

# **VOLVO**

## **Fourth Quarter 2008**

**Conference Call, February 6, 2009**

# Group Highlights



## Fourth quarter

- Sales down 9%, -15% adjusted for currency
- Operating loss SEK 999 M
- Rapid adjustment of production capacity
- SEK 5.1 bn reduction in working capital

## Full year

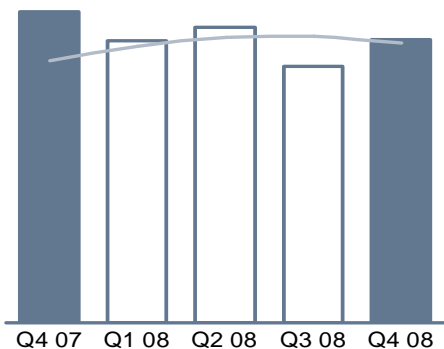
- Net sales SEK 304 bn (285)
- Operating Income SEK 15.9 bn (22.2)
- ROE 12.1% (18.1)
- EPS SEK 4.90 (7.37)

**Board proposal:** ordinary dividend: SEK 2.00 per share  
**(5.50)**

# Volvo Group

## Net sales

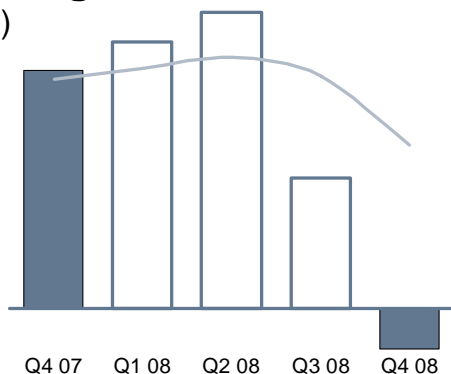
(SEK bn)



Quarter	84,6	76,7	80,4	69,6	77,0
12 Mth. rol.	285	301	310	311	304

## Operating income

(SEK M)



Quarter	5 775	6 487	7 186	3 177	-999
Margin	6,8%	8,5%	8,9%	4,6%	-1,3%
12 Mth. rol.	22 232	23 391	24 458	22 625	15 851

## Fourth quarter

**Sales, down 9%, -15% adjusted for currency**

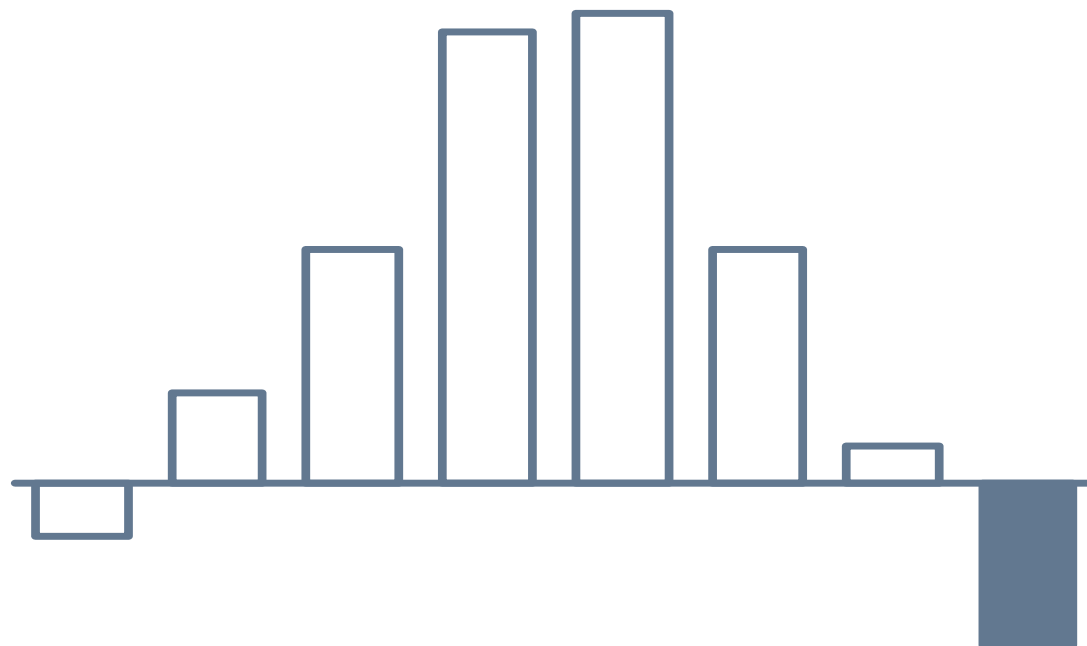
- Europe -23%, -27% adjusted for currency
- North America -2%, -11% adjusted for currency
- Asia +16%, +5% adjusted for currency
- South America +12%, +10% adjusted for currency

## Operating income

- Lower volumes
- Under absorption SEK 2 bn
- Lay-off costs SEK 750 M
- Continued high cost level for raw materials SEK 0.9 bn
- R&D expenses up SEK 0.8 bn
- Volvo CE
- US truck operations

# Volvo Group

Sales growth year over year  
(%)

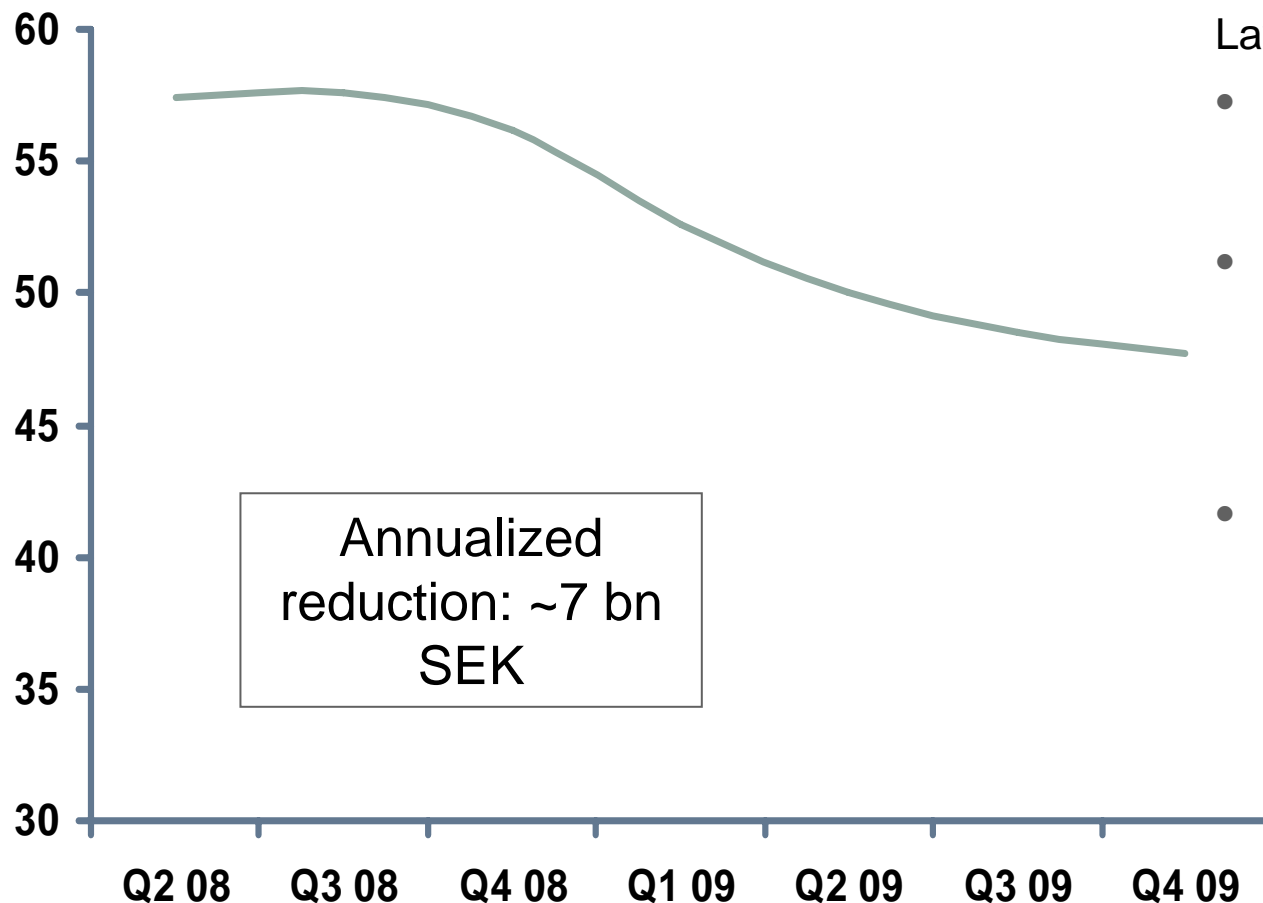


Q107 Q207 Q307 Q407 Q108 Q208 Q308 Q408

■ Sales growth -3% 5% 13% 25% 26% 13% 2% -9%

# Workforce related cost

## Annualized quarterly development

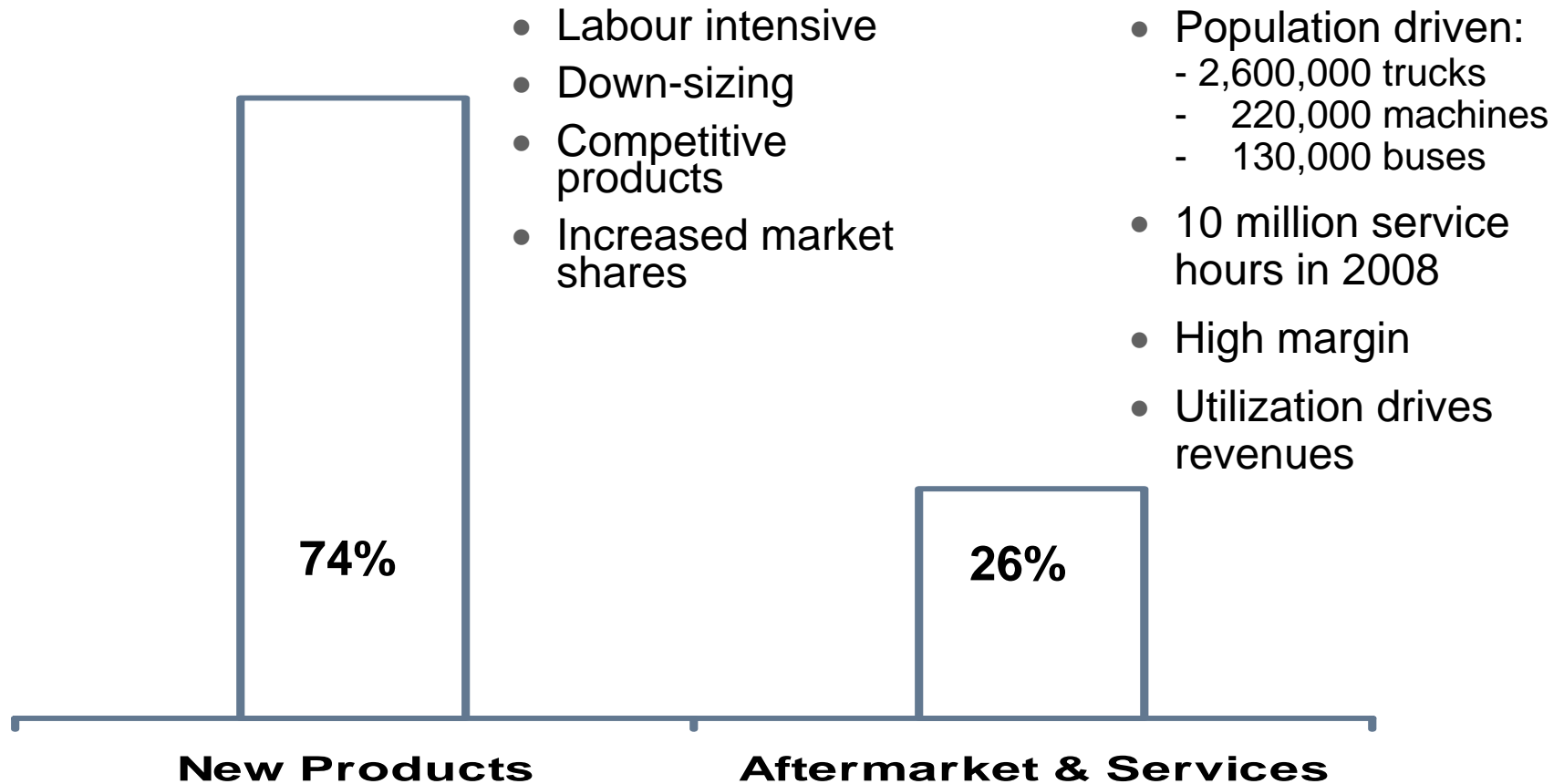


### Lay-offs:

- 16,255 employees/consultants noticed in 2008 and 2009, of which 5,800 left during 2008.
- 7,670 in Sweden  
2,223 in France  
2,328 in the US  
4,034 in other countries  
16,255 in total
- Corresponding to 56% of temps/consultants and 10% of ordinary employees

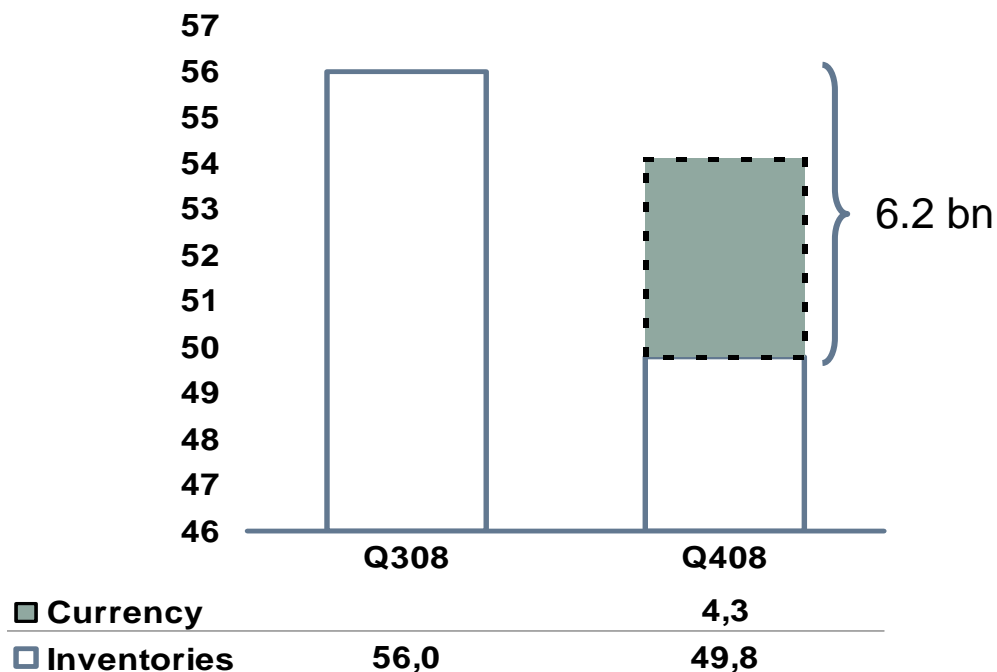
# Volvo Group – Products and Services

Sales, %



# Working Capital

## Inventories, SEK bn



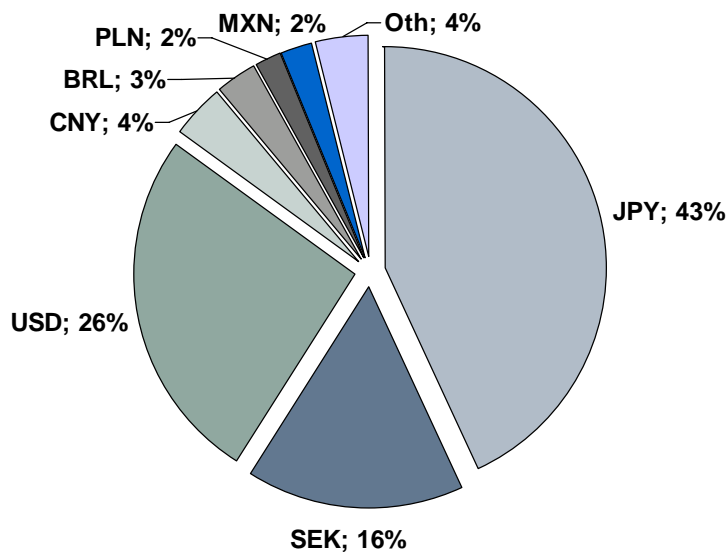
- Industrial operating cash flow; positive 1.8 bn in the quarter
- Focus on working capital
 

- Receivables	- 1.6 bn
- Inventories	- 6.2 bn
- Payables	+ 3.6 bn
- Other	<u>- 0.9 bn</u>
<b>Total change</b>	<b>- 5.1 bn</b>

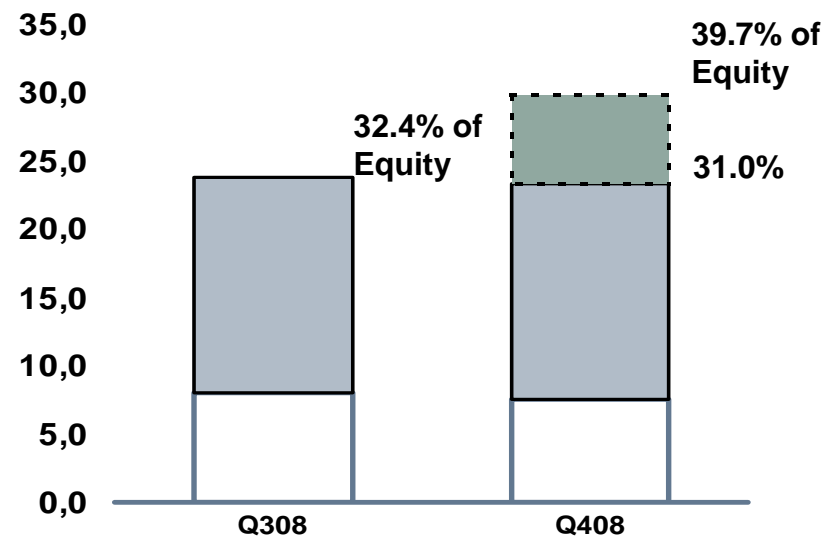
# Volvo Group – Net Financial Debt

## Industrial Operations

Net debt by currency



Net debt, SEK bn



	Q3-08	Q4-08	Change
SEK/JPY	0,065	0,086	+32.6%
SEK/USD	6,78	7,75	+14.3%

	Q3-08	Q4-08
Currency	8,0	6,5
Financial Debt	15,8	15,7
Pensions	8,0	7,6

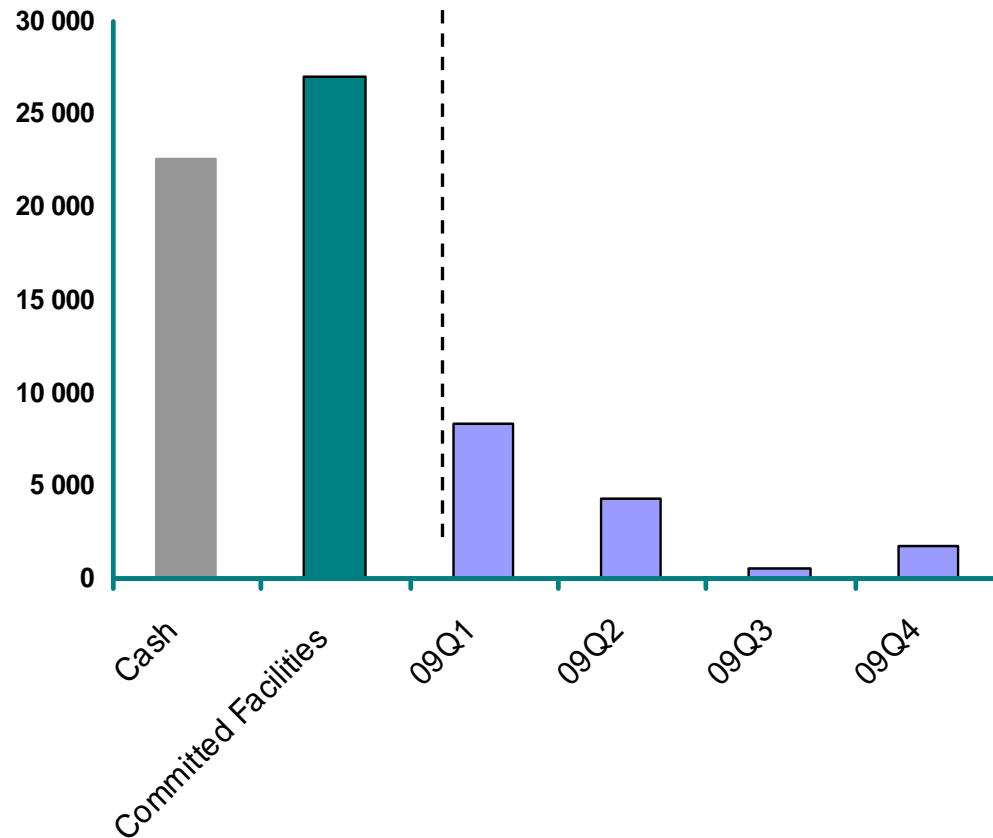


# Volvo Group Industrial Operations

08Q4 Cash Reserves  
/ Committed Facilities

Maturity Structure 2009

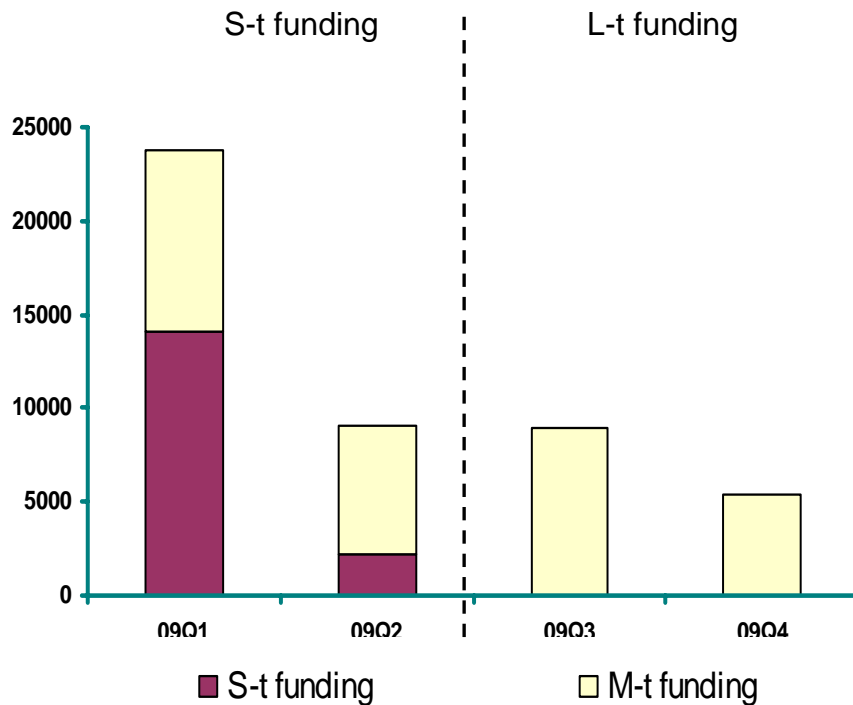
Funding Activities 2009



- European Investment Bank
- Development Bank of Japan
- Bank market in Japan
- Bond issuance in various markets
- Other Agency funding (EKN, NIB, SEK)

# Volvo Group Customer Finance

## Maturity Structure – 2009



- Customer financing portfolio amortizes in accordance with debt maturities
- New funding need depends on demand for new financing in Financial Services
- SEK 14 bn issued on the commercial paper program in Q4-08

## Funding Activities 2009

- Commercial Papers in various programs
- Securitization and asset syndications
- Regional funding lines (committed)
- Bank market (committed)

# Pensions

Asset Allocation	US	Sweden	UK
Equity	53%	37%	37%
Fixed Income	47%	63%	63%
Performance -08	-24.4%	-16.8%	-9.6%

## Conclusion

- Main plans in Sweden, UK, US, France and Japan
- Corridor method
- Contribution according to plan
- Cash infusion above plan of about USD 35 M in H2-09, for US pension plan
- Rates according to previous years

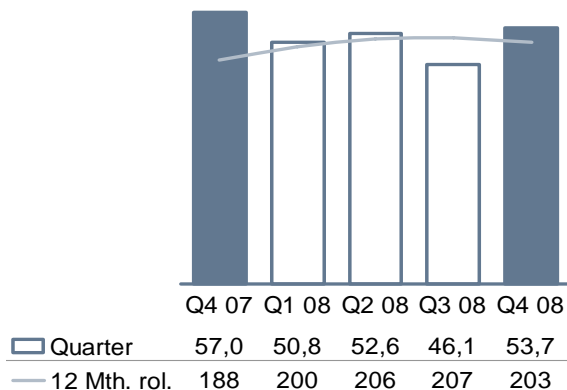
Actuarial Assumptions -08	US	Sweden	UK	France
Discount rate	5.75-6.25%	4.5%	5.75%	5.25%
Inflation	2.5%	2.0%	3.0%	2.0%
Expected return on assets	7.65%	6.0%	4.6-6.1%	-
Expected salary increases	3.5%	3.5%	3.75-4.9%	3.0-3.25%

# Trucks



## Net sales

SEK bn

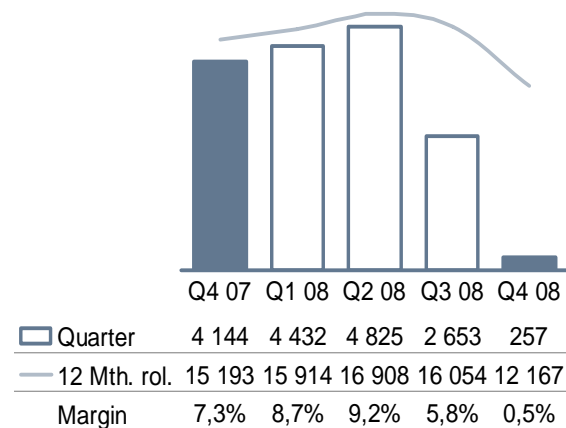


## Highlights

- Significant slowdown globally
- Operating income down driven by lower sales and under absorption
- Production system and overhead costs being adjusted to lower demand
- Inventories reduced by 13% in units

## Operating income

SEK M



## In Focus

- Downsizing and flexibility
- Cost efficiency and productivity
- Drive aftermarket and services
- Further inventory reductions
- Prepare for new emission regulations

# Trucks – Net order intake

<b>Net order intake</b>	<b>2008<sup>1</sup></b>	<b>2007<sup>1</sup></b>	<b>Change</b>	<b>Q4-08</b>	<b>Q4-07</b>	<b>Change</b>
Europe	46,784	174,987	-73%	-1,549	41,403	NA
North America	23,648	26,008	-9%	4,037	8,879	-55%
South America	14,100	18,209	-23%	1,087	5,775	-81%
Asia	47,001	45,236	+4%	7,868	14,525	-46%
Other markets	17,547	18,556	-5%	2,235	5,835	-62%
<b>Total</b>	<b>149,080</b>	<b>282,996</b>	<b>-47%</b>	<b>13,678</b>	<b>76,417</b>	<b>-82%</b>

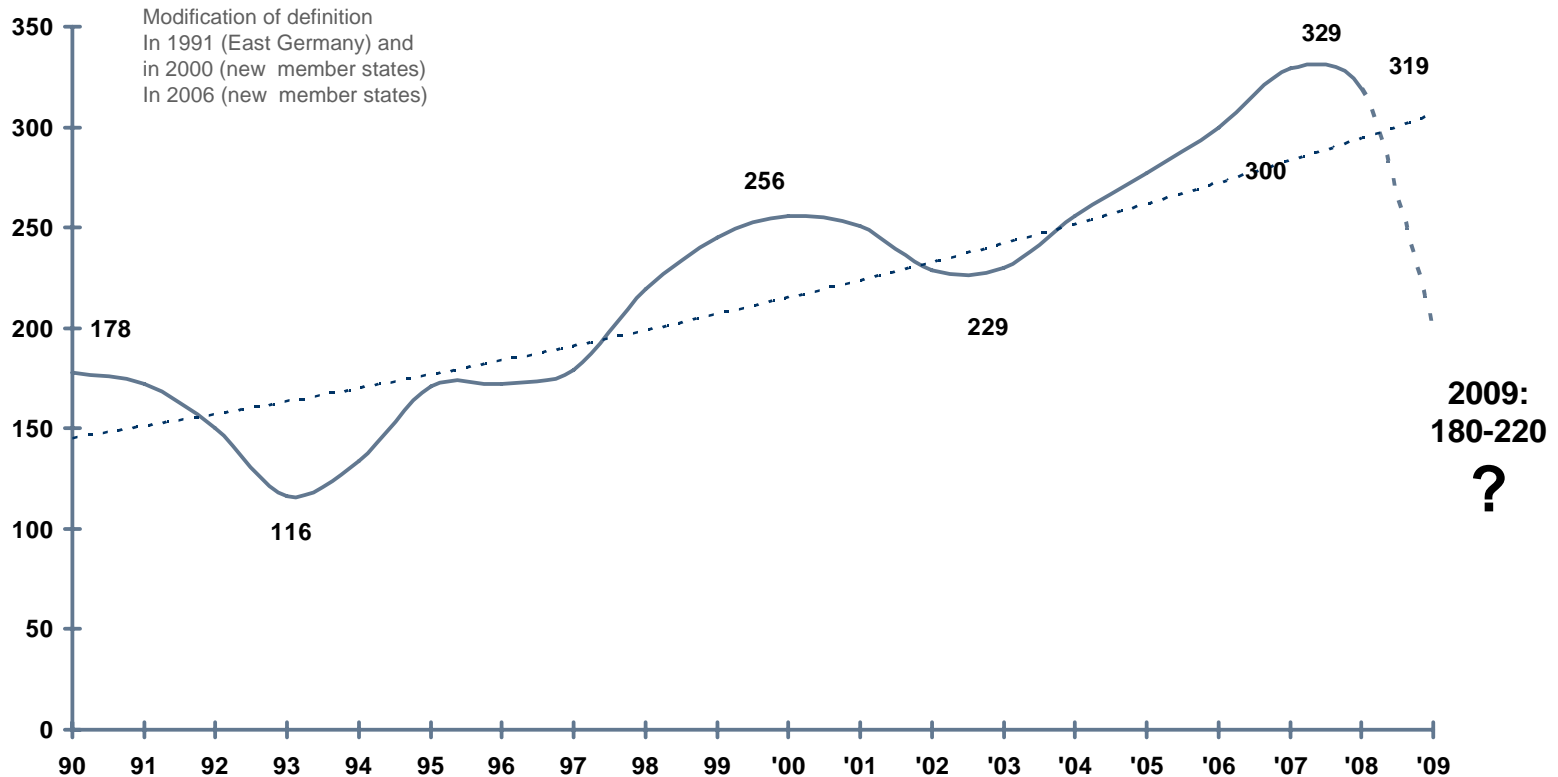
1) 50% of VECV, the joint venture with Eicher Motor Limited, was consolidated in the Volvo Group on August 1, 2008. Nissan Diesel was consolidated into the Volvo Group on April 1, 2007.

# Heavy-duty truck market - Europe

(EU members + Switzerland and Norway)



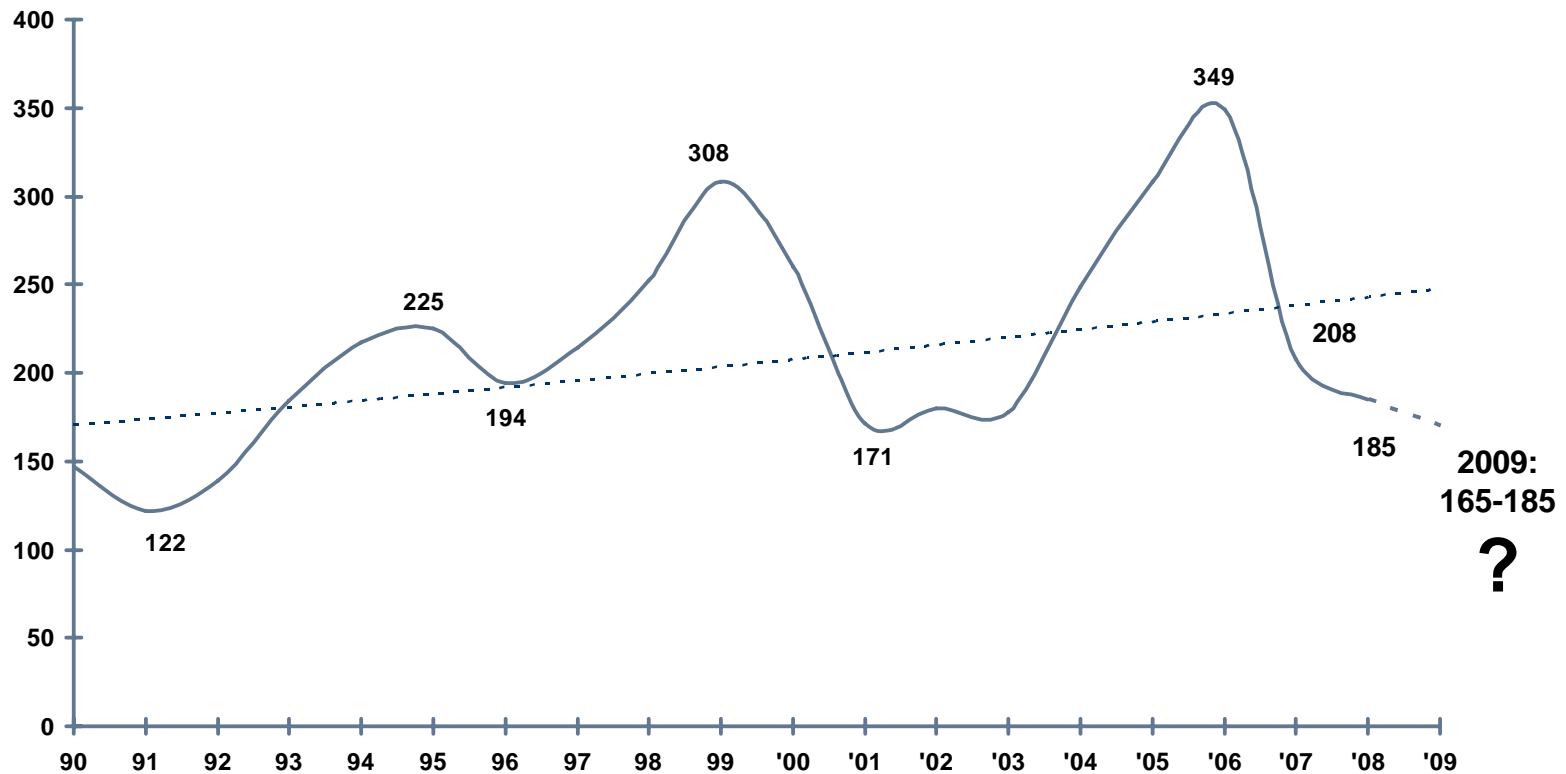
Units, Thousands (heavy trucks)



# Heavy-duty truck market – North America



Units, Thousands (heavy trucks)



# Trucks



## Volvo Trucks

- Market shares gained in Europe 14.8% (14.6)
- Production adjustments in Europe
- Inventories reduced
- New Volvo FH16 – 700 hp

## Renault Trucks

- Improving market shares in Europe
  - Heavy duty 10.8% (9.9)
  - Medium duty 9.7% (8.7)
- Adjustment of production rates
- Inventories reduced
- Distribution agreement on Renault Trafic



## Mack Trucks

- Deliveries down 21%, market share steady
- Downturn management
  - Inventories significantly reduced
  - Production rates and manning reduced
  - White collar employment reductions
  - Union negotiations continue
- EPA '10 testing well advanced

## Nissan Diesel

- Market share increased
- Adjustment of production rates
- Reduction of temporary workers
- Integration phase 1 completed



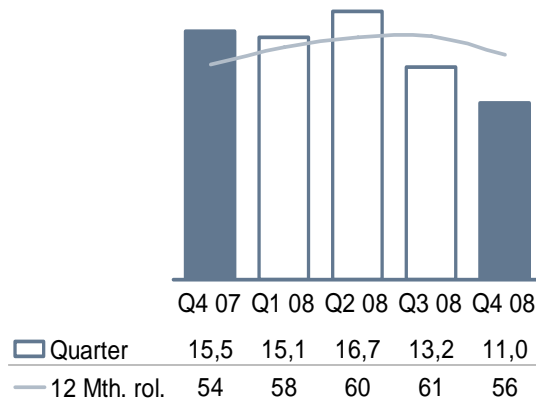


# Construction Equipment



## Net sales

SEK bn

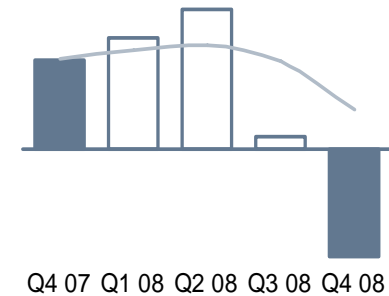


## Highlights

- Total world market decreased by 39%
- Volvo CE sales down 29%
- Substantial loss due to low volumes, under absorption and currency
- Factories closed 24 days out of 60 (40%) during the quarter
- Inventories reduced by 19%

## Operating income

SEK M



	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08
Quarter	1 035	1 301	1 629	134	-1 256
12 Mth. rol.	4 218	4 573	4 804	4 099	1 808
Margin	6,7%	8,6%	9,7%	1,0%	-11,4

## In Focus

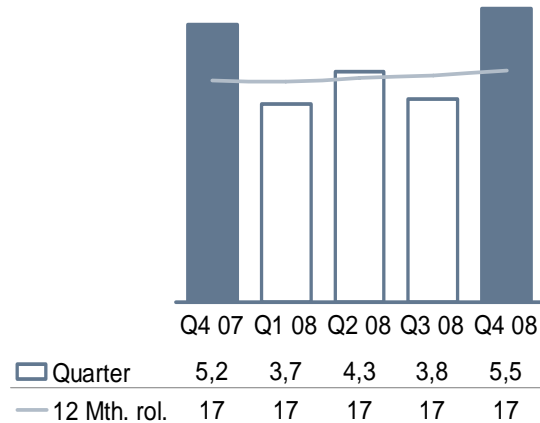
- Capacity adjustments to meet lower demand
- Inventory reduction by another 20% during Q1 & Q2
- Execution on new organization set up

# Buses



## Net sales

SEK bn

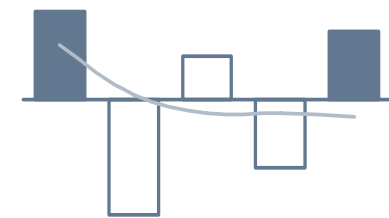


## Highlights

- Profitable fourth quarter
- Volvo 9700 launch in US
- More city bus orders

## Operating income

SEK M



Q4 07 Q1 08 Q2 08 Q3 08 Q4 08

Quarter	93	-122	46	-72	72
12 Mth. rol.	231	19	-57	-56	-76
Margin	1,8%	-3,3%	1,1%	-1,9%	1,3%

## In Focus

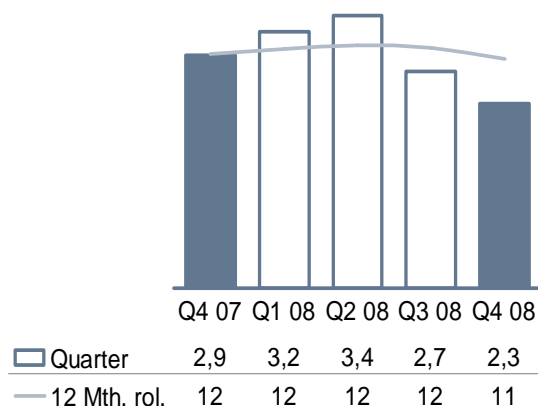
- Turnaround program/Downturn management
- Inventory management
- Euro 5 introduction
- Hybrid field test in London

# Volvo Penta



## Net sales

SEK bn

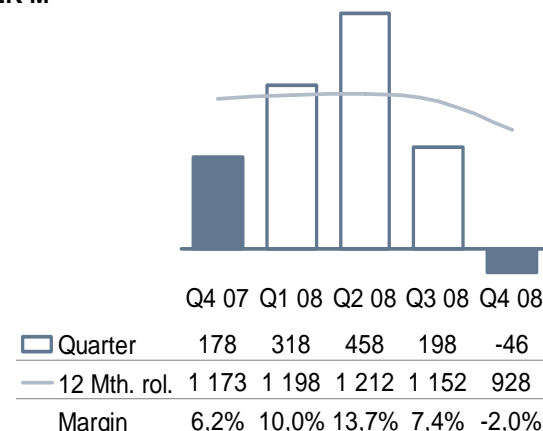


## Highlights

- Lower sales due to world market declines for marine engines
- Continuous strong development for industrial engine sales, + 8%
- Operating income negatively effected by downsizing costs

## Operating income

SEK M



## In Focus

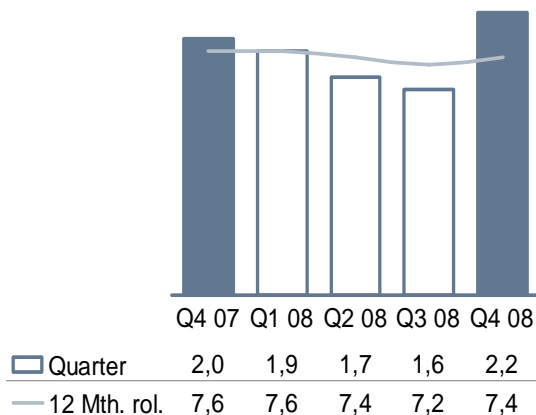
- Secure operating efficiency in new downsized structure
- Manage operating capital in order to secure positive cash flow
- Capitalize on momentum and strong market positions for industrial engines

# Volvo Aero



## Net sales

SEK bn

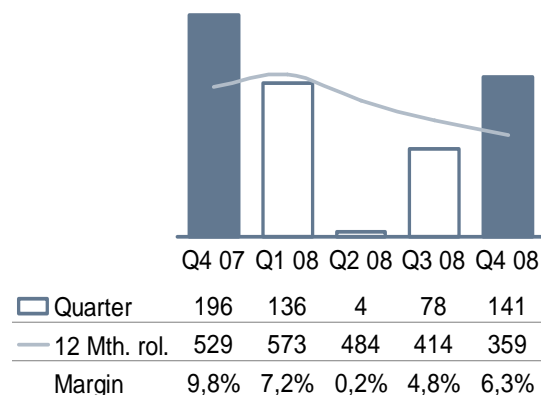


## Highlights

- Declining air traffic, growing surplus of aircraft
- Business positively affected by the high USD
- Push outs from Boeing and Airbus affects volumes and margins
- Lower capacity utilization
- Announcements of layoffs

## Operating income

SEK M



## In Focus

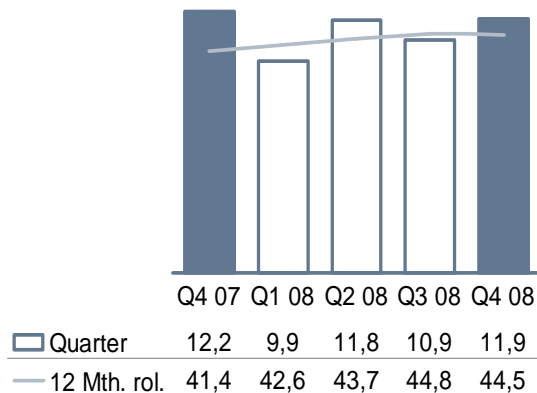
- Adjusting to the downturn
- Cost management
- Aviation Services sales and profitability
- Execution on new contracts
- Securing future space activities

# Financial Services



## New retail financing

SEK bn

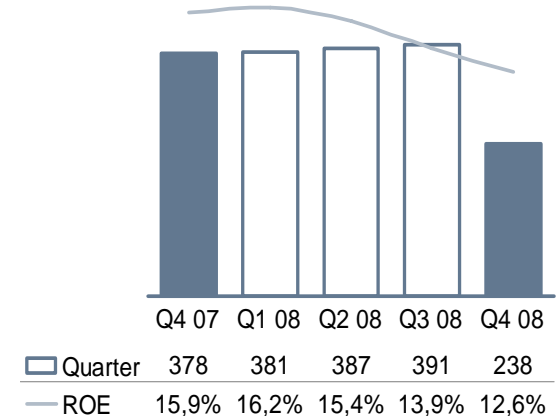


## Highlights

- Good new business volume and penetration
- Strict underwriting policy
- Heightened portfolio management
- Increased credit provisions

## Operating income and return on equity

SEK M



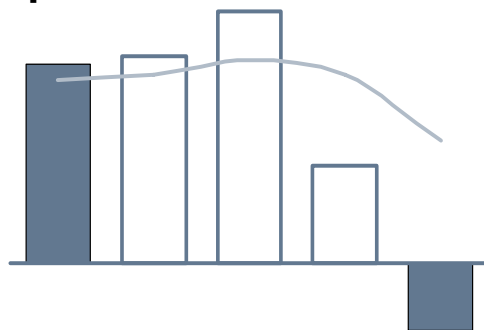
## In Focus

- Diligent portfolio management
- Competitive funding
- Continued profitability

# Group Summary



## Earnings per share SEK



	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08
Quarter	2,00	2,07	2,53	0,98	-0,67
12 Mth. roll.	7,37	7,59	8,14	7,58	4,90

## Return on equity



	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08
ROE	18,2%	19,2%	20,5%	18,9%	12,1%

## Fourth quarter

- Sales down 9%, -15% adjusted for FX
- Significant production cut backs
- Operating loss
- Substantial reduction in working capital
- Positive cash flow

## In focus

- Rapidly adjust cost
- Efficiency and productivity
- Develop and introduce environmentally friendly and fuel efficient products
  - New emission steps (Euro 5 & US'10)
  - Hybrids

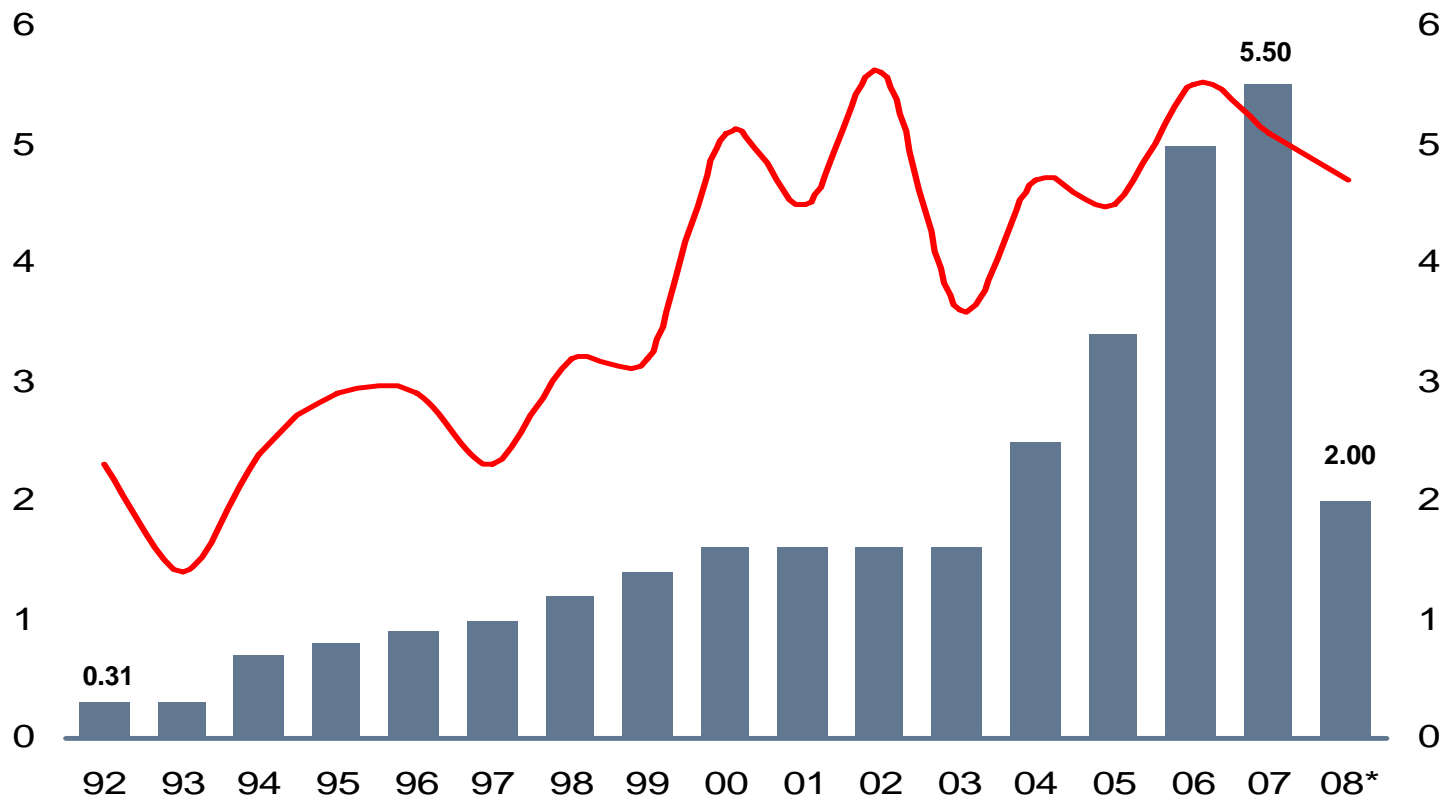


# Dividend over time

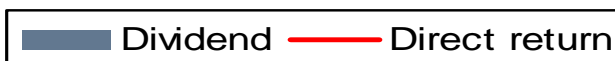


Ordinary Dividend per share  
SEK

Direct return, %



\* Proposed by the Board of Directors



**VOLVO**

**Fourth Quarter 2008**