

# **VOLVO**

## **Second Quarter 2008**

**Conference Call, July 23, 2008**

# Group Highlights

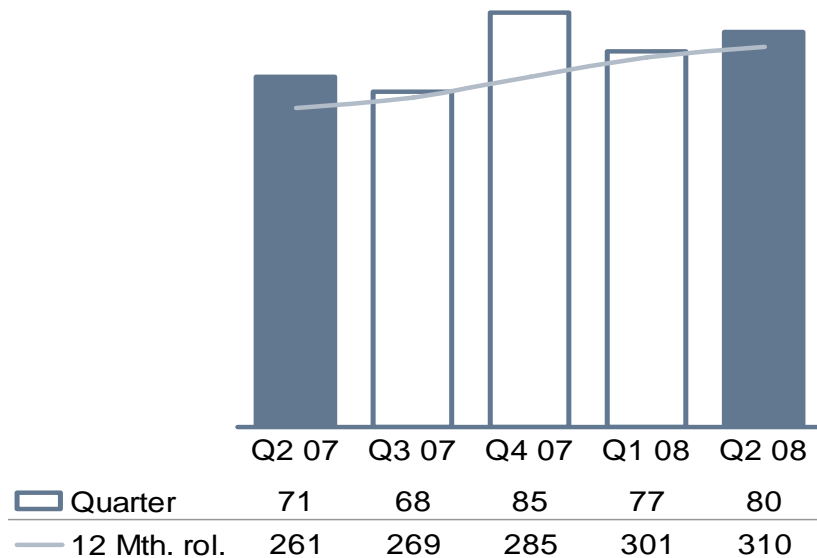


## Second Quarter

- Strongest quarter so far
  - Sales growth 13%
  - Operating income up 17%
  - Further improved earnings in truck operations and Volvo CE
- Business environment
  - Europe – high deliveries but slower order intake
  - North America and Japan – increased order intake
  - Strong development in South America and other international markets

# Net sales

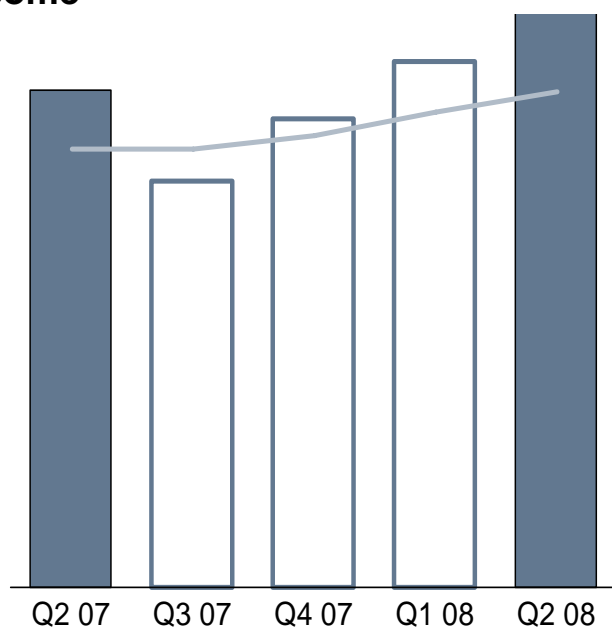
## Net sales SEK bn



- Net sales > 310 bn last 12-months
- Strong sales growth, up 13%
  - Western Europe +7%
  - Eastern Europe + 25%
  - Asia +42%
  - South America +35%
- Strong **organic** growth
  - Group +17%
  - Volvo CE +27%

# Operating income

Operating income  
SEK M



■ Quarter	6 119	5 010	5 775	6 487	7 186
Margin	8,6%	7,3%	6,8%	8,5%	8,9%
— 12 Mth. rol.	21 589	21 627	22 232	23 391	24 457

## All-time high quarterly operating income

- + Margin improvement based on price and productivity in Europe & International
- + Truck operations in Europe
- + Volvo CE

---

- Truck operations in US
- Volvo Aero
- Net R&D Amortization SEK 264 M
- Currency impact SEK 500 M

# Volvo Group financial summary

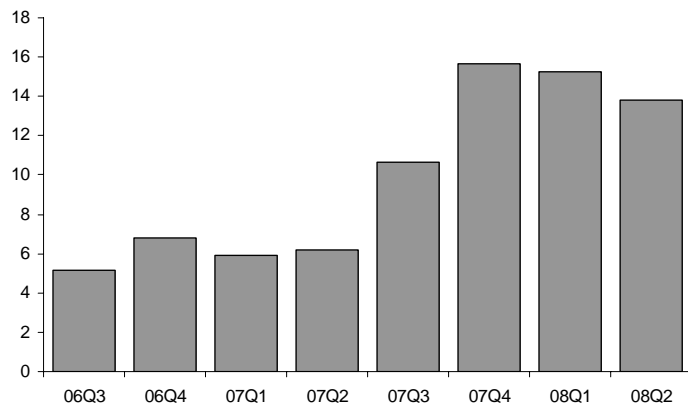
Income Statement SEK M	Q2-2008	Q2-2007	
<b>Net Sales</b>	<b>80 426</b>	<b>71 446</b>	Up 17% adjusted for currency and Group structure
Operating income Industrial Operations	6 799	5 698	Net R&D Cap: negative 233 M in -08, positive 31 M in -07
Operating income Customer Finance	387	421	
<b>Operating income Volvo Group</b>	<b>7 186</b>	<b>6 119</b>	Fx -500 M, 2007: Petro 316 M & Sörred 200 M
Net financial items	295	-149	
<b>Income after financial items</b>	<b>7 481</b>	<b>5 970</b>	
Taxes	-2 332	-1 940	Tax rate at 31,2% (32,5)
<b>Income for the period</b>	<b>5 149</b>	<b>4 030</b>	

Key ratios	Q2-2008	Q2-2007
<b>Operating margin, %</b>	<b>8.9%</b>	<b>8.6%</b>
<b>EBITDA Industrial Operations, SEK M</b>	<b>9 518</b>	<b>8 163</b>
<b>EBITDA Industrial Operations margin, %</b>	<b>12,1%</b>	<b>11,8%</b>
<b>Earnings per Share, SEK</b>	<b>2.53</b>	<b>1.98</b>
<b>Return on Equity, %</b>	<b>20.5%</b>	<b>17.9%</b>

# Cash flow

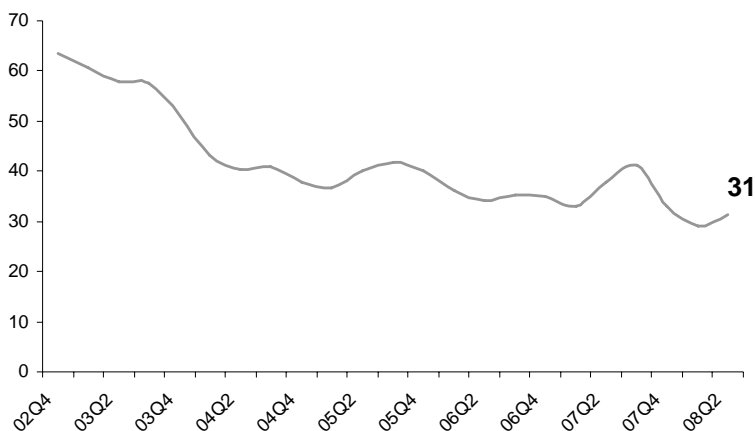
## Operating cash flow

12-months, SEK bn



## Cash Conversion Cycle

Days

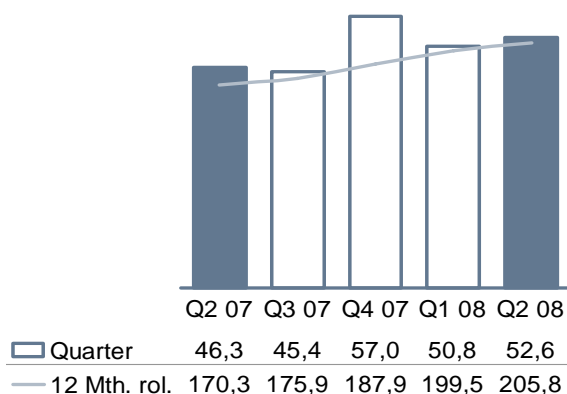


- Industrial operating cash flow; SEK 4.9 bn in the quarter
- Dividend of SEK 11.1 bn paid in Q2
- Cash Conversion Cycle: 31 days
- Focus on Inventory build-up
- New SEK 6.2 bn (Yen 110bn) syndicated loan agreement in place
- Net financial debt SEK 13.1 bn, 18.4% of shareholders' equity

# Trucks



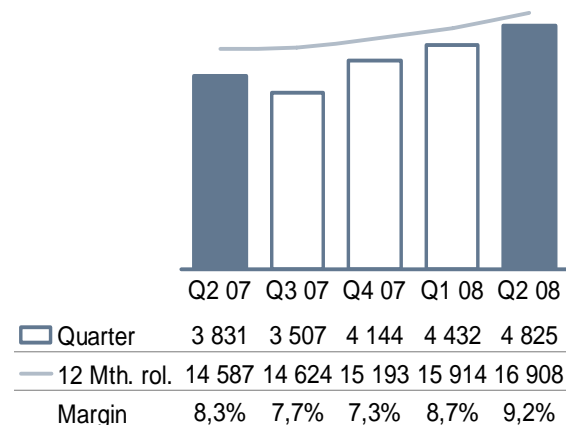
## Net sales – SEK bn



## Highlights

- Operating income up 26%
  - strong deliveries
  - high productivity
  - competitive products
- Strong demand in Asia, South America and other international markets
- Slowing demand in Europe

## Operating income – SEK M



## In Focus

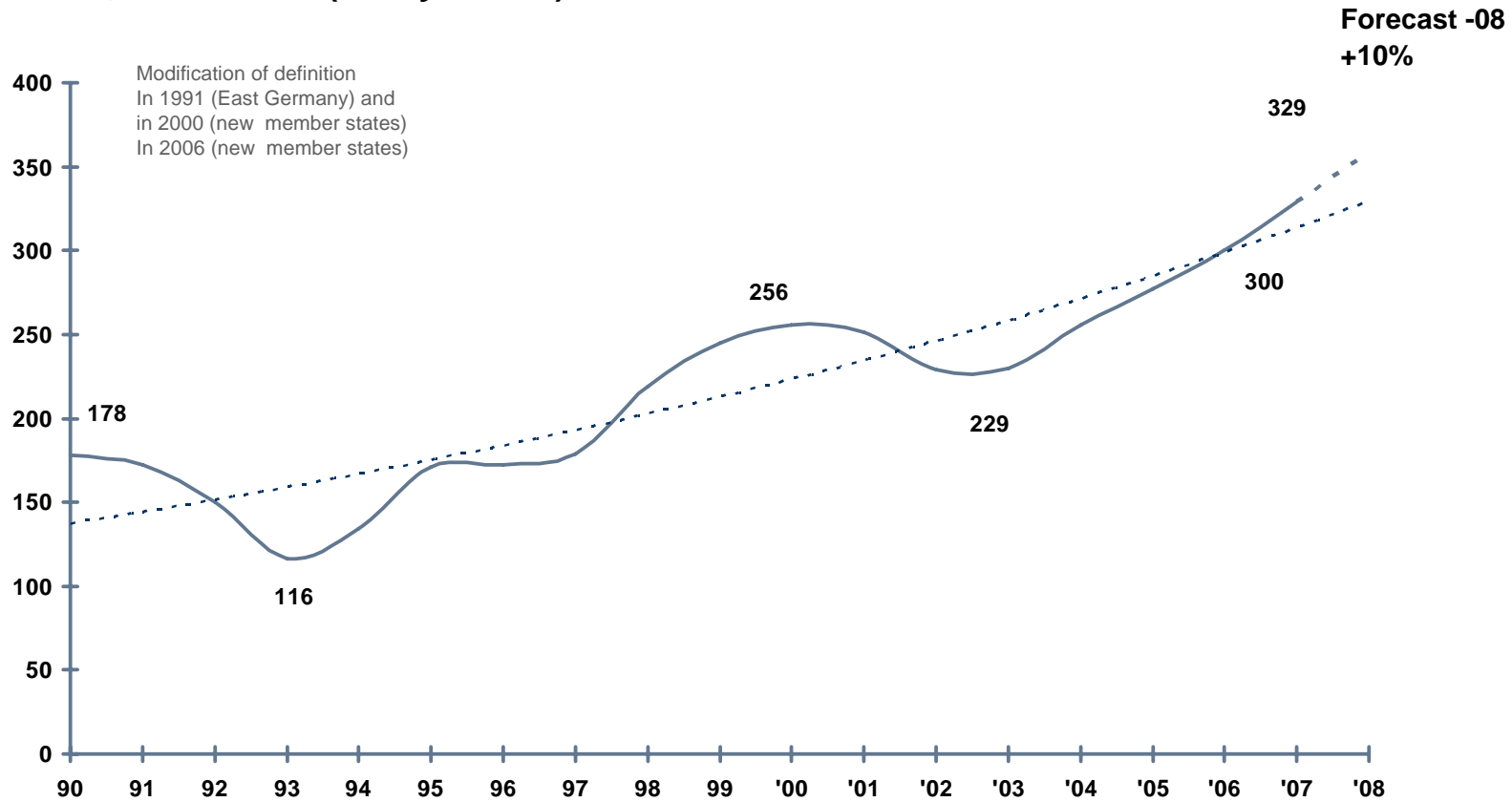
- Monitor demand in Europe
  - active order and production management
- Productivity improvement and cost efficiency
- Integration projects with Nissan Diesel
- Manage material cost inflation

# Heavy-duty truck market - Europe

(EU members + Switzerland and Norway)



Units, Thousands (heavy trucks)

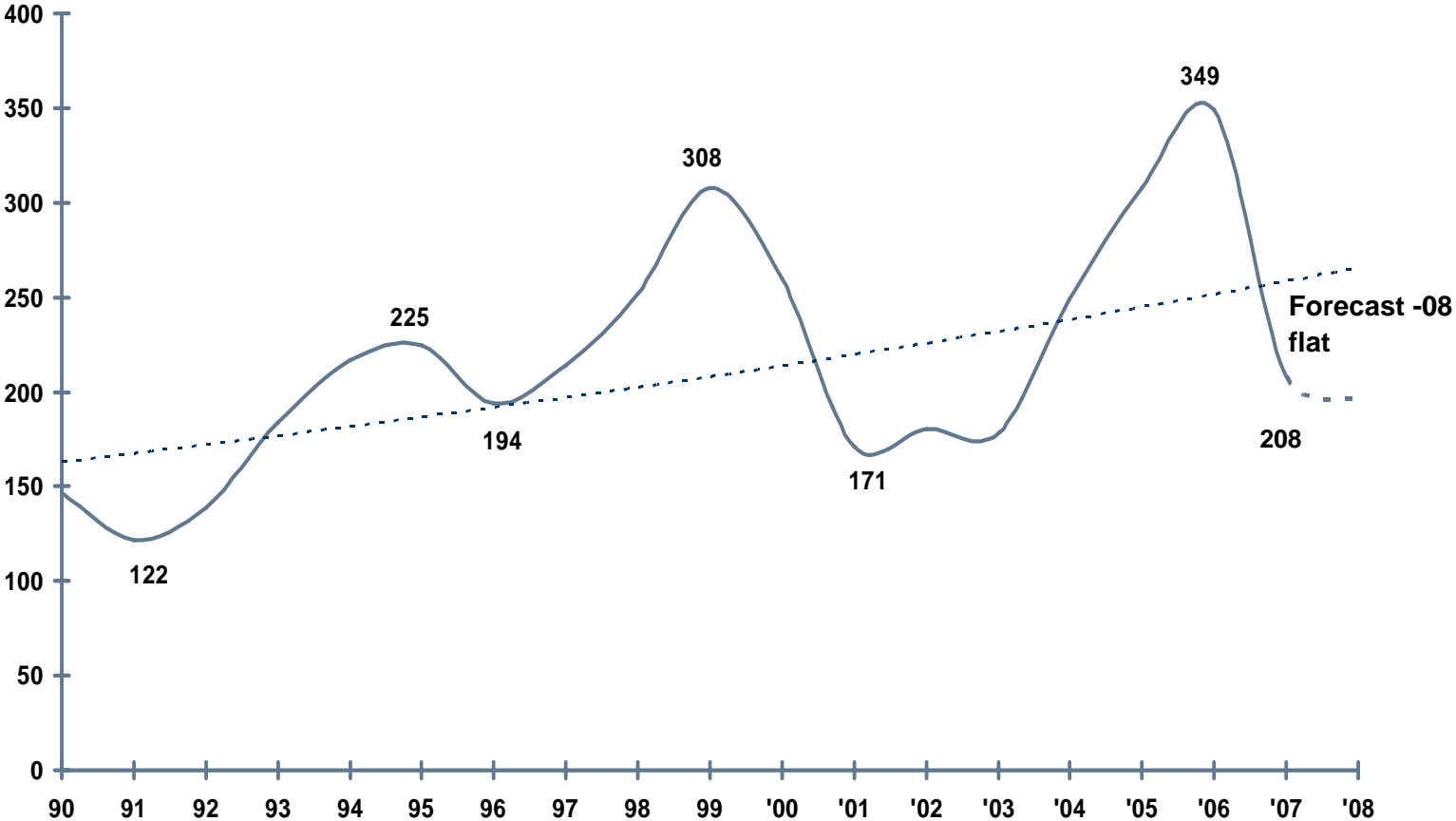




# Heavy-duty truck market – North America



Units, Thousands (heavy trucks)



# Volvo Trucks



- Deliveries
  - Europe +7%
  - Asia +26
  - South America +40%
  - North America +146%
- Lower order intake in Europe, regional differences
- Continued strong demand from International markets
- Increased order intake in North America
- Active order book management
  - Order stock transfer to new spec and price
- North America
  - Drive industrial productivity
  - Preparations for US'10
- New products launched in Europe
  - 3 % price increase

# Renault Trucks



- Slowdown in order intake
  - Compensated somewhat by orders from overseas areas
- Good industrial productivity
- Product renewal and extension
  - New Renault Magnum
  - New Renault Kerax with 13-liter engine
  - New version of Renault Lander 4x8

# Nissan Diesel



- Market share recovery
  - heavy-duty trucks improved to 22.9% (15.6%)
  - superior quality and fuel efficiency
- Market forecast Japan: medium and heavy trucks down 10-15% in 2008
- Deliveries in the second quarter was 12,506, up 41%
- Integration work

# Mack Trucks

- Deliveries rose 23%
- Order intake up 34%
- UAW-negotiations
- New engines
  - Improved fuel economy with new engine range
  - Additional fuel economy improvements with addition of SCR
  - Positive reports from customers testing SCR-equipped trucks

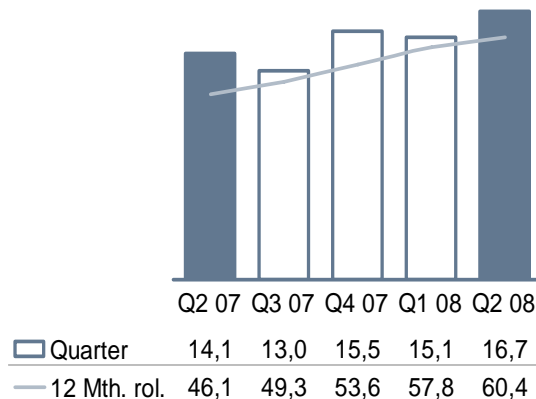


# Construction Equipment



## Net sales

SEK bn

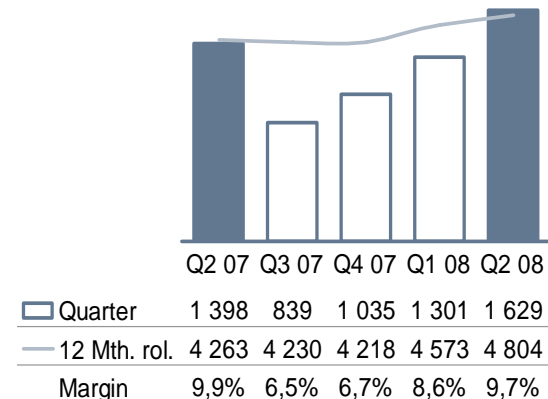


## Highlights

- Demand for heavy equipment: Europe down 3%, NA down 26%, Asia up 39% and other international markets up 27%
- Sales up 18%
- Operating income improved by 17%
- Decision to start production in Mexico

## Operating income

SEK M



## In Focus

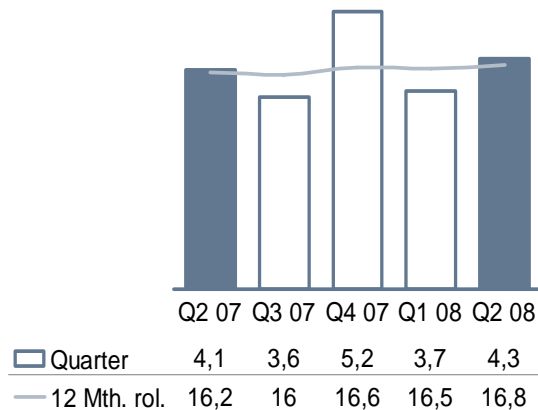
- Leverage on demand in Asia and International markets
- Price Management to off set raw material price increases
- Strict cost control, S&A.
- Road Machinery integration

# Buses



## Net sales

SEK bn

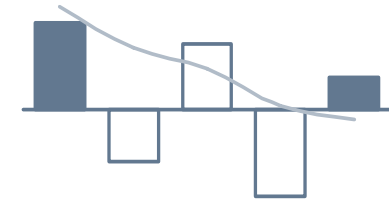


## Highlights

- Increased order intake
- Lower profitability
  - currency impact
  - increased R&D spending for Hybrids
- Global profitability program on plan
- Divestiture of Turku factory

## Operating income

SEK M



Q2 07 Q3 07 Q4 07 Q1 08 Q2 08

Quarter	122	-73	93	-122	46
12 Mth. rol.	585	350	231	19	-57
Margin	3,0%	-2,0%	1,8%	-3,3%	1,1%

## In Focus

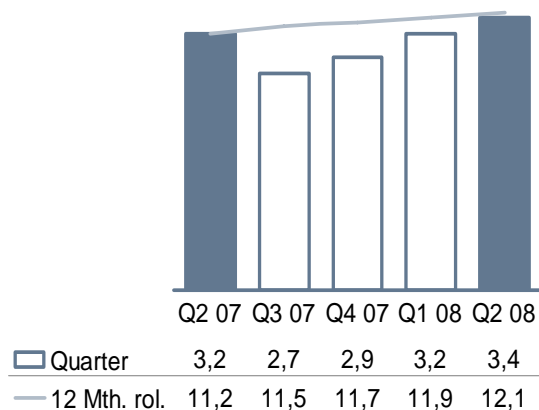
- Product cost reduction program
- Industrial relocation and commercial optimization
- Complete the closure of the Tampere plant

# Volvo Penta



## Net sales

SEK bn

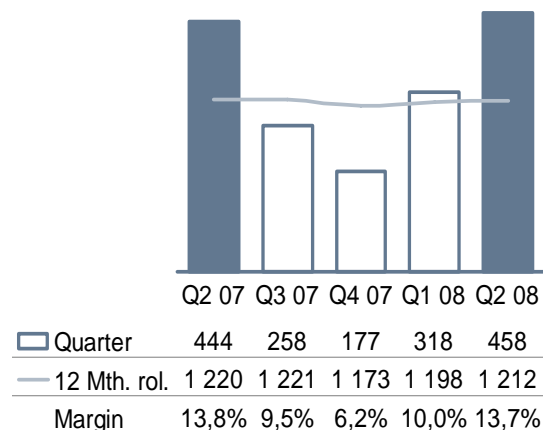


## Highlights

- Weakened demand for marine engines
- Gained market shares in Europe and North America, increased sales +4%
- Strong operating margin, 13.7%

## Operating income

SEK M



## In Focus

- Capitalize on the strong demand for industrial engines
- Secure production capacity and installation support for IPS
- Preparations for new global order to delivery system

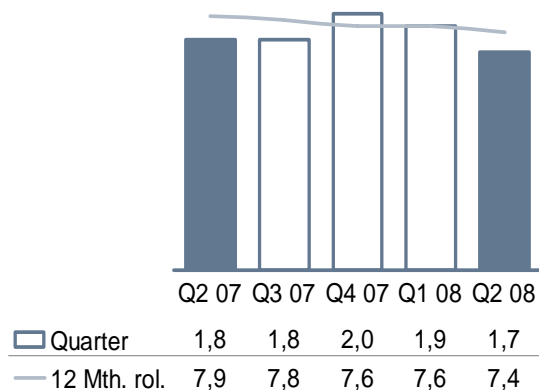


# Volvo Aero



## Net sales

SEK bn

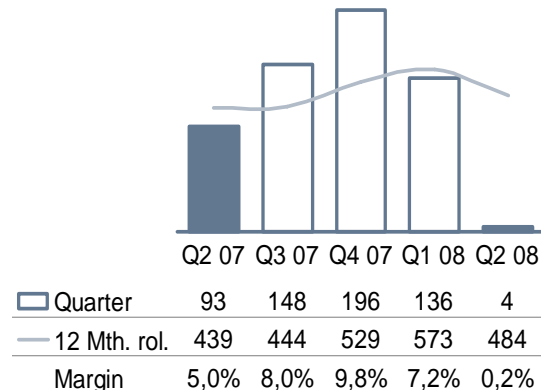


## Highlights

- Air traffic growth flattening out
- Research efforts result in major contracts
- Negative currency and product mix
- Increasing order book in component business

## Operating income

SEK M



## In Focus

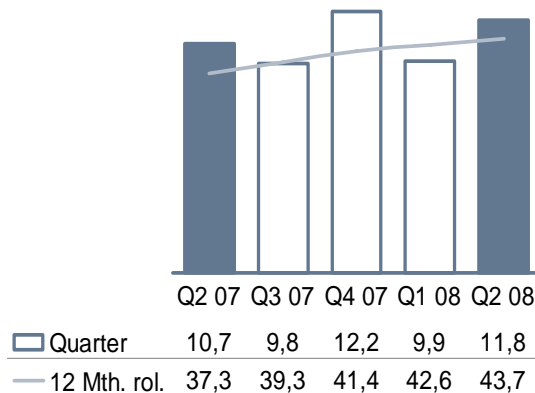
- Continued product cost rationalization
- Manage ramp up of production, with quality and cost control
- Execution on new contracts

# Financial Services



## New retail financing

SEK bn

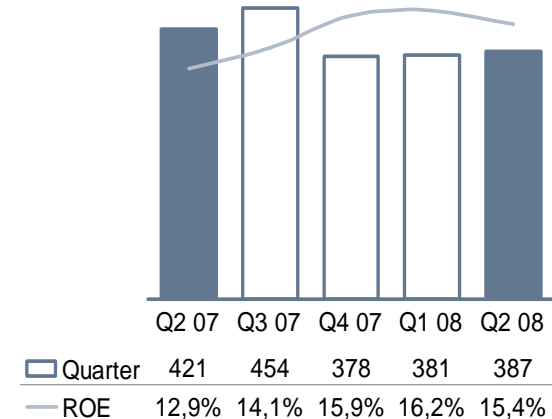


## Highlights

- Managed assets reach SEK 100 bn
- Good asset and risk management
- European strategy developing well

## Operating income and return on equity

SEK M



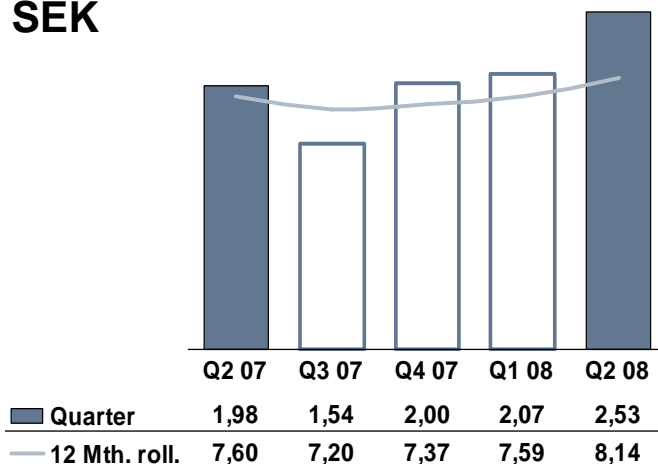
## In Focus

- Controlled growth and asset management
- Capitalize on downturn opportunities
- Growth in International markets

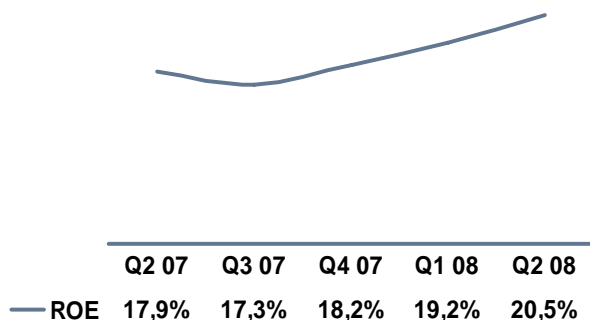
# Group Summary



## Earnings per share SEK



## Return on equity



## Best quarter so far

- Sales growth 13%
- Operating income up 17%
- Improved industrial productivity
- Competitive products
- Earnings per share up 28%

## In focus

- Manage European demand
- Integrating acquisitions
- Productivity and cost efficiency
- Develop and introduce environmentally friendly and fuel efficient products
  - New emission steps (Euro 5 & US'10)
  - Hybrids

# **VOLVO**

**Second quarter 2008**