe

No. 2 in Heavy Trucks in North America

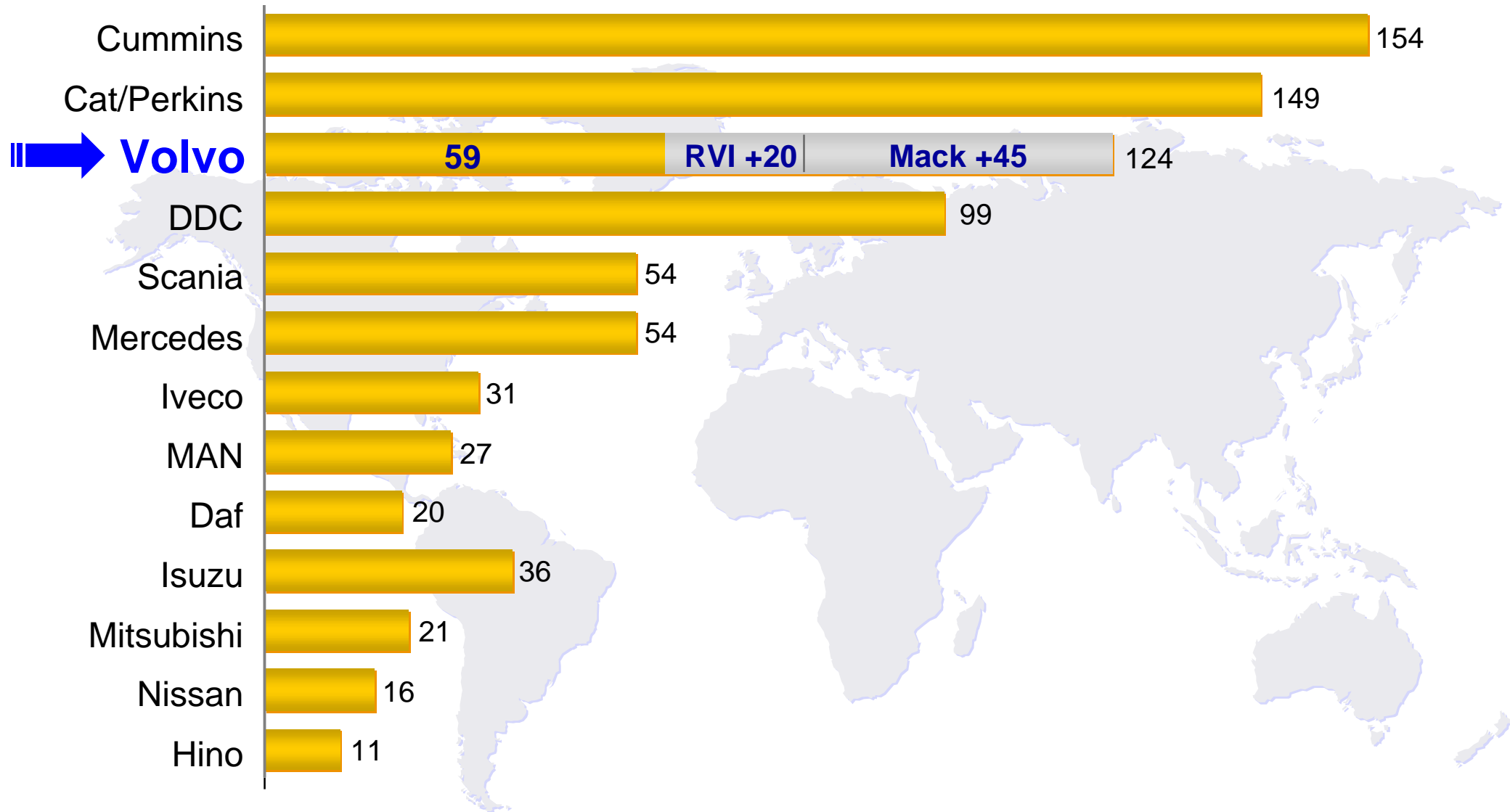
No. 2 in Heavy Trucks in the World

No. 3 in Heavy Diesel Engine in the World

# World Heavy Truck Production 1999



# World Heavy Diesel Engine Production 1999 14



# Merger Logic

Markets and Products

## *Mack in North America*

- Strong position in the vocational segments
- Strong brand image
- Strong dealer network
- Integrated engines - unique in North America
- Strong export into South American countries and Australia

## *Renault VI trucks in Europe*

- Strong position in southern Europe
- Strong brand image
- Strong dealer network
- Newly launched heavy and medium trucks
- Strong presence in northern Africa



# Key Figures 1999

	RVI trucks/ Mack	Volvo Trucks	Volvo Group incl. RVI/Mack
Sales (euro M)	6,000	7,900	20,200
(SEK M)	53,000	69,500	178,000
Op. Income* (euro M)	217	443	902
(SEK M)	1,900	3,900	8,000
Op. Margin (%)	3.6	5.6	4.5
No. of Employees	23,000	24,100	76,500
Sales units heavy trucks	70,000	81,200	151,200
Sales units medium trucks	9,000	3,800	12,800

\*) Adjusted to Volvo accounting standards  
Average exchange rate 1999: 8.82 SEK/Euro

# Pro forma Key Financials

## Volvo and RVI

<b>Jan-Dec 1999<sup>1</sup>, SEK bln</b>	Volvo	RVI	Adjustment	<b>Volvo Group incl. RVI</b>
Sales	125,0	53,0		178,0
Operating income	6,6	1,9	(0,5)	8,0
Operating margin (%)	5,2	3,6		4,5
Net income <sup>2</sup>	5,5	1,2	(0,9 <sup>2</sup> )	5,8
EPS	12:40	-		13:10
EBITDA per share <sup>3</sup>	22:20	-		29:60
<b>Dec, 31 1999, SEK bln</b>				
Net financial assets (debt) <sup>4</sup>	31,0	(2,0 <sup>5</sup> )	(14,0-18,2)	10,8-15,0

1) Payment through share buy-back programs in Volvo, total 15 percent. Goodwill estimated to SEK 10 bln, amortised over 20 years.

2) Adjusted for non-recurring items, goodwill, interest income and taxes.

3) Excl. sales finance and non recurring items

4) With a range of premium up to 30 percent on repurchases shares in Volvo.

5) Including pension and health care liabilities of SEK 5,2 bln. Estimated synergy effects not included

# Cost savings

*Synergy drivers:*

## Common Global organisation

- Purchasing
- Powertrain
- R&D
- Finance

## Synergies

*After 2 years*

Purchasing	50%
Powertrain	25%
Assembly	} 25%
Distribution	
Support	

**Total approx. SEK 3,500 M (Euro 420 M)**

**Additional savings long term:**

**Approx. + SEK 3,000 M (Euro 360 M)**

# Summary

## *Q 1 results -D iversity paying off*

- Global expansion in all businesses
- Industrial diversity - stable operating income
- Financial Services increasing growth and profits
- Strong increase in EPS

## *Volvo acquiring RV I and M A C K*

- EPS increase from start and substantial future potential
- Premium in buy-back program to existing shareholders
- Strong industrial logic
- Global growth opportunities