110406 Leif Johansson – AGM speech

INTRODUCTION

Dear shareholders, ladies and gentlemen

2010 was a good year for the Volvo Group. Last year, you heard me talk about minus figures and radical action packages. Today – and this is very gratifying – the situation is very different. Last year, sales were almost SEK 265 billion, earnings totalled SEK 18 billion, cash flow was record high and net indebtedness was in line with the Group's target. During the past year, the share price surged by 93 percent and we were able to welcome back many of our employees who were compelled to leave us during the crisis. As I already noted, it was a very good year for the Volvo Group.

I feel most of us are surprised by the speed at which the recovery occurred. By way of example, I can mention the third quarter of 2008 when truck order bookings in Europe were an incredibly low 115 vehicles. The corresponding figure for the final quarter of 2010 was 26,000 vehicles. You need hardly calculate the percentage increase to understand the enormous fluctuations we're talking about. Of course, the downturn we experienced was unique, unparalleled in modern history – in terms of both how deep and fast the market plummeted. In a normal recession, demand for new products falls perhaps 25 percent over two years. The financial crisis meant that demand plunged by 50 percent over just two quarters. This was a crisis that showed no sign of normal cyclicity.

The reason for the sharp upturn is to be found partly in the fiscal and monetary policy measures that helped stabilize the financial markets, but also because countries such as China, India and Brazil, with their robust domestic markets, progressed through the crisis virtually unscathed. Today, these economies are engines in the global economy, fueling exports from the EU and elsewhere. Add to this a remarkable difference in terms of the confidence in the economic system. Take our own customers, for example, today they are daring to invest in new trucks and construction equipment. This was certainly not the case in autumn 2008.

I'm occasionally asked how long I think it will take to return to the pre-crisis levels. The only answer to this is that nobody can say for certain. What we can say in the present circumstances is that – in our mature markets – we expect to approach the so-called trend-line, meaning that we would find ourselves in more normal conditions, but not in a boom. However, we must take into account the degree to which the market reacts to the contraction awaited in the West. Following expansive fiscal and monetary policies, with tax cuts, stimulus packages and so on, the entire West is facing a radical debt clearance in an effort to deal with substantial budget deficits.

What did we learn from the crisis? Well first and foremost we – the Volvo Group – must be very well prepared for future fluctuations in economic conditions. Better than we were previously. As you know, we are active in a cyclic industry in which upturns and downturns are natural – movements of 15-20 percent in either direction are not unusual, and we'll see them frequently in the future. For our part, this means that we must be able to rapidly adjust our industrial system to match customer demand. Flexibility is indispensable.

Another, perhaps more pleasant lesson from the crisis is that our core values withstood the test admirably. Safe and environmentally correct products have always had their benefits in our customers' opinion, too; but amid tougher conditions they are increasingly compelled to forego what is regarded as not being absolutely necessary – including environmental correctness and safety.

This was not the case this time around. Our core values were viewed as self-evident for our customers and society at large. From that we can draw two conclusions: we have what customers and society want – and we have that which is part of the future. Thanks to foresighted and farseeing predecessors who focused on safety and environmental correctness long before these values were commonplace, the Volvo Group has a better position than ever before. Our products and services are perfectly placed.

The world as it looks today suits the Volvo Group. We must remember that it is not so long since Eastern Europe and large regions of Asia were closed markets, as were considerable portions of Latin America, too. Today, as you are aware, the situation is completely different. In pace with countries opening up, opportunities have been created and we have been able to grow in pace with our business environment. Thanks to the fact that we have recognized the change and capitalized on it, we currently have the volumes, size, strength and, not least, the ability to control our own development.

Our strategy is to grow organically and through acquisitions. A strategy that we feel is correct and appropriate. Since we disposed of passenger car operations, the Volvo Group has grown by SEK 200 billion and we are currently one of the largest players in our industries.

What, then, do we see ahead and in which direction is development currently moving? Firstly, we note how Asian countries continue to grow and gain an increasingly prominent role in research and development. We also note that the global economy no longer orbits around individual centers such as Europe and North America. We are living in what is referred to a multi-polar world with a number of new centers, such as Asia and Brazil. This development favors the Volvo Group. We already have excellent positions worldwide and we are gaining an ever-increasing number of domestic markets. We have a robust, ample centre in Gothenburg, as well as in other locations – as you will soon see.

We are also going through a green revolution with stricter legislation, a transition to renewable energy sources and higher oil and commodity prices. For us, this entails continuous product improvement, not least in engine operations, in which continuous adjustment is in progress to meet increasingly stringent emissions legislation. Let me state clearly that strict, well-conceived legislation is good for the Volvo Group – that this is something to which we are positive. As noted, we have solid skills in the environmental area that give us advantages over our competitors.

Our point of departure is very favorable for the future. We are a well-invested group that is established both in emerging and mature markets.

Let us look a little closer at a number of countries that are very attractive for us. We'll begin with what are referred to as the BRIC countries – Brazil, Russia, India and China – which are currently the scene of the greatest growth in transport and construction.

GEOGRAPHIC SPREAD
INDIA

VIDEO

India: We've had a position here for almost 15 years. During this period, the country has changed radically and is now a high-tech nation with high economic growth. Growth in India during the past year alone was 8.4 percent.

An extensive expansion and improvement of the country's infrastructure is currently in progress. The plan is to construct a phenomenal 20 kilometers of highway everyday, along with even larger stretches of ordinary conventional roads. As you can understand, this offers enormous potential for the Volvo Group. Just last year alone, the market for heavy trucks rose 69 percent to more than 211,000 vehicles. By the way, this is just below what we expect will be the demand for trucks in Europe during the year ahead.

Compared with our competitors, we were early in establishing a position in India and we currently have a developed structure and strong market positions – due greatly to the joint venture company established in 2008 with the truck manufacturer Eicher Motors. You saw the beautiful red truck in the film, well that was an Eicher. Combined, we have 37 percent of the market for medium-duty trucks and more than 12 percent of the bus market, making us the third largest player in India in the commercial transport industry.

In current conditions, a number of strategic investments are in progress to meet rising demand. In Pithampur in northern India we are now building a new plant for the production of our medium-duty engine. The engine was developed by Volvo Powertrain in Japan and combines Japanese quality, European leading-edge technology and Indian production costs. Overall, the joint venture company is investing a half billion kronor in the project, which will give us a complete plant for the processing and assembly of the new medium-duty engine. The engine will be introduced into the Group's trucks and buses worldwide in the coming years. In Pithampur, we are also investing in a new lacquering plant, new assembly lines, a new facility for cab manufacturing and a new test center.

We are also expanding the manufacture of construction equipment in Bangalore in southern India. The investment – which totals SEK 144 million – permits the manufacture of excavators designed for the domestic market.

At this stage, let me remind you that the expansion abroad also favors our operations in Sweden. Three new Volvo jobs in India, for example, simultaneously entail one new Volvo job here in Sweden. A job that otherwise would not exist.

CHINA

Let's move on to China, where – in particular – construction operations have grown sharply in recent years. The global market for construction equipment amounted last year to 745,000 units, for which China accounted for almost 50 percent. That undoubtedly makes China the world's largest market for construction equipment. Last year, 200,000 wheel loaders were sold in China; the equivalent figure in Europe was 17,000.

A point that perhaps not all of you are aware of is that Volvo is a leading manufacturer in China – with our company Lingong we are now the third largest manufacturer of construction equipment. Just last year alone, we reported sales of SEK 15.7 billion for construction equipment operations in China.

These are the comments of a few of our Chinese customers.

VIDEO

Finally here is a voice from the city of Ningbo, south of Shanghai, with its population of six million, which is served by 800 of our buses.

The construction pace in China is almost incredible – ports, housing, hospitals and infrastructure; yes, even entirely new cities are taking shape. Urbanization is moving at a very fast pace. Already in five years' time, it is estimated that 50 percent of the Chinese population will live in major metropolitan centers. As you can imagine, this development offers good growth potential for the Volvo Group.

Higher demand is currently most visible in the construction equipment area. Traditionally, the construction industry in China has more or less exclusively used wheel loaders, but wheel loaders are increasingly being replaced by excavators. During 2010, Volvo Construction Equipment took a number of initiatives to meet higher demand. Lingong –

under the SDLG brand – commenced the production of four new excavator models. They are presented here in this photo.

In addition, a new lacquer unit, a new axle plant and a new facility for gearboxes are in place at our plant in Linyi in the province of Shandong. VCE also commenced the building of a very exciting technology center in Jinan, a city that attracts many young, well-educated Chinese. The center will focus on the development of products and components for BRIC countries and will encompass both VCE and Lingong.

The situation for buses and trucks in China is different. As opposed to the construction sector, this area is governed by State regulations, referred to as the automotive policy, which prevents us from determining ourselves how we shall act. Today, we are compelled to produce trucks and buses in cooperation with a domestic partner in a joint venture company in which we are limited to a maximum 50-percent ownership. We are one of the few Western vehicle manufacturers that have such cooperation in place – in our case, with Dongfeng Motor Group in truck operations and with Shanghai Automotive in the buses area.

Allow me also to mention Volvo Financial Services, which has been present in China for a few years, and is now making a major contribution to our sales growth in China and our profitability.

In brief, we can conclude that we have succeeded rather well in China and India. We have a favorable industrial structure, strong brands and relatively good market shares.

What we must do now is to strengthen our positions with our partners and dealers, further develop the aftermarket business and, of course, also develop competitive products. We've only seen a fraction of the potential that Asia can offer.

BRAZIL

Let's move on to Brazil, which for many years has been referred to as the next big emerging market – and which has now, de facto, arrived. The truck market alone grew 64 percent last year and amounts to about 110,000 vehicles, which is almost as many vehicles as sold in the US. Like China and India, Brazil is undergoing what is deemed to be a historical transformation. In recent years, it is estimated that 20 million people have advanced from poverty to being medium-income earners. This entails higher consumption and a rapidly developing transport requirement both for goods and people. The Brazilian government is currently investing the equivalent of a thousand billion Swedish kronor in improving the currently under-dimensioned infrastructure.

Today, we have a very smoothly functioning operation in Brazil. As you see in the photo, a number of our business areas and business units are represented in the joint company, Volvo do Brasil. The fact that we moved into Brazil at an early stage means that we have a favorable structure with manufacturing, spare parts inventories, IT systems and development units. In addition, we have a highly robust dealer network – for trucks, business and construction equipment alike.

We're also very strong in Brazil in terms of our brand. Our vehicles represent quality, efficiency and sustainability. Not least in bus operations through our proprietary Bus Rapid Transit system, which offers efficient travel in terms of the environmental, economic and time perspectives. BRT is currently operating in the city of Curitiba, as well as in cities in Mexico, Chile and Colombia - and to a certain extent here in Gothenburg on trunk lines. There is considerable interest in BRT and we see favorable potential for higher sales in the years ahead.

Allow me also to mention Volvo do Brasil's reputation as an employer. Over four consecutive years, we have been ranked among the country's ten best employers, which is very gratifying. Personally I believe that a major contributory reason for this is the enormous commitment that our Brazilian employees show for Volvo as an employer, but also for what the company can do outside of regular operations. Among other activities, many employees are involved in the orphanage that the company runs outside Curitiba, which offers poor and exposed children the opportunity for a good start in life.

Looking ahead, we see favorable long-term prospects for continuing excellent development in Brazil. Higher demand for the country's commodities, its oil resources and Brazil's strong position as a food producer are just a few of the positive reasons that the Volvo Group views Brazil as a continuing favorable market.

RUSSIA

And now on to our operations in Russia. As in other emerging markets, there is a gradual shift in population from the countryside to the major cities. Labor is moving from agriculture to industry and the services sector, and a prosperous middle class has emerged – notably in Moscow and St Petersburg. This entails an ever-greater need for well-organized cities with functioning infrastructure, which in turn means very favorable opportunities for the Volvo Group.

Product-wise, Russia is very similar to Scandinavia and is viewed as being our hinterland. We have very similar conditions, in the form of long distances and, occasionally, tough weather and road conditions. This has been an advantage for us, and by means of our lengthy experience from Scandinavia, we have developed a good position in the Russian market.

We currently have a well-functioning structure, with proprietary production in Kaluga and highly developed service and dealer networks. In the best of worlds, I feel that Russia could in the future be a new Brazil for the Volvo Group. By that, I mean a larger portion of manufacturing on site, thereby getting closer to our customers, cutting lead times and – not least – avoiding the prevailing customs barriers.

NORTH AMERICA

Let's now leave the emerging markets and conclude with the very exciting development that we are witnessing in one of our mature markets, North America - traditionally the Volvo Group's most important market. In recent years, we've noted how the percentage share of our total sales has declined, but now North America is rebounding and is again on the way towards accounting for 20 percent of our sales. Last year, the total market for heavy trucks rose to more than 142,000 vehicles, or an increase of 20 percent from 2009.

For the first time in a number of years, conditions are beginning to look really promising in North America, and we note that both old and new customers are prepared to invest again. In particular, there is increasing demand for trucks designed for long-distance operations and regional distribution. The average age of heavy trucks in North America is very high and, thus, there is an acute requirement for the replacement of old vehicles. The overall market for heavy trucks is expected to rise 55 percent during the current year.

Moreover, the trend is also looking increasingly better in the construction equipment area. Following many years of decline, the market last year rose 31 percent – although, however, from very low levels. The market for construction equipment is expected to rise by an additional 20 to 30 percent during the current year.

In a bid to raise profitability and be less sensitive to currency movements, we are currently increasing the proportion of the domestic production of wheel loaders, dumpers and excavators. We are also organizing operations in a single location – Shippensburg – which will offer us shorter lead times to suppliers and help us come closer to our customers.

Finally, allow me to highlight the highly successful work involving our new engines that meet the latest and very tough emission requirements of almost zero for particles and nitrogen oxides. They were introduced in the US and Japan last year and elicited a very positive response from customers. To meet the tougher emissions legislation in the US, Europe and Japan, we elected to incur relatively high R&D costs also during the financial crisis. Today we can see that this move has paid off in that we have highly competitive products on the market.

As you can understand, recent years have entailed major changes for the Group. We have coped with a financial crisis and at the same time prepared ourselves for higher demand. This has involved and continues to involve very difficult but also very enjoyable tasks in all our business areas and business units. I would like to thank all employees for their excellent contributions.

BUSINESS AREA TRENDS AND EARNINGS

OVERALL GROUP

Let’s look at earnings for 2010. As noted, the recovery after the financial crisis moved relatively rapidly. The underlying factor was higher demand from our customers, as well as the fact that we invested considerable effort and energy in implementing extensive rationalization programs and cost savings throughout the Group. In terms of figures, net sales rose by 21 percent from the preceding year to SEK 265 billion. Operating income totaled SEK 18 billion compared with a loss of SEK 17 billion for 2009.

As the President of the corporation it is, of course, satisfying that we again have stable finances. During the crisis we made a decision to unilaterally reduce our liabilities and reverse the negative cash flow. Today, we can see that our efforts have borne fruit. Higher profitability, combined with a strong cash flow of SEK 19 billion for the full year, means that our indebtedness at year-end was down to 37 percent of shareholders’ equity - which is in line with our goal. In retrospect, it feels positive that we managed to reverse the trend without having to turn to shareholders for assistance.

We are now focusing primarily on coping with the demand we see in our markets by cooperating with our suppliers and dealers in handling a continuing volume upturn while also maintaining cost control. As I noted earlier, flexibility in the industrial system will be indispensable in coping with upturns and downturns in the future. Without excessively protracted processes, we need to be able adjust our capacity to demand.

We’re also intensifying our efforts ahead of forthcoming product launches. As you are aware, in recent years we have devoted considerable time, energy and capital to R&D to develop new products and services. During the crisis, we dared to be aggressive, enabling us today to have the broadest as well as the most competitive product range ever.

These days we are asked as to how we view the development in Japan after the earthquake disaster and the effect that it had. First and foremost, our thoughts are with the victims and their families and all the others who in some way or other were affected by the catastrophe. It has been an indescribable loss for many. I am genuinely impressed by how well the situation was handled by the Japanese authorities and how – with tremendous competence and hard work – they are attempting to get the country back on its feet again. The Volvo Group is doing all it can to help with the rebuilding and getting our own operations started again.

TRUCKS

Let’s now turn to truck operations, which during 2010 were marked by a sharp increase in demand on the Group’s mature markets such as Europe and North America – with the exception of Japan – and a continuing stable trend on emerging markets such as Asia and Latin America.

In terms of figures, net sales rose 20 percent to more than SEK 167 billion. Operating income improved to more than SEK 10 billion.

Our assessment in current circumstances is that the favorable trend will continue and that the overall market for heavy trucks will increase in Europe and North America alike. Also, there are no indications other than that the positive trend will continue in our other markets worldwide.

Looking ahead, the focus is on issues relating to higher productivity and efficiency. Apart from UD Trucks, the truck companies are experiencing higher demand, resulting in greater pressure on the industrial system. This is, of course, rather positive but requires strict cost control and close cooperation with our suppliers and dealers. We are focusing also on future product launches ahead of the new emissions legislation – Euro 6 – in Europe.

BUSES

And now on to Volvo Buses, which has completed highly favorable internal programs to reduce costs and rationalize the product offering and production. During the year, the Volvo 8900 was launched as a replacement for two earlier city bus models. Production of the new bus is based on a module system and can be manufactured both in Sweden and Poland, thereby raising flexibility.

During 2010, Volvo Buses took a number of key steps in the environmental area. In May, series production started of two hybrid bus models – the B5L hybrid double-decker and the 7700 hybrid. Series production means that Volvo Buses has laid a crucial base for future sales in the city bus segment.

CONSTRUCTION EQUIPMENT

Last year, I stated that Volvo Construction Equipment was the business area that was most impacted by the crisis. 2010 saw a reverse in the trend and VCE was the fastest growing business area in the Group. Moreover, profitability increased sharply. The underlying factors were higher demand in almost all markets and excellent internal efficiency programs. Net sales rose 51 percent to almost SEK 54 billion. Operating income totaled more than SEK 6 billion.

The challenge ahead will be to meet higher growth in Europe, North America and Asia. And to ensure that the production system is adapted to meet customer demand, while also ensuring that costs do not take off.

Allow me also to say a few words about VCE's wider product range. During the year, a number of wheel loader and excavator models were launched. The photo shows a number of attractive examples. In addition, a number of larger wheel loader models were standard-equipped with the Optishift gearbox, which reduces fuel consumption by up to 15 percent.

Also during 2010, VCE received key certification for its engine operations from the environmental protection authorities in the EU and US.

PENTA

Volvo 's profitability increased despite the weak market for leisure craft. During 2010, the global recession impacted severely on the marine sector, which was marked by a cautious approach among consumers.

However, the market for industrial engines has strengthened. I guess that you associate Penta engines primarily with the large boat shown in the photo. That's correct. Penta's engines drive power units and pumps in boats of this type. But you will also find our engines in trucks that handle containers, as shown on the left; and there are almost certainly a couple of industrial engines in the large crane and in the tug on the right.

Nowadays, industrial engine operations account for about 40 percent of Volvo Penta's sales. For the future, the ambition is to further broaden the range to handle applications in the mining and construction industry, for example, and in emerging markets in Asia and Africa.

For the year as a whole, Volvo Penta's net sales totaled almost SEK 9 billion. Operating income amounted to SEK 578 million.

AERO

And now to Volvo Aero, which is playing an increasingly important role in the aircraft engine industry. Currently, Volvo Aero is involved in all major projects that are expected to gain importance in the development of tomorrow's aircraft engines. The photo shows an Airbus that will be commissioned two years from now. In this case, Volvo Aero is responsible for the design, development and manufacture of the engine's intermediate housing.

In recent years, Volvo Aero has elected to focus increasingly on its core business, that is, the development and manufacture of components for aircraft and rocket engines. As part of this concentration on core business, the US subsidiary Volvo Aero Services was divested during the year.

In terms of figures, Volvo Aero's net sales declined slightly to just below SEK 8 billion in 2010. Operating income totaled SEK 286 million. The financial results were affected by a relatively lower dollar exchange rate and the sale of Volvo Aero Services.

FINANCIAL SERVICES

Lastly, a few words about customer financing operations, Volvo Financial Services, or VFS. Credit losses have fallen in pace with ever-better economic conditions. The payment capacity of our customers and dealers has strengthened and we currently see fewer late or suspended payments or repossessed vehicles. The gradual improvement led to a strengthening of profitability during the year, and we see a continuing positive trend ahead.

CONCLUSION

Dear shareholders – dear colleagues. April 30th 1997 marked my first day on the job as Volvo's President and CEO – and just as now at the Annual General Meeting. The 31st of August will be my last. So this is my last AGM, and undoubtedly a somewhat emotional event. In one way, it all passed too quickly, these more than 14 years; and, naturally, a fantastic amount of things have happened in various ways.

Frequently in recent months I've been asked how it feels to leave Volvo. As they say: Farewell is bitter sweet. In my case the sweet portion is the fact that I will have more time for my family and friends, in addition to stimulating new working tasks outside Volvo. The bitter portion is the sorrow of bidding farewell to all my fantastic colleagues in the group; all these interesting and talented people that I have met and worked with worldwide in my role as President and CEO.

The loss of the work team in which we jointly created something that was initially thought to be impossible. It was the satisfaction from teamwork that made every day on the job a good day: An exciting, interesting and satisfying day.

Of course, it's been tough occasionally – really tough. Especially during the financial crisis, of which we are beginning to see the end. I have frequently woken up early in the morning and pondered as to whether or not I had made the right decision. But I have never wished for any other job. Leading the Volvo Group is a privilege.

And companies are never complete. There are continuously new challenges, and new opportunities. I am not a historian but a company executive. A slightly bad professional memory can be a good characteristic when I think of the mistakes I made, but there is also the happiness in knowing that we now have a large Volvo Group that is well poised to capitalize on the growth in many markets in the future.

Now I look forward to monitoring the Group from a greater distance. And I will do so intensively. We have a new intelligent and energetic President and CEO on the way in, in the form of Olof Persson. Olof already knows that it is a fantastic company with wonderful employees that he will take over in September. He will perform his role excellently.

These have been fourteen fantastic years. I want to thank all my colleagues for a wonderful journey. And to the Board of Directors and you shareholders, I thank you for your confidence in me.