

**VOLVO**

Third Quarter 2006  
Press Conference, October 24, 2006

# Highlights

## Third Quarter

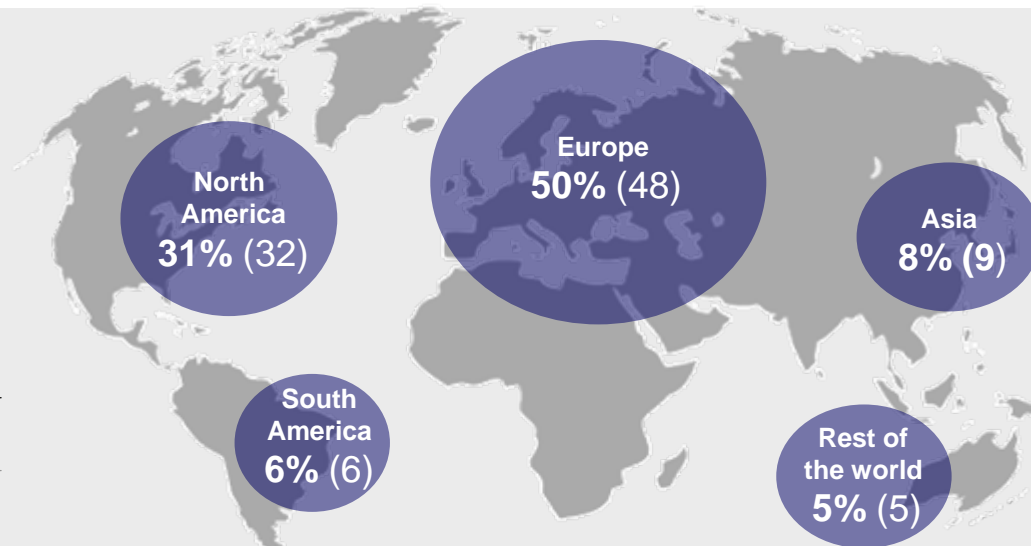
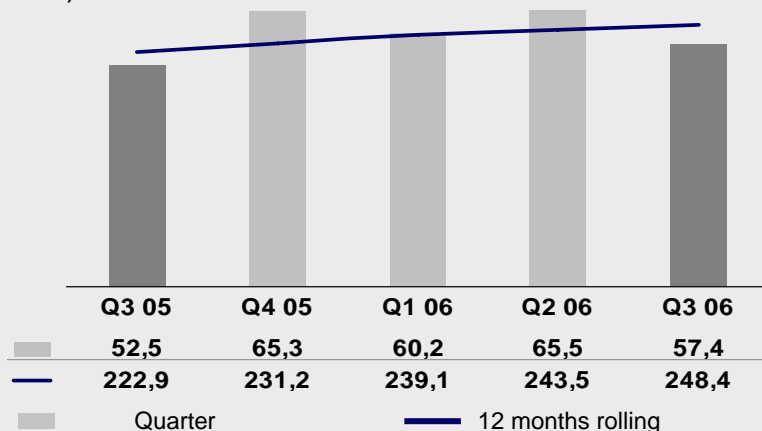
- Business environment
  - European market stronger than expected
  - Prebuy effect in North America
- Sales increased by 9%
- Another quarter with strong profitability
  - Adjusted operating income up 24% to SEK 4,972
  - Adjusted operating margin at 8.7%
  - Return on equity at 19.3%
- EPS up 34% to SEK 9.70
- Increased ownership in Nissan Diesel and a 70% equity investment in Lingong
- New financial targets

## In Focus Going Forward

- Manage product- and production change-over
- Capitalize on new products
- Manage downturn in US truck market

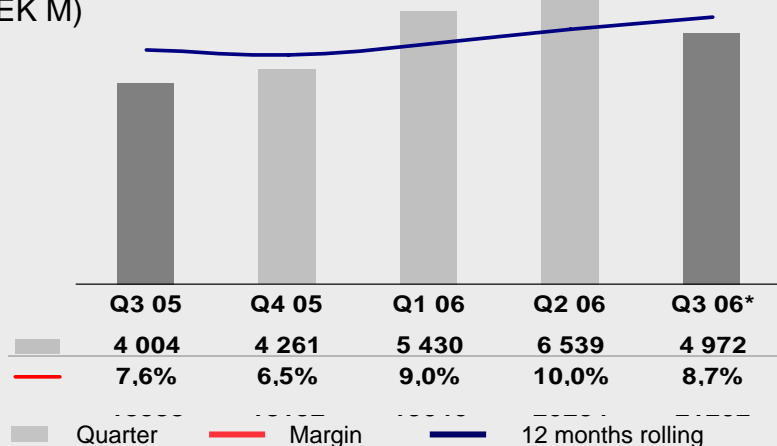
### Net sales

(SEK bn)



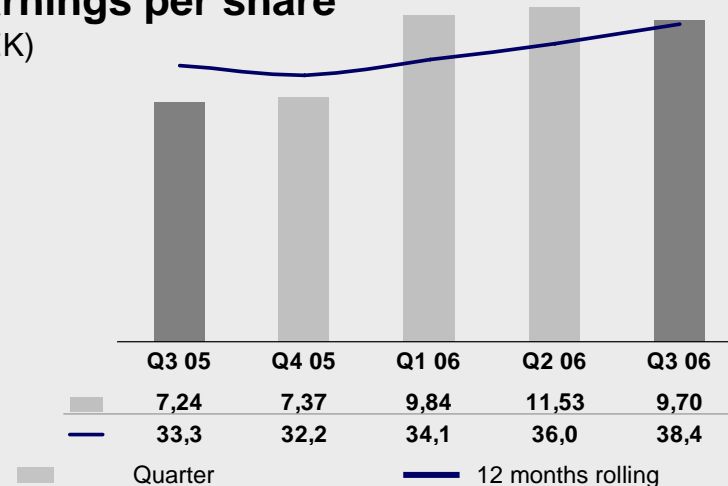
### Operating income

(SEK M)



### Earnings per share

(SEK)



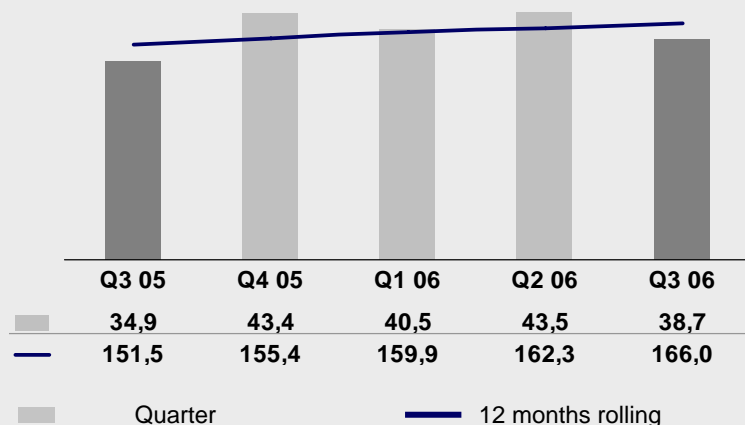
\* Excluding goodwill adjustment of SEK 1,712 due to release of valuation reserves for taxes

# Trucks

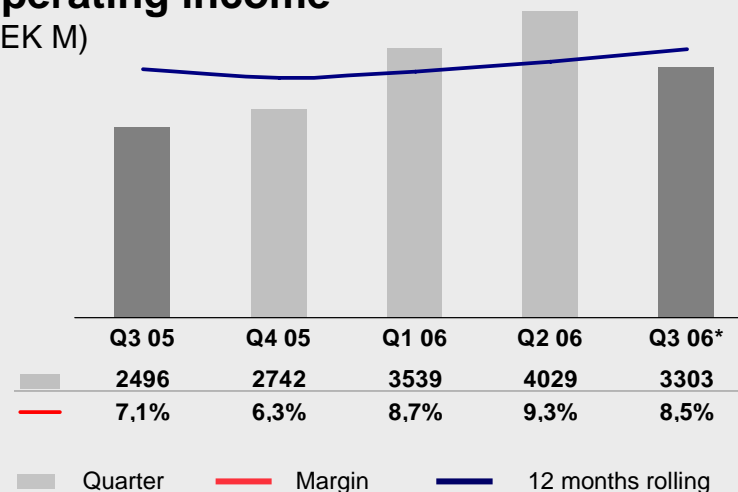
## Third Quarter



### Net sales (SEK bn)



### Operating income (SEK M)



### Highlights

- Truck deliveries in Europe up 17%
- Order intake in Europe:
  - Medium and heavy trucks on par with Q3 2005
  - Light trucks down
- Operating margin at 8.5%\*
- Increased ownership in Nissan Diesel

### In Focus

- Product launches and changes in the industrial footprint.
- Capitalize on new products
- The 2007 US truck market

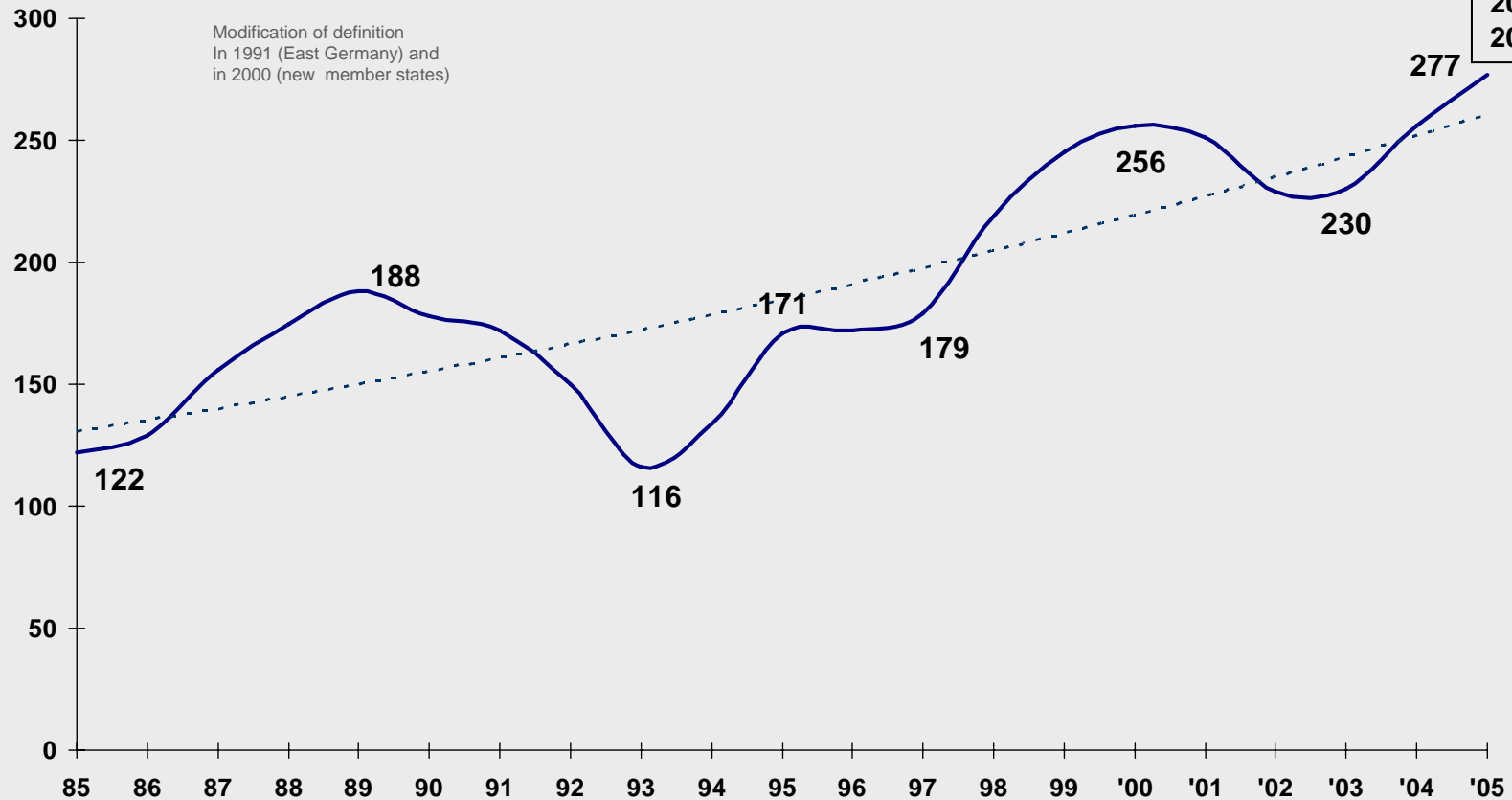
\* Excluding goodwill adjustment of SEK 1,712 due to release of valuation reserves for taxes

# Heavy Duty Truck Market Europe

(EU members + Switzerland and Norway)



Units, Thousands (heavy trucks)

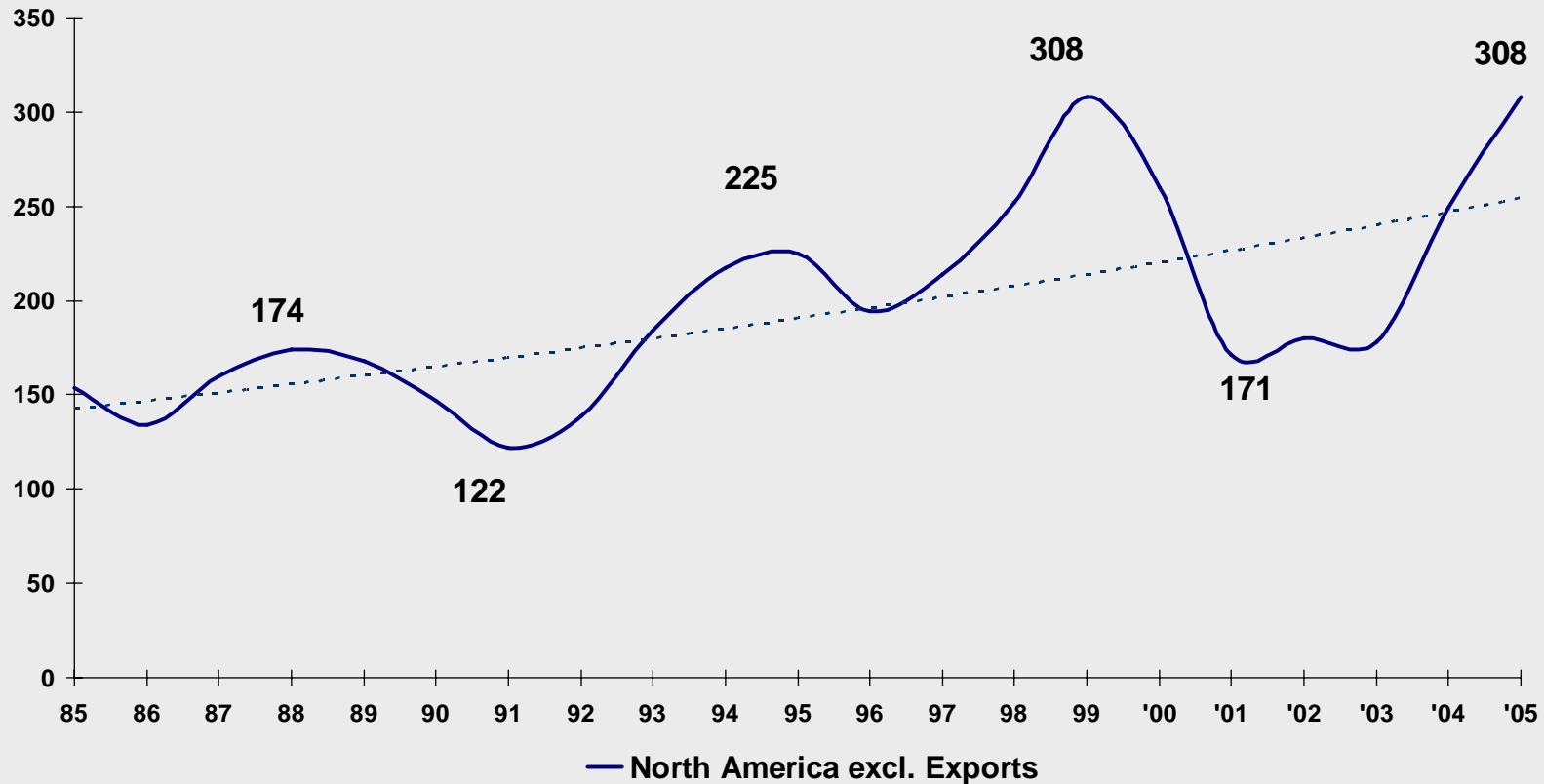


Forecast  
2006: ~290,000  
2007: in line with 2006

# Heavy Duty Truck Market North America



Units, Thousands (heavy trucks)



Forecast  
2006: ~340 000  
2007: ?

# Renault Trucks

## New construction range



Renault Kerax



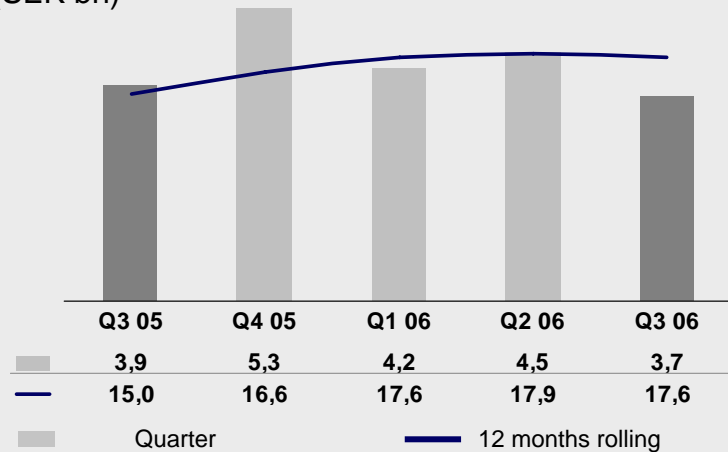
Renault Premium Lander

# Volvo Buses

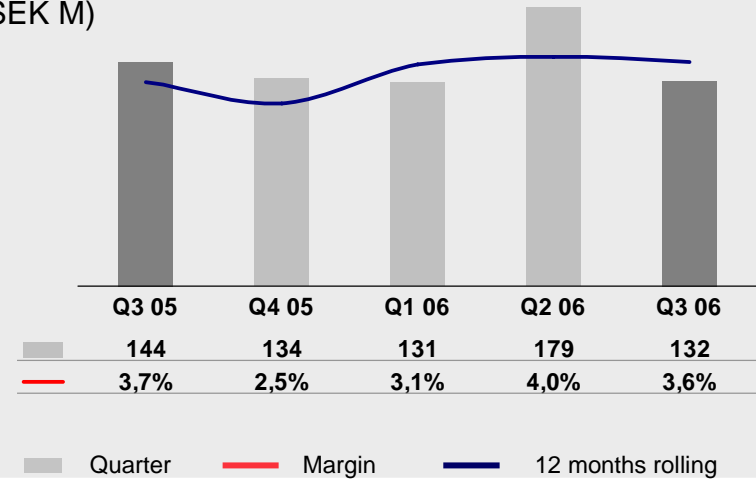
## Third Quarter



**Net sales**  
(SEK bn)



**Operating income**  
(SEK M)



### Highlights

- Lower deliveries
- New coach range
- New body J/V India

### In Focus

- Profitability and cash flow
- Product launches EU 3,4,5
- Efficiency program



# Volvo Buses

**The new 9900 - new design, new driver place, new safety, significant fuel reduction, complete offer**



# Volvo Construction Equipment

Tony Helsham  
President of Volvo Construction Equipment

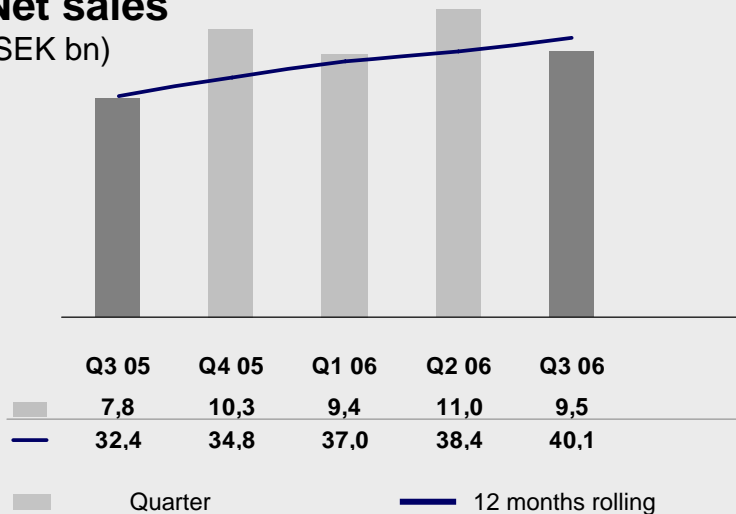


# Volvo Construction Equipment Third Quarter



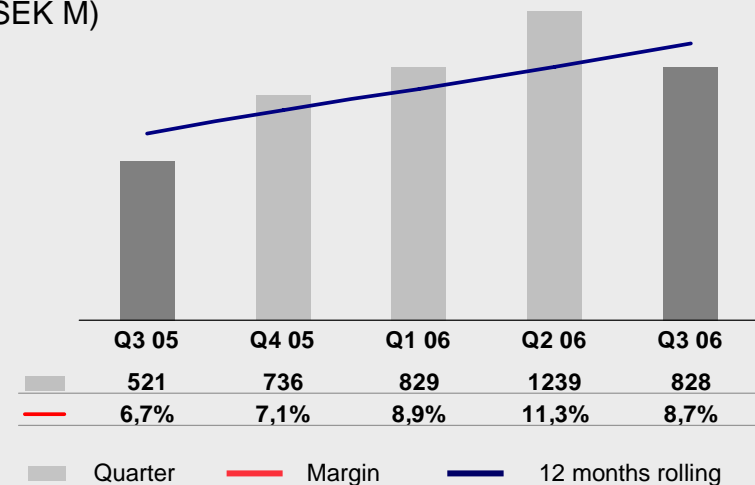
## Net sales

(SEK bn)



## Operating income

(SEK M)



## Highlights

- Total world market for heavy equipment up 8%, NA down 1% and EU up 12%
- Sales growth 22%
- Operating income increased 59%

## In Focus

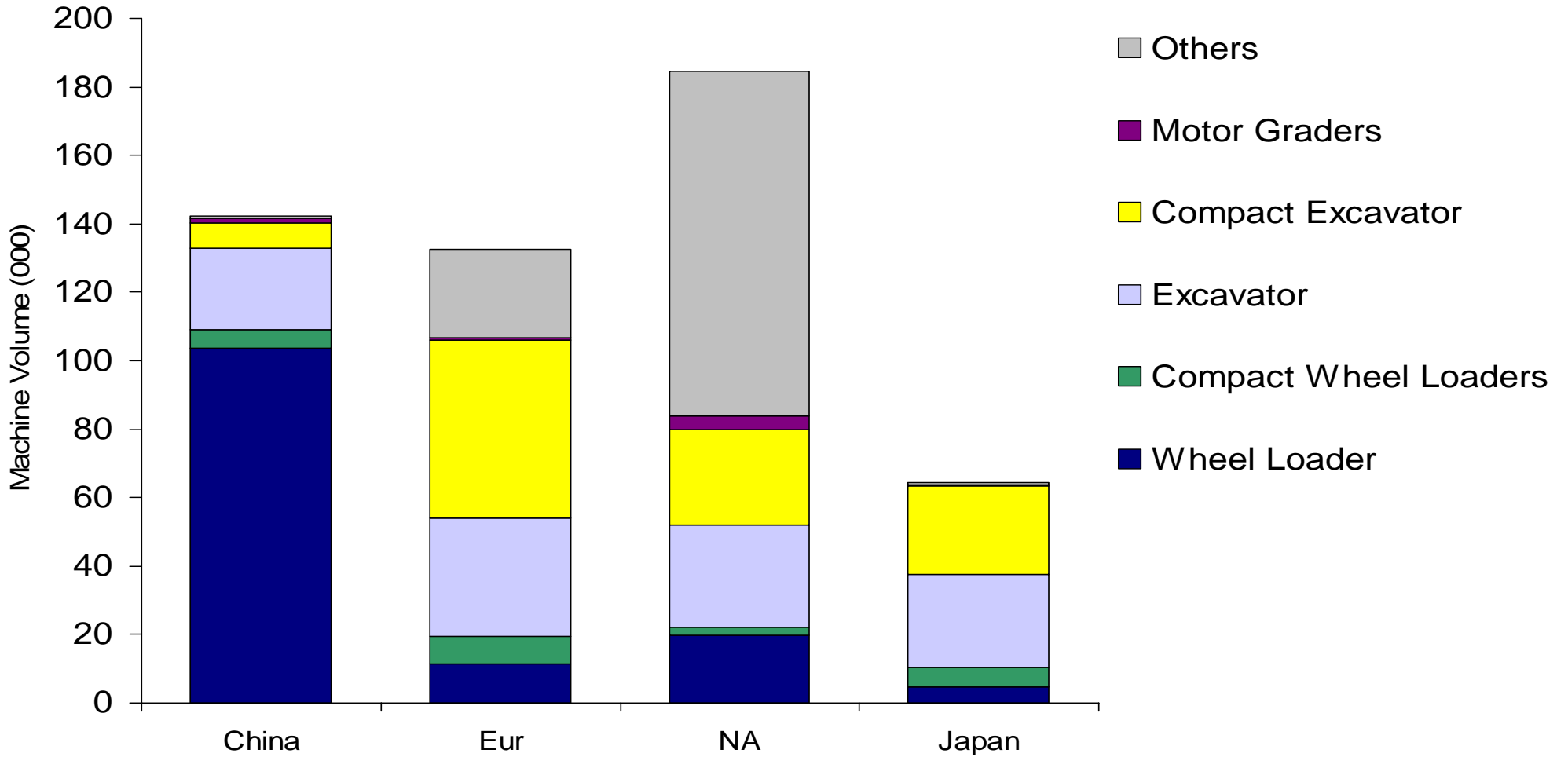
- High capacity utilization
- Manage strong order book
- Lingong

# Agenda

- Construction equipment industry in China
- Today's position in China
- Lingong

# Construction Equipment Industry

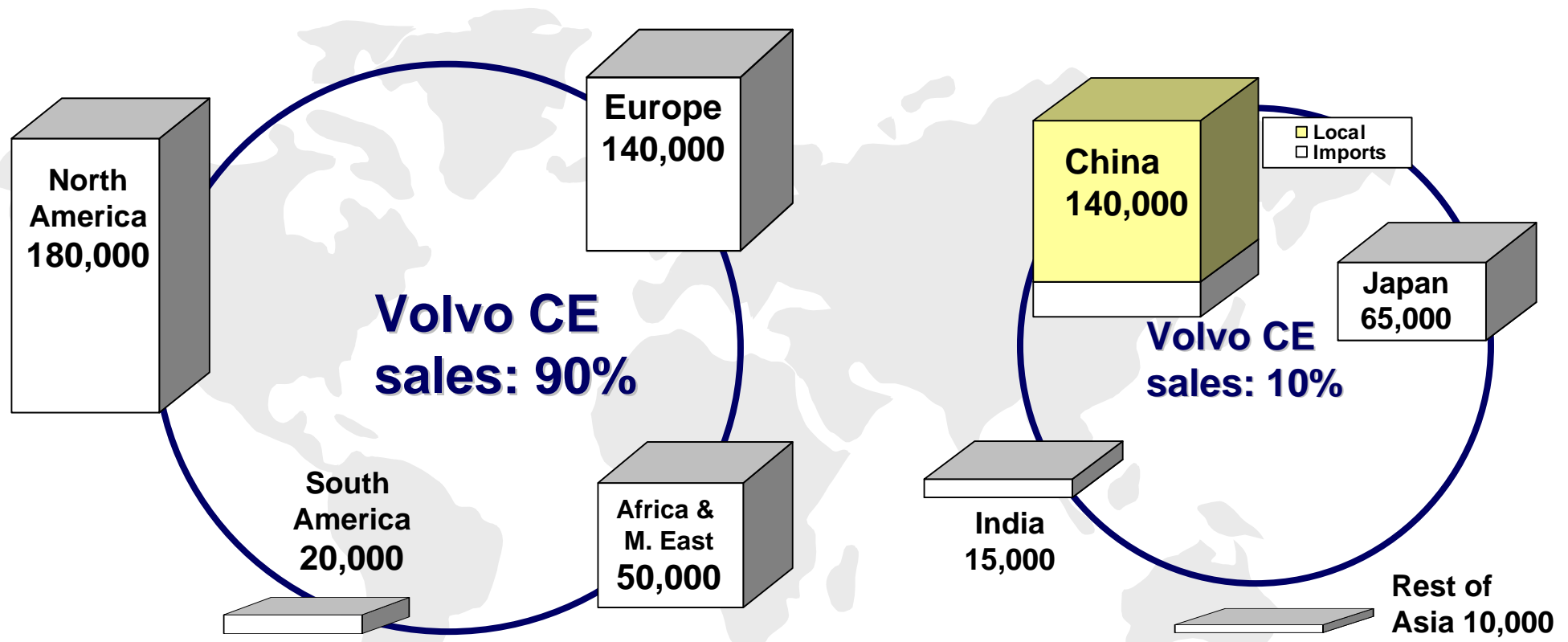
## *China vs. other regions*



Source: Off Highway Research, May 2006 Note: Products within Volvo CE portfolio

# Asia is a strategic region for future growth

*Construction equipment market (units) – Volvo CE product range*



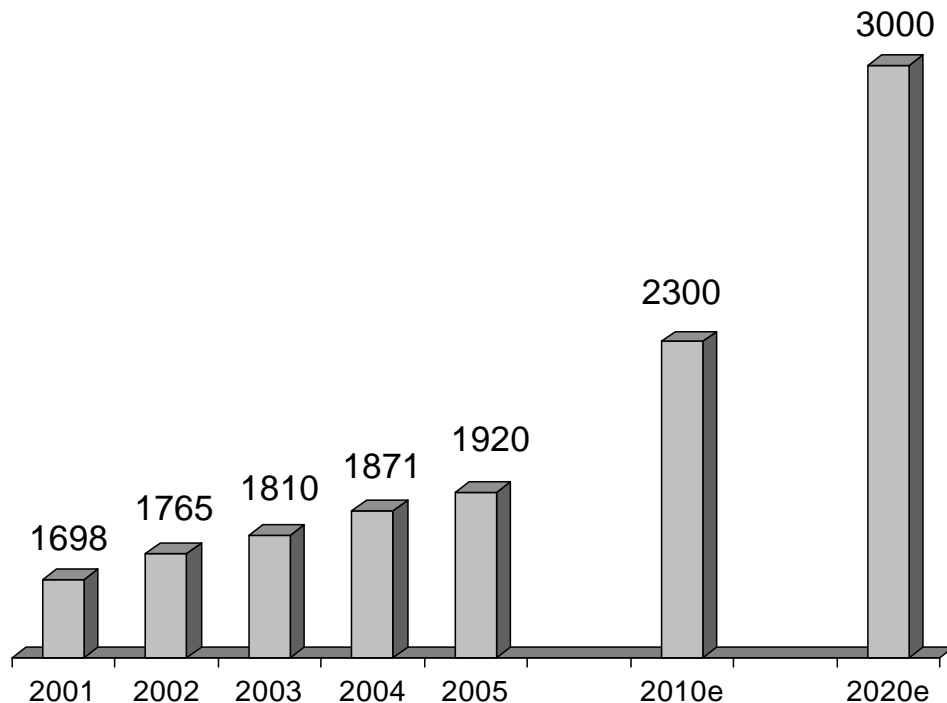
Established Markets: 60%

Asia: 40%

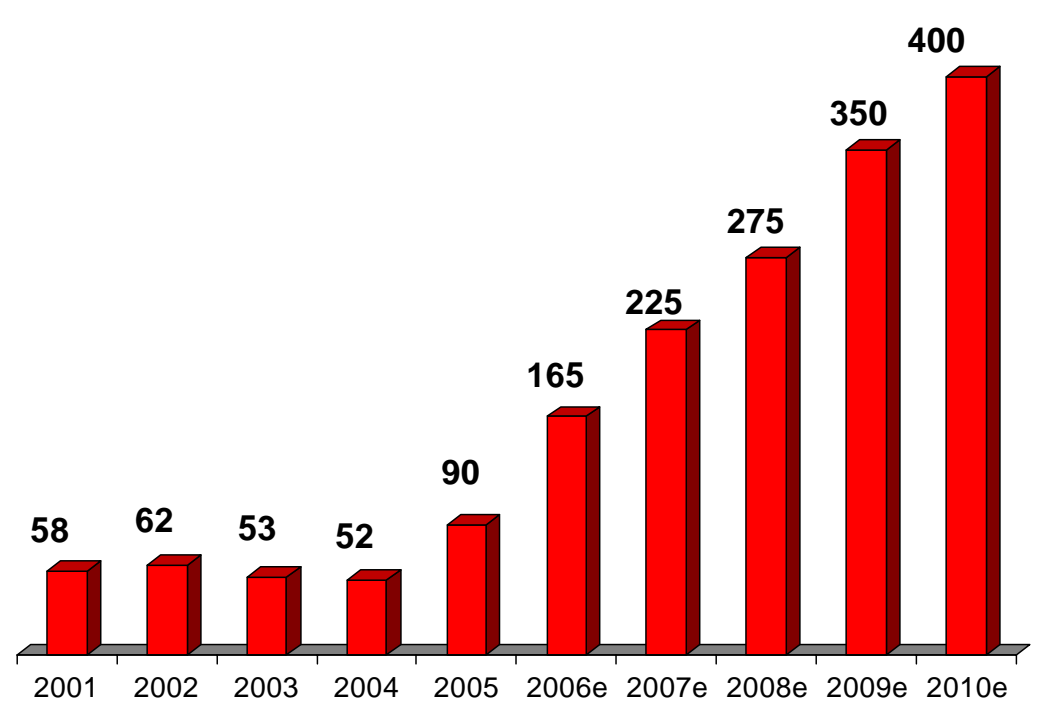
# Strong drivers for demand

*The 11th 5-year plan continues to focus on infrastructure development*

Intercity Road System, 2001 – 2020  
(in thousand km)



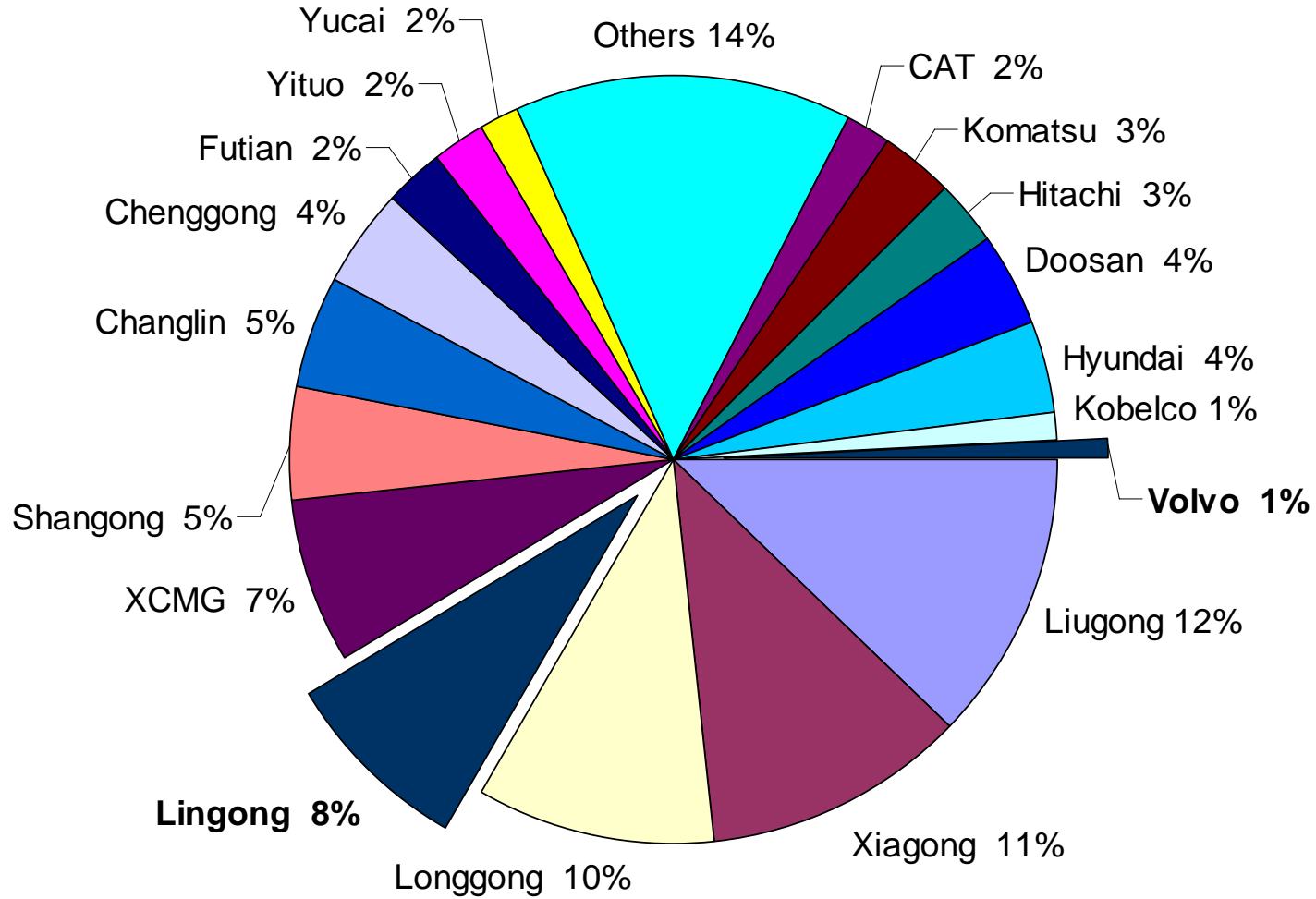
Capex in Railway Construction, 2001 – 2010  
(in Billions RMB)



Source: Off Highway Research, May 2006



# Market shares in China





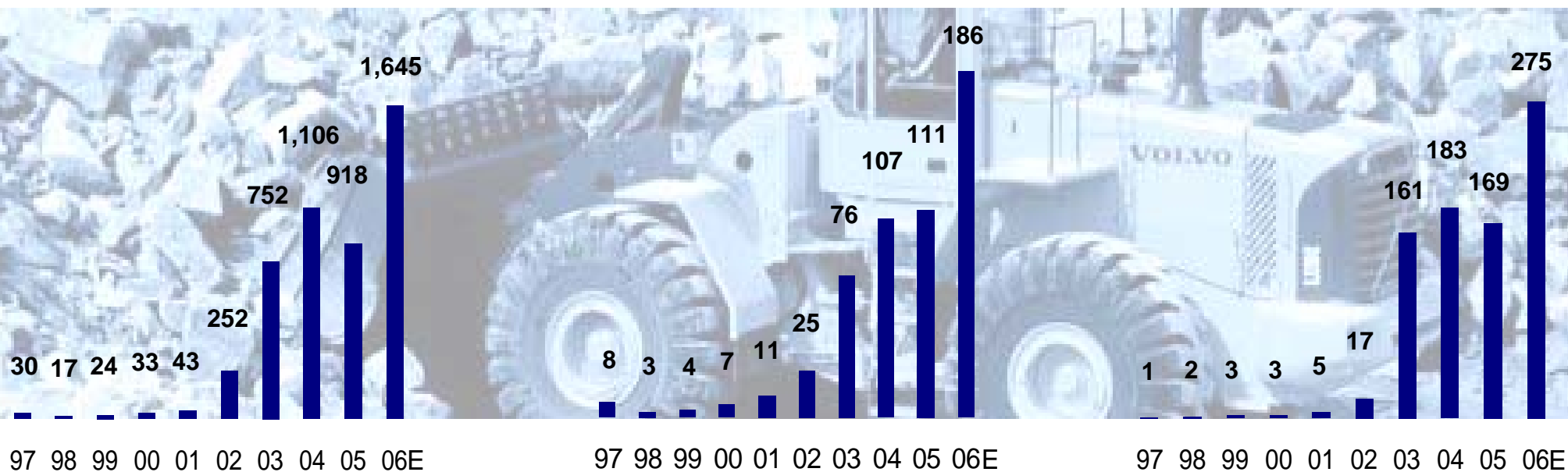
# Volvo CE in China

## Key Data

**Sales**  
(units)

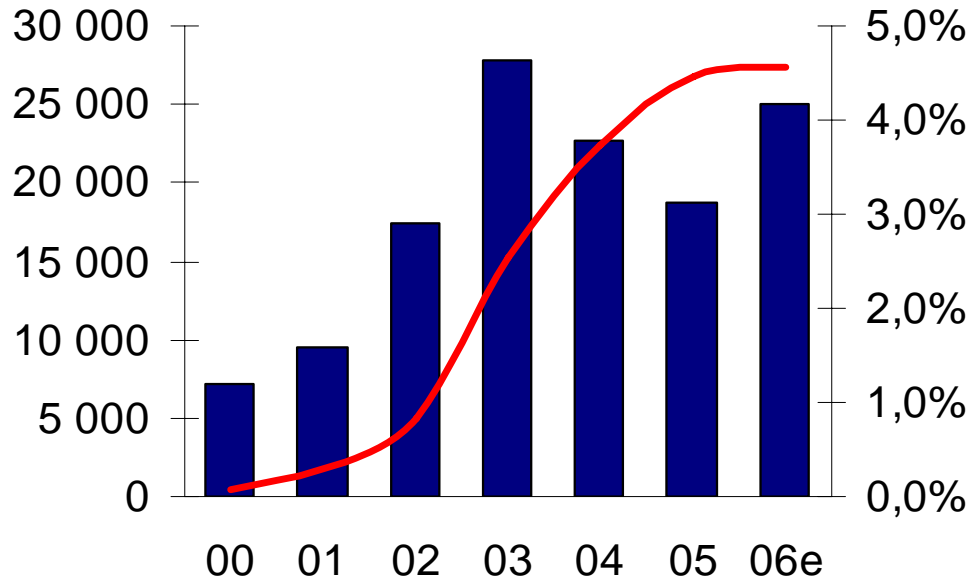
**Sales**  
(MUSD)

**Employees**

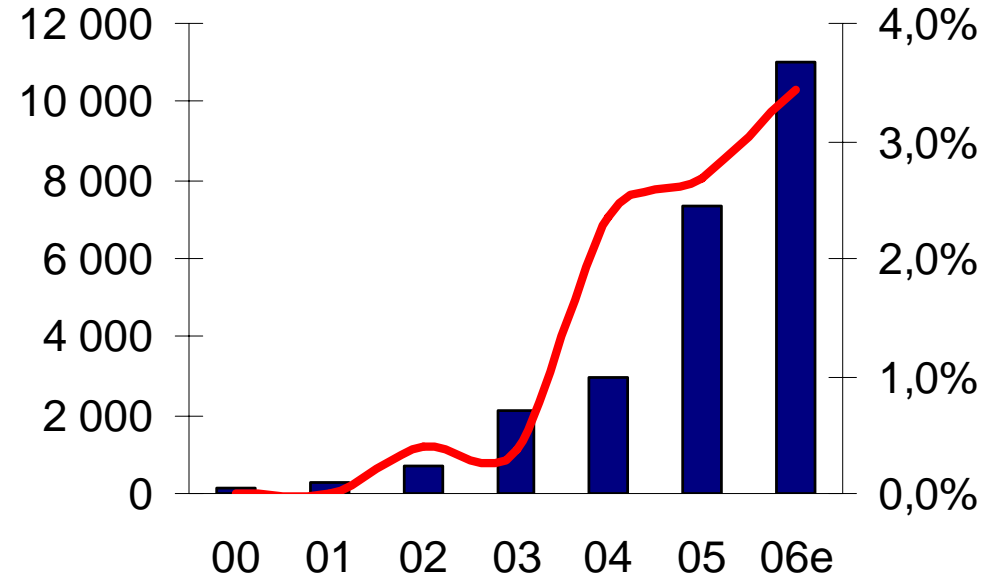


# Market development & Volvo market share in China

## Excavators



## Compact Excavators



## Rationale for investment in Lingong

- China is the 2nd largest and fastest growing CE market
- Chinese Wheel loaders market twice as big as rest of the world combined
- Access to a very good dealer network
- Very modern manufacturing and R&D hub and an up-and-running supplier base
- Access to a broad range of entry level Wheel Loaders for emerging markets
- Lingong is very well managed

# Lingong overview

## Products

- Over 16 models of Wheel Loaders
- Small backhoe loaders, road rollers, excavators

## Manufacturing - 1 facility (Blue collars; size land/building)

- Linyi, China (1,212 BC; 660k sqm / 110k sqm)
- Jinan – Advanced R&D centre

## Employees

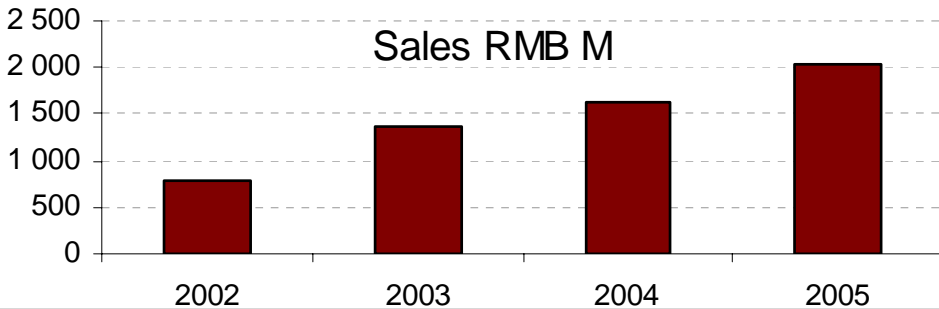
- Total: 1,800, 203 in Sales & Marketing, 166 in R&D

## Distribution

- 170 independent dealers; 2 common with Volvo CE in China
- 46 authorized service workshops
- 7 owned branches

## Market shares (position) in Wheel Loader market

2003	2004	2005
WL: 9% - (4)	10.3% - (4)	11% - (4)



# Well invested and modern facilities



Administration and R&D offices



Assembly line



Gear cutting area



Stocks of finished frames after painting





## Competitive entry-level products



**Lingong ZL50F – High Volume**



**Lingong LG950 – High End**

# Summary

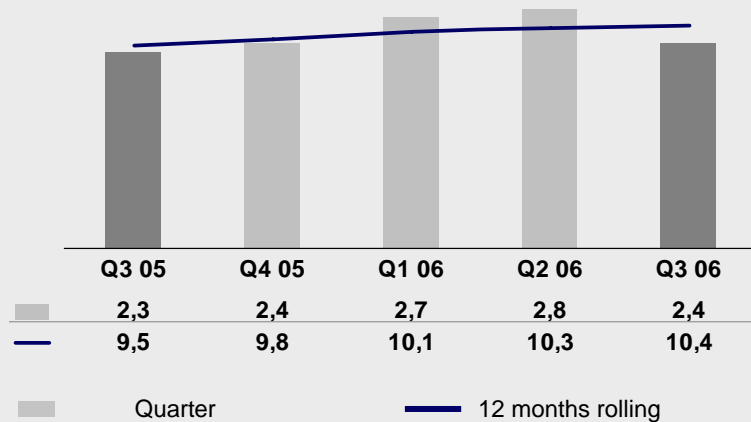
- Deal is subject to approval from MOFCOM
- We aim to be a significant player in China
- We will maintain separate brands
- Capitalize on learnings from Samsung acquisition
- Number one in the world for wheel loaders



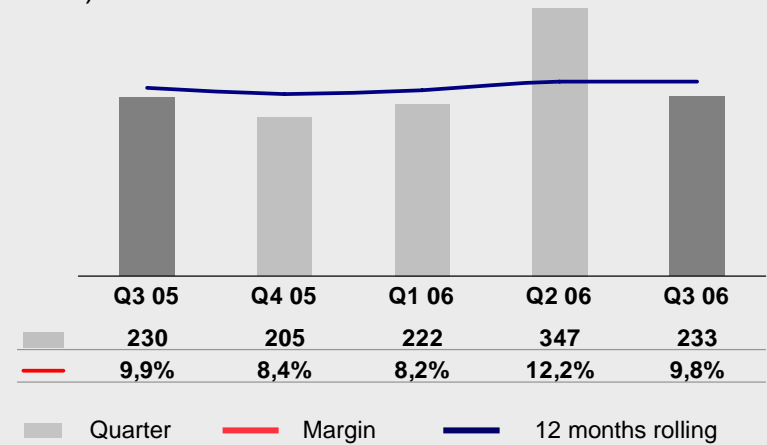
# Volvo Penta Third Quarter



## Net sales (SEK bn)



## Operating income (SEK M)



## Highlights

- Sales improvement with continued high margin
- Strong order book
- Increased market shares with Volvo Penta IPS

## In Focus

- Supply chain management
- Capitalize on new products
- Product introductions

# Volvo Penta

## Multiple IPS installations

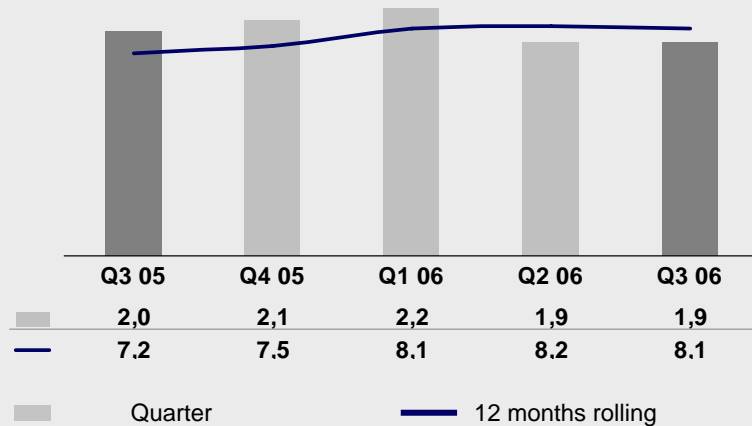


# Volvo Aero

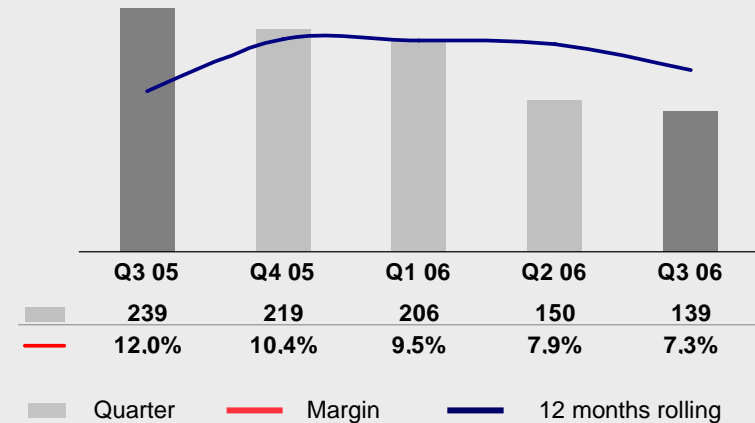
## Third Quarter



### Net sales (SEK bn)



### Operating income (SEK M)



### Highlights

- World air travel continues to grow - Airbus and Boeing order books corresponds to five years production
- Continued strong performance in the component business
- Important agreement with Pratt & Whitney

### In Focus

- Production start ups of new engine programs
- After market business
- New business opportunities
- Cash flow

## Volvo Aero

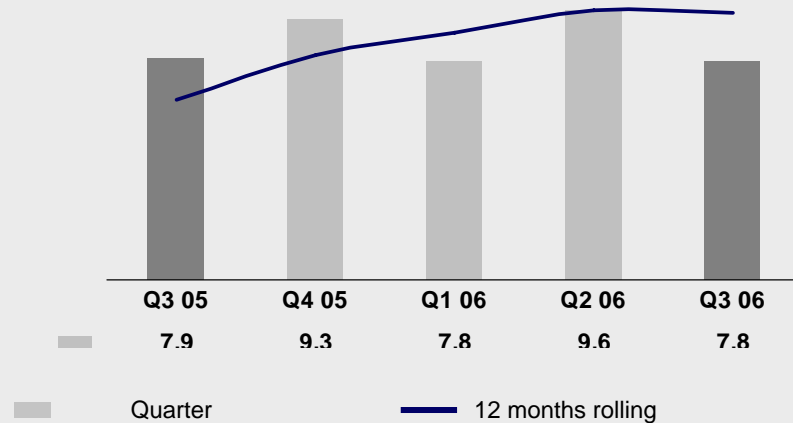
**Important agreement with Pratt & Whitney, to demonstrate new technology for the aircraft engine of the future**



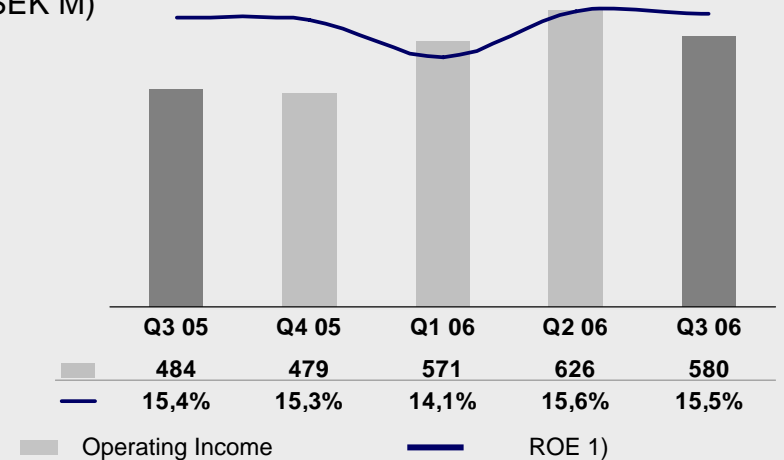
# Volvo Financial Services Third Quarter



## New retail financing (SEK bn)



## Operating income and return on equity (SEK M)



## Highlights

- Solid returns
- Continued increased market liquidity and competition
- China - retail financing commenced

## In Focus

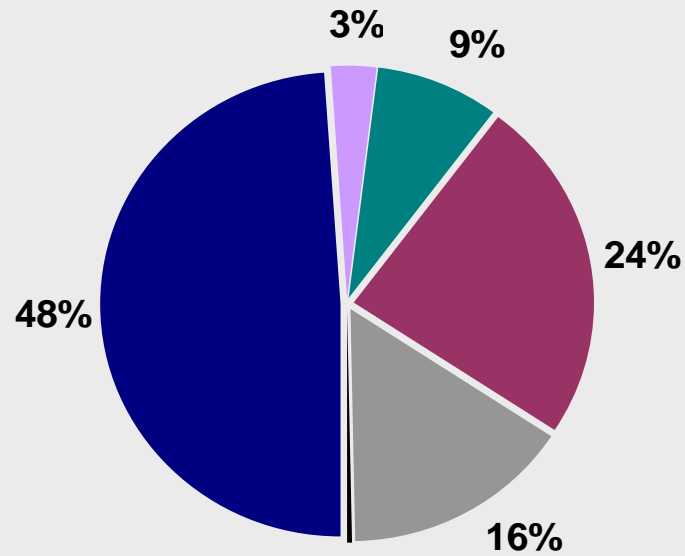
- Business cycle management
- Portfolio growth
- Operational excellence

1) Calculated as a 12 month rolling average

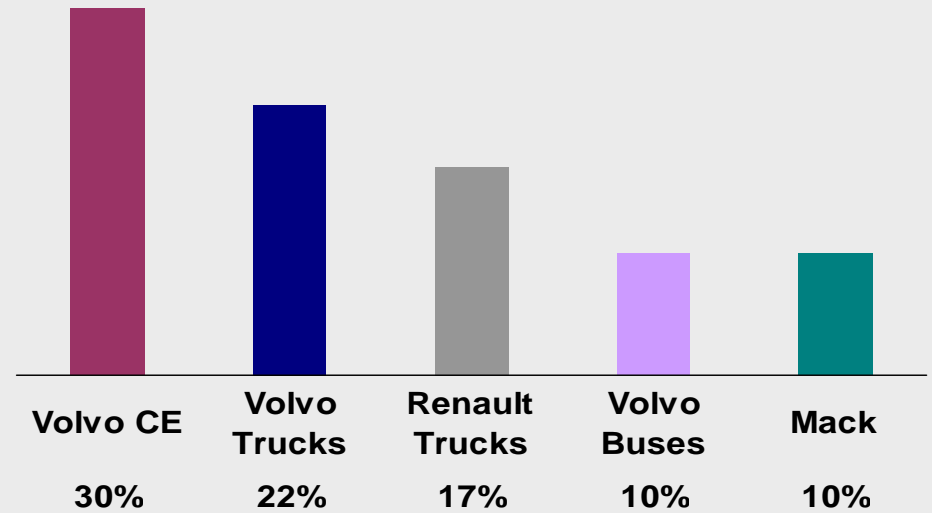
# Volvo Financial Services Third Quarter - isolated



### New financing



### Penetration on new financing



## Volvo Group Summary

- Manage prebuy effect in the US truck market
- Finalize product renewal for Renault Trucks in Europe and for Volvo Trucks and Mack in North America
- Strengthened positions in Asia
  - Increased ownership in Nissan Diesel
  - Awaiting approval for acquiring 70% in Lingong
- Continued growth in sales and profitability in Q3