

CUSTODIAN OF A SCANDINAVIAN ICON



THE HEAD OF GEELY HOLDING GROUP EXPLAINS WHAT LED HIM TO ACQUIRE THE QUINTESSENTIAL SWEDISH BRAND, VOLVO CARS, IN A BOLD \$1.5BN TRANSACTION AND HOW HE PLANS TO NURTURE THE EUROPEAN AUTO MAKER

BY LI SHUFU, CHAIRMAN, GEELY HOLDING GROUP,
AND CHAIRMAN, VOLVO CARS

Until the fall of 2009, few business leaders or drivers in the mature markets of Europe and North America had ever heard of Geely Holding Group.

But China's largest privately owned automotive group, which I founded 24 years ago, would soon become a familiar name in the business pages of the world's leading media.

Our company hit the headlines in October 2009 after being named as the preferred bidder for one of the most famous names in the automotive industry, a premium brand associated with safety, quality, environmental care and modern Scandinavian design: Volvo Cars. We have remained in the public eye ever since, culminating with the recent completion of the acquisition of the Swedish company.

For generations, motorists around the world had associated Volvo Cars with technical innovation, leading Scandinavian design, product integrity, environmental care and the safest vehicles on the market. Put simply, Volvo is a brand you trust.

From the moment I entered the auto industry, I had a dream to build a trusted brand like Volvo.

I understood that for Geely to complete an audacious offer to acquire Volvo Cars from Ford Motor, we had to win the hearts and minds of many people in Sweden and elsewhere, for this would represent the largest automotive takeover by a Chinese company.

The "trust challenge" was far more than a public relations exercise; it was central to our bid proposal.

From the moment we were named preferred bidder for Volvo Cars, Geely had to secure the trust and support of every part of the Volvo community. This meant educating a wide range of audiences about our company's past, its values and culture, its approach to car-making and its ambitions for the future.

We had to demonstrate to employees, unions, suppliers, dealers, politicians, regulators and above all customers, that Geely would be a good guardian of the Volvo brand. We also had to show the value Geely would bring to Volvo over the long term. We had to do all this while respecting our confidential negotiations and undertakings to Ford, which had carefully nurtured the famous Swedish carmaker during its 10 years of ownership.

From the start, this was a difficult and sensitive exercise. Geely was a fast-growing company from a country that had become the world's largest car market. But we were also relatively unknown 

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outside China, in spite of developing popular cars for motorists at home and abroad.

In addition to our own challenges, we had to overcome suspicions in the West about Chinese corporate behavior in general, particularly regarding respect for intellectual property rights. So, Geely embarked on a detailed plan that could become a case study for a young, fast-growing Chinese company acquiring a revered global brand.

To help us, we assembled a team comprising banking advisors from Rothschild, lawyers from Freshfields, integration specialists at Deloitte and KPMG, and Brunswick on the communications side. At an early stage, Hans-Olov Olsson, the former President and Chief Executive of Volvo Cars, also provided positive support and counsel because he was confident Geely would be a good guardian of the company.

On August 2 2010, our collective efforts were rewarded when Ford and Geely signed the last of several thousand sale documents, transferring ownership of Volvo Cars to Geely Holding Group. It was a historic day for the Chinese auto industry.

To get there, we had to negotiate detailed term sheets and technology agreements with Ford. The US auto maker's willingness to agree to undertakings with Geely on intellectual property and future supply arrangements was an important mark of trust.

That alone was not enough. We also recognized that labor support was vital. That encouraged us to

engage in close and lengthy discussions with the union leaders at Volvo Cars. Over several months, we met union representatives in Sweden and Belgium, home to Volvo's manufacturing operations, to assure them of our intentions. We also invited them to Geely's plants to gain understanding and knowledge of what Geely has built in terms of both facilities and corporate value.

Those intentions were crucial to winning the trust argument. First, we assured them, and all employees at Volvo, that Geely would remain Geely – a company focused on the volume segment of the car market, foremost in China. Second, we promised Volvo would remain Volvo, a distinct Swedish company with its own business plan, its own board and its own headquarters in Gothenburg.

It was also critical that Volvo had confidence Geely could help the firm to grow. Our entrepreneurial focus had enabled Geely to become one of China's biggest independent auto manufacturing groups with compound annual growth in sales of 53 per cent over the past five years.

Beyond the numbers, Geely had also demonstrated commitment to independent innovation, strong respect for talent and good corporate citizenship. For example, to promote education, it has established multiple higher education facilities in China, which together have an enrollment of more than 50,000 students.



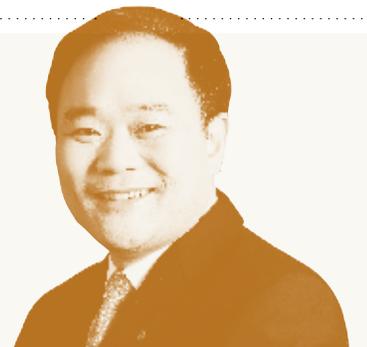
LI SHUFU

Chairman of Volvo Cars, Founder and Chairman, Geely Holding Group

Born in Taizhou, Zhejiang, China in 1963, Li Shufu has a bachelor's degree in management engineering from Harbin University of Science & Technology and a master's in mechanical engineering from Yanshan University. He started his career in refrigerator manufacturing in 1986, transferring to motorcycle manufacturing in 1993.

In 1997, he moved into auto making. Geely Holding Group is one of China's fastest-growing private carmakers. In March 2010, the company agreed to acquire Sweden's Volvo Cars. The deal was completed on August 2 2010.

Li Shufu is Vice-Chairman of the China Association of Automobile Manufacturers and the Chinese Non-Government Education Association and a member of the National Committee of the Chinese People's Political Consultative Conference.



We also demonstrated that our understanding of the Chinese market would be a strong asset to Volvo. This would enable it to enhance its competitiveness in the world's fastest-growing automotive market and help create new opportunities. Our proposal not only presented a compelling proposition but also had Volvo's best interests in mind.

We repeated those assurances to local and national politicians in Sweden and Belgium, including Maud Olofsson, Deputy Prime Minister of Sweden, and Kris Peeters, Premier of Flanders. Similar undertakings were also given and accepted by regulators in more than a dozen markets where we required regulatory approval including, of course, China.

Not only did we promise to preserve and extend Volvo Cars' special brand appeal in important markets, such as North America and Europe, we also vowed to actively build the Volvo Cars brand in emerging markets, including China.

We explained that China would become Volvo's second home market, after Sweden. We also said we would invest in environmental research and development, while assembling vehicles in China to meet local demand. Taken together, these steps should help Volvo Cars to increase unit sales from close to 400,000 to 600,000 over the next five years. I see Volvo as a tiger. We need to liberate this tiger and empower it as it grows.

Of course, this is easy to say but harder to prove. For that reason, we had to secure the trust and enthusiasm of Volvo management. The company had a fine management team, led with distinction by Stephen Odell, who has since become President of Ford Europe.

It was a crucial test to maintain management confidence in our plans, and that required a new leader who could galvanize the company. After a thorough search, we were delighted when Stefan Jacoby, the highly regarded Chief Executive of Volkswagen Group of America, accepted the position of Volvo Cars President and Chief Executive.

We also appointed a board of directors to help steer Volvo Cars' strategy, of which Hans-Olov Olsson will be Vice-Chairman, acting as my deputy. The board will combine a rich mixture of Western and Chinese business expertise, ensuring we deliver on our promises.

GEELY HOLDING GROUP

As one of the 10 largest companies in the Chinese automobile industry, Geely Holding Group has grown rapidly since its entry into the auto market in 1997. With more than Rmb30bn (\$4.5bn) total asset value, Geely has been one of the top 500 Chinese enterprises for the past six years.

The Group's headquarters is in Hangzhou, the capital city of Zhejiang Province. With eight manufacturing bases in Linhai, Ningbo, Luqiao, Shanghai, Lanzhou, Jinan, Chengdu and Xiangtan, annual production capacity is expected to reach 600,000 vehicles in 2011. More than 15,000 people are employed by the Group, including 2,000 technicians.

There are around 1.2m Geely cars on the road globally. It has exported more than 100,000 cars outside China and is among the few Chinese carmakers that exports. The Group also has operations in Ukraine, Russia and Indonesia.

Geely produces more than 30 models, all of which conform to European Emission Standard III; some to Standard IV. The Group has a nationwide sales and marketing network which includes nearly 900 dealers and 1,000 service stations. A call-center provides a round-the-clock service to customers.

Some 50,000 students are enrolled in Beijing Geely College, Sanya College of Hainan University and Zhejiang Automobile Vocational Technology College, all set up by the Group. Every year, nearly 10,000 students graduate and start to work in China's auto industry.

At each step of this process, we had to proceed with caution. Geely had to ensure its negotiating position and messages were consistent and fair. We could not afford to jeopardize the deal by losing trust with any of the constituents whose support we needed.

So we did what Volvo Cars is famous for: we paid attention to detail; we approached the deal with care and integrity; and we adopted a safety-first attitude in what we did and said.

Now that we have completed the transaction, the hard work begins. We are embarking on a long journey to put our words into action. When it comes to building Volvo Cars for the next generation, I will never forget that it is a matter of trust. ☺

Tim Burt from London, Annette Brodin Rampe and Anders Fogel from Stockholm together with Cai Jinqing from Beijing led a global Brunswick team to support this transaction for 12 months.