Strategic direction 2013-2015

Growth in new markets and segments

Pat Olney - President Volvo Construction Equipment
Significant growth opportunities

Good starting point
- Broad and competitive product portfolio
- Committed and aligned distribution
- Dual brands to penetrate both high-end and low-end
- Scale in both premium and value technology & production
- #1 in China

Significant opportunities
- Grow Volvo share in emerging markets
- Leverage Chinese position
- Grow SDLG share globally
- Grow aftermarket business for both brands
Volvo Construction Equipment
2013-2015 Strategy

Profitably grow SDLG business globally
• Achieve significant increase of excavator share in Chinese market
• Grow export business to 10,000 Units
• Grow Customer Solutions export business.
• Operating margin and positive cash flow supporting the overall targets

Increase gross margin per machine
• Achieve gross margin improvement across the product range with 3%

Develop, recognize and promote excellent leadership
• Achieve “high performing” levels of employee engagement
• Achieve 20 point improvement on the following two specific survey questions: PBP Quality and Leadership The Volvo Way

Develop Volvo branded products for emerging markets
• Develop emerging market product to QDCF targets with greater focus on design to cost and time to market.

Increase product portfolio development efficiency
• Reduce average project lead time to 24 months
• Reduce average claims per machine to 1.8

Deploy CAST globally
• Implement modular architecture and CAST technical solutions as per roadmap to achieve full CAST deployment by 2017

Increase share and profitability of Road products
• Achieve rank 1 or 2 in key Road products and significantly improve market share in each region
• Provide a portfolio of competitive Road products designed to cover 80% of Road machinery market

Significantly increase Customer Solutions revenues
• Increase Customer Solutions revenues by 50%
• Increase Customer Support Agreement penetration to 40%

Significantly increase dealer & supply chain capability
• Develop dealer capability to support targeted revenues
• Ensure Volvo CE assembly and supplier capability for targeted revenues
• Achieve 90% delivery precision from our suppliers and to our customers

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• Provide a portfolio of competitive Road products designed to cover 80% of Road machinery market
Significant potential for share growth in China for SDLG

Total market 2011

- **EXCAVATORS**
  - 170,000
  - 2.0%

- **LOADERS**
  - 220,000
  - 15.2%

SDLG brand
- Strong brand image in the value segment
- Pan-Chinese dealer network
- New range of competitive excavators

**To do:** Upgrade dealer network to sell and support excavators (advanced technology)

**Continue excavator share growth**
Significant potential for share growth in China for Volvo

Volvo brand
- Strong brand image
- Well performing and committed dealer network

To do: Launch new low-cost wheel loader (BRIC-loader)
Great potential for Common Architecture and Shared Technology (CAST) - implementation started

Western technology
Low cost solutions

New excavator range
2012

Volvo BRIC-loader
2013
Need to address the segments with the right product – wheel loader example

Volvo Construction Equipment
Capital Market Day 2012

- **BRAZIL**
  - Premium: 36%
  - Value: 32%
  - Basic: 32%

- **AFRICA**
  - Premium: 26%
  - Value: 11%
  - Basic: 62%

- **CHINA**
  - Premium: 1%
  - Value: 68%
  - Basic: 31%

INCREASING SOLUTION REQUIREMENT

Price

100%

90%

80%

70%

60%

50%

40%

30%

20%

10%

0%
New brand positions to reach all customers

- **Price level**
  - PREMIUM SEGMENT (70-100%)
  - VALUE SEGMENT (40-70%)
  - BASIC SEGMENT (<40%)

- **Technology level**
  - INCREASING SOLUTION REQUIREMENT

BRIC
Significant potential to grow Volvo share in emerging markets

Volvo BRIC-loader in 2013

- First example of leveraging SDLG cost base for Volvo branded products
- Improve competitiveness of the Volvo dealer network in emerging markets
- Introduced in China from 2013 and other emerging market tbd
- Attracting new customers – share growth
- Not discounting premium products – margin growth

Substantially lower cost vs. global Volvo products
Rollout of SDLG to start in emerging markets

Targeting 10,000 SDLG units per year outside China by 2015
(Today 3,900 units/year)
Competitive edge vs. other domestic Chinese to expand SDLG globally

Products - Leverage existing and proven Volvo technology at the right phase

Industrial – leverage existing global footprint

Suppliers – leverage existing global footprint

Distribution - leverage existing Volvo distribution (Tier1)

Aftermarket – leverage existing infrastructure of the Volvo Group i.e. parts warehouses and distribution
Realizing the full potential of both brands globally

**Volvo CE 2015**
- Improved Volvo share in emerging markets
- Stronger position in China
- SDLG introduced in emerging markets outside China
- Shared architecture appropriately differentiated between Volvo and SDLG