

Volvo Group

A close-up, low-angle shot of a Volvo car's front left side. The image shows the headlight assembly, which features a grid of LED lights, and the side mirror. The car's body is a light blue color. The background is a blurred landscape with green hills and a clear sky, suggesting a scenic drive.

Third quarter 2014

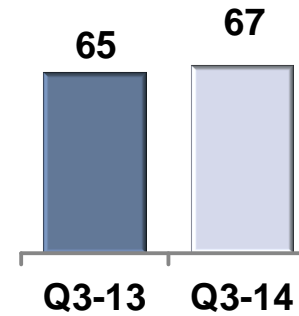
OLOF PERSSON, CEO

VOLVO GROUP

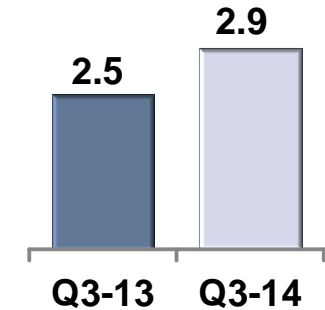
Improved earnings in a mixed economic environment

- Slow global economic recovery
- Structural cost reductions clearly visible in the result
- New initiatives for further cost reductions

NET SALES SEK bn

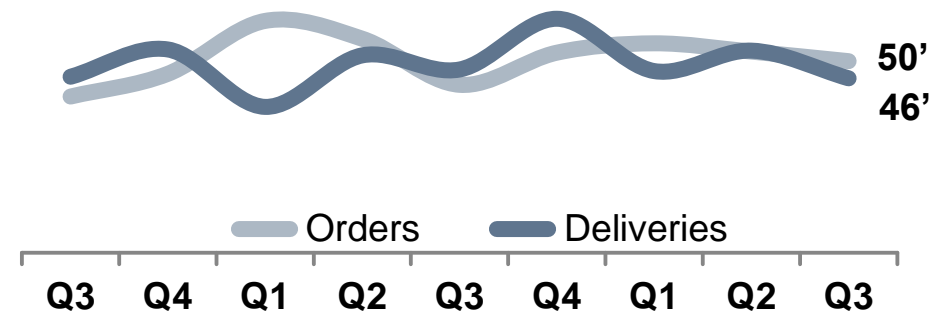


OPERATING INCOME* SEK bn



TRUCK ORDERS & DELIVERIES

Units, orders up 14% and deliveries down 5% compared with Q3 2013 – book to bill: 110%



TRUCKS EUROPE

Europe moving sideways – increased uncertainty

- Increased uncertainty in European demand
 - Economic development in Europe
 - Development in Russia/Eastern Europe
- Good reception of the new Volvo ranges with good pricing
- Renault Trucks T – International Truck of the Year 2015
- Low order intake for Renault Trucks
 - Transitioning to the new ranges & slow demand in France
- Market shares Ytd Aug:
 - Volvo 17.0% (+1.4)
 - Renault 7.9% (-0.8)

ORDERS & DELIVERIES

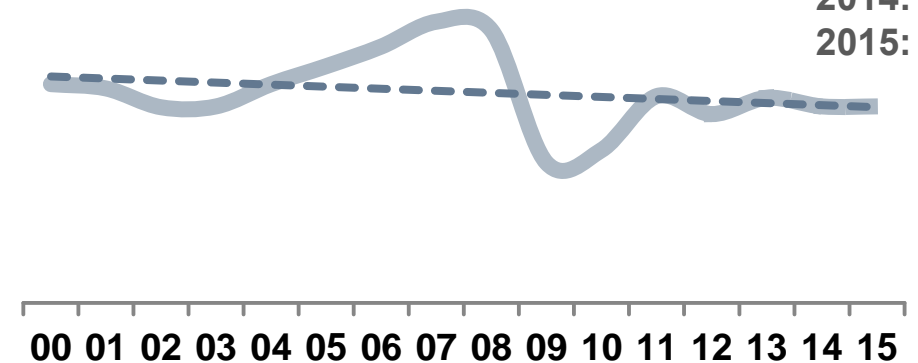
Book to bill: Q3 104%



TOTAL MARKET

2013: 240' trucks

Forecast:
2014: 230'
2015: 230'



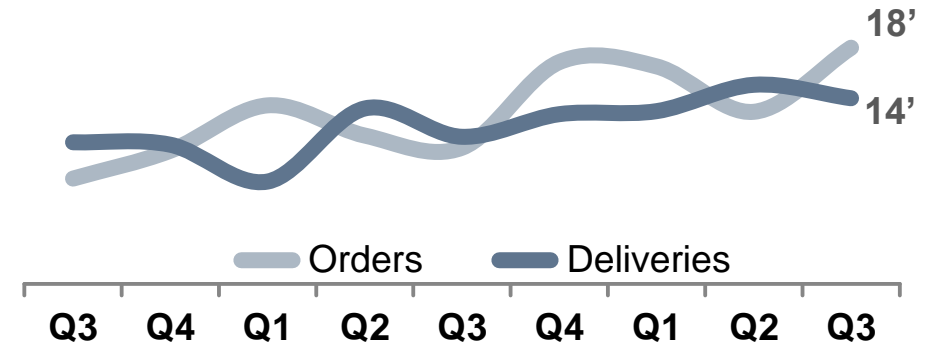
TRUCKS NORTH AMERICA

Good momentum

- Strong market continues
- Improved prize realization & customer mix
- Success for integrated drivelines
 - AMT now standard on Mack highway
- Ytd market shares in US & Canada:
 - Mack 8.6% (+0.2)
 - Volvo 12.6% (+1.6)
- Balancing price & market share in a strong market

ORDERS & DELIVERIES

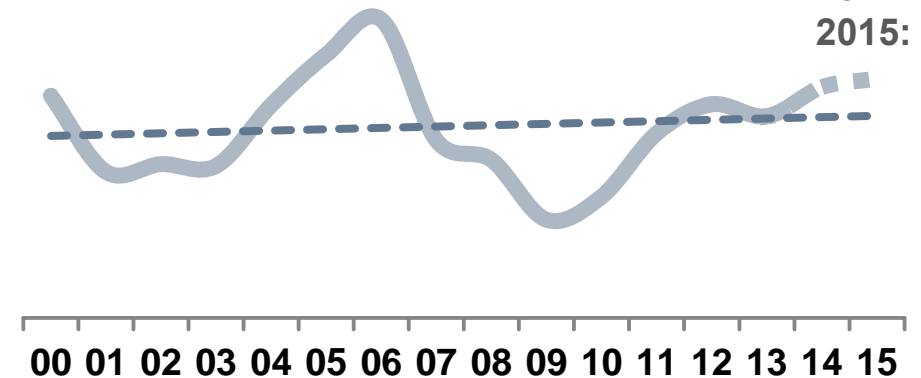
Book to bill: Q3 127%



TOTAL NA MARKET

2013: 236' trucks

Forecast:
2014: 270'
2015: 280'



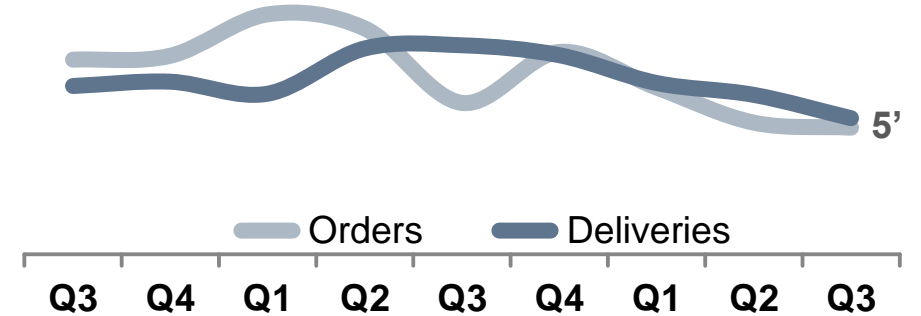
TRUCKS SOUTH AMERICA

Slow demand across the continent

- Weaker economies due to lower commodity prices & weak mining
- Industry overcapacity and elevated inventories resulting in pricing pressure
- New Volvo range announced
 - Transition from old to new in Q4 & Q1-15
- Brazil ytd Sep market shares:
Volvo 21.1% (+1.1)
- Focus on balancing price and market share in a declining market

ORDERS & DELIVERIES

Book to bill: Q3 93%



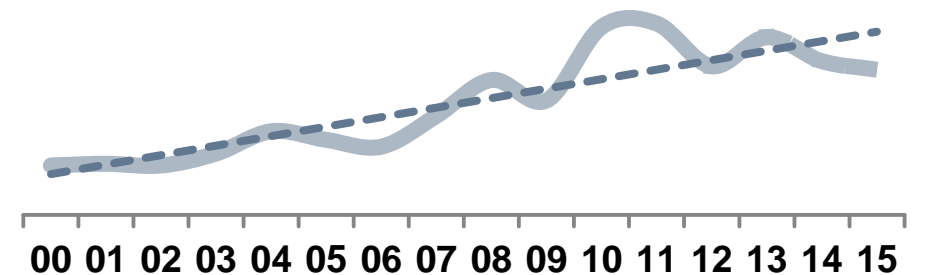
TOTAL MARKET, BRAZIL

2013: 104' trucks

Forecast:

2014: 90'

2015: 85'



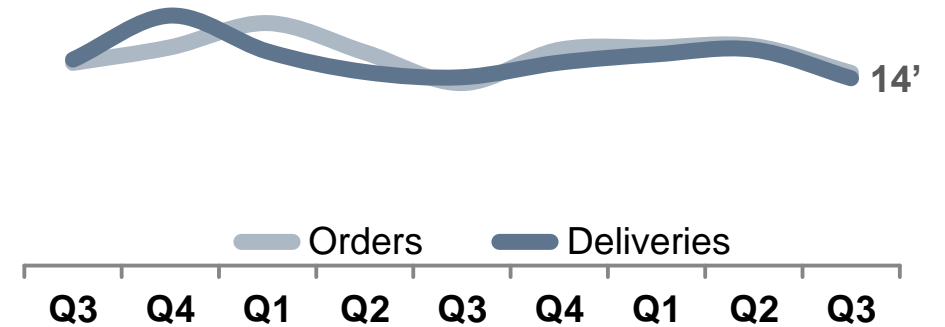
TRUCKS ASIA PACIFIC

Mixed market development

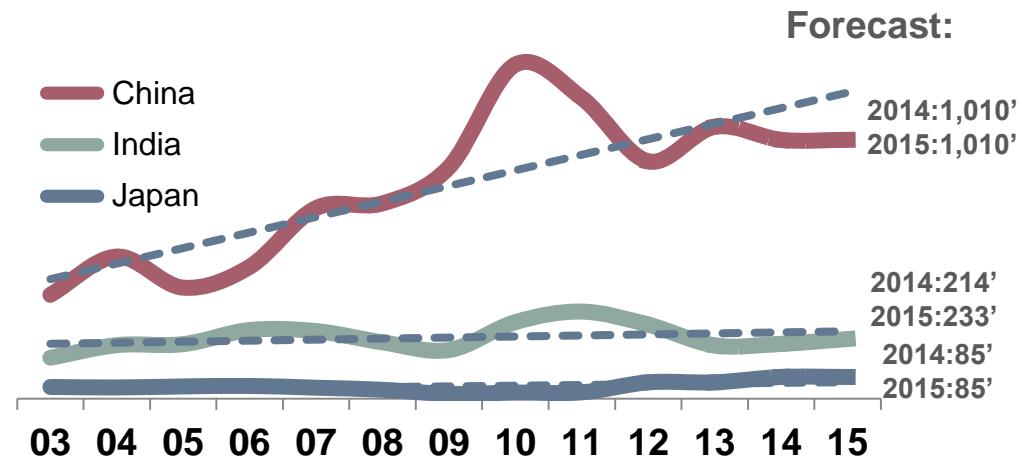
- Continued good demand in Japan from infrastructure investments
- Slow demand in South East Asia
- Recovering demand in India
- Mining sluggish across the region
- UD, HD market share in Japan ytd: 18.4% (+0.4%)

ORDERS & DELIVERIES*

Book to bill: Q3 103%



MARKET OUTLOOK MD & HD



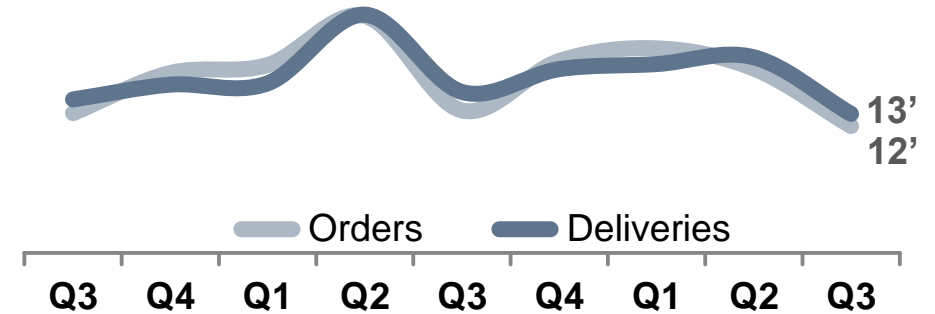
VOLVO CONSTRUCTION EQUIPMENT

Accelerated decline in China – production cuts in Q4

- Total market in China continued the rapid decline, deliveries declined by 38% in Q3
- Good demand in North America and sideways movement in Europe
- Over-capacity and too high inventories – further production cuts in Q4
- Further cost reduction activities addressing
 - cost structure
 - product profitability

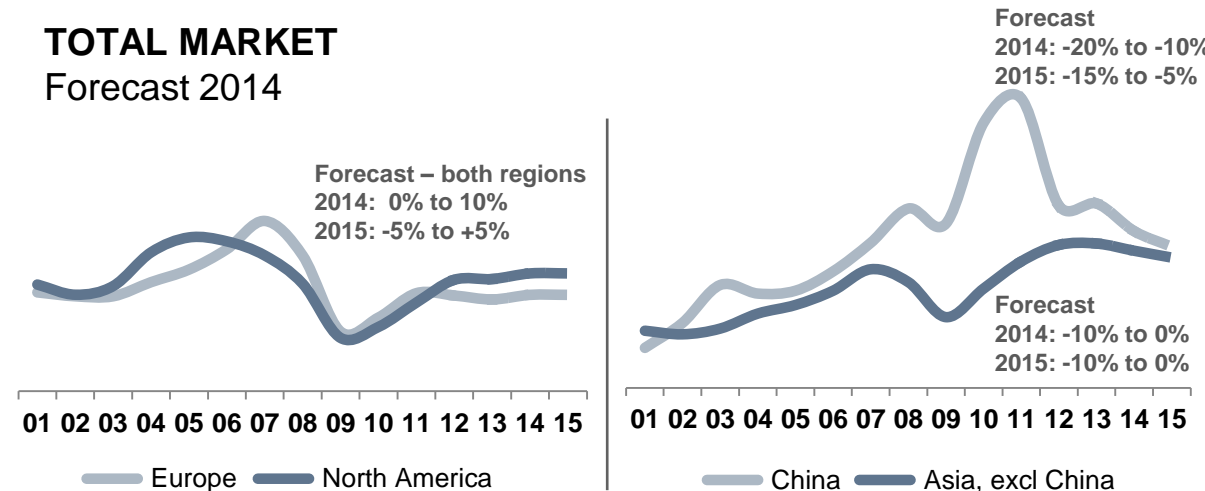
ORDERS & DELIVERIES

Book to bill Volvo: Q3 88%



TOTAL MARKET

Forecast 2014



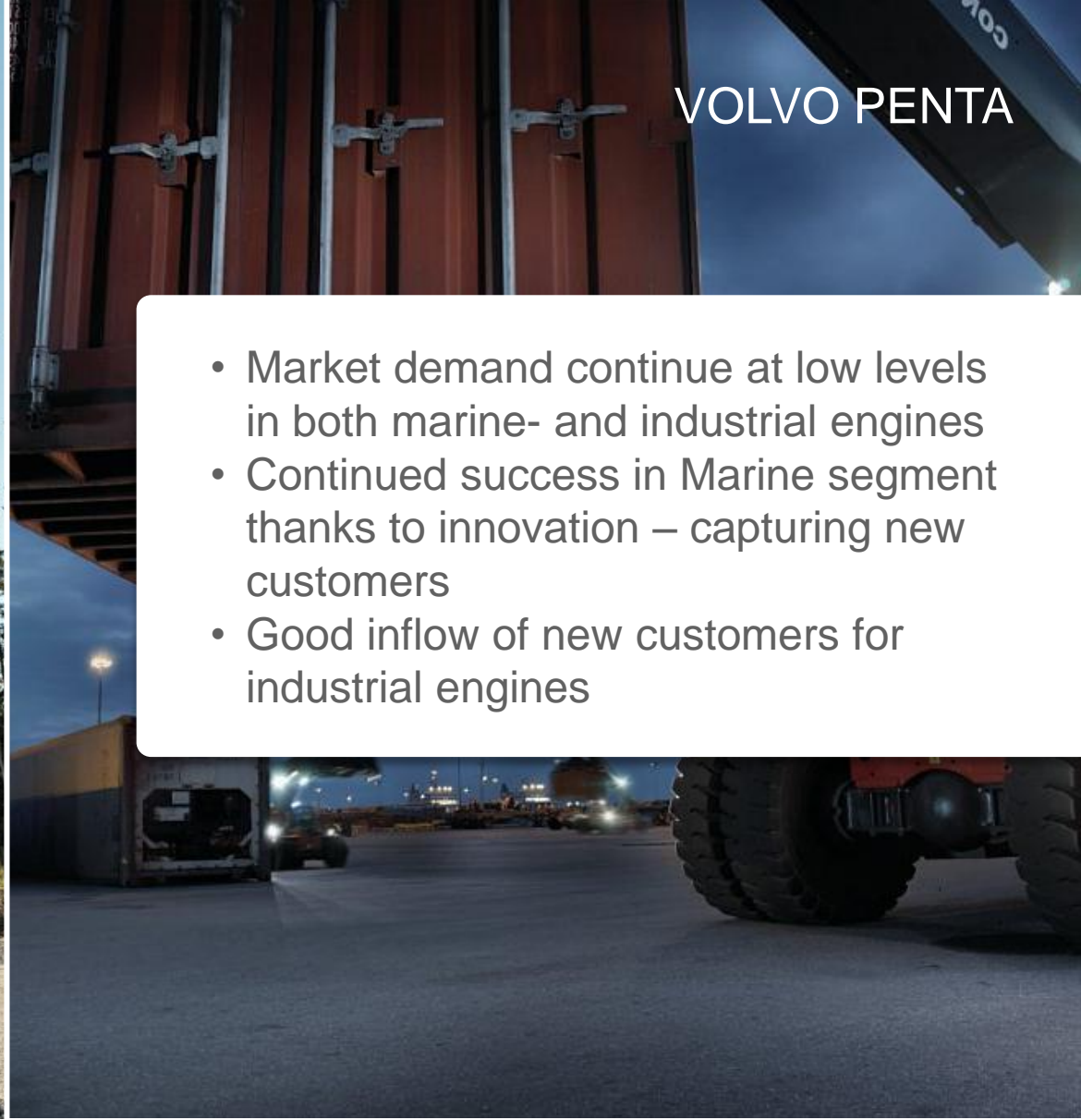
BUSES

- Increased uncertainty in Europe – tenders delayed
- Improving demand in North America
- Launch of Volvo 7900 Electric Hybrid



VOLVO PENTA

- Market demand continue at low levels in both marine- and industrial engines
- Continued success in Marine segment thanks to innovation – capturing new customers
- Good inflow of new customers for industrial engines

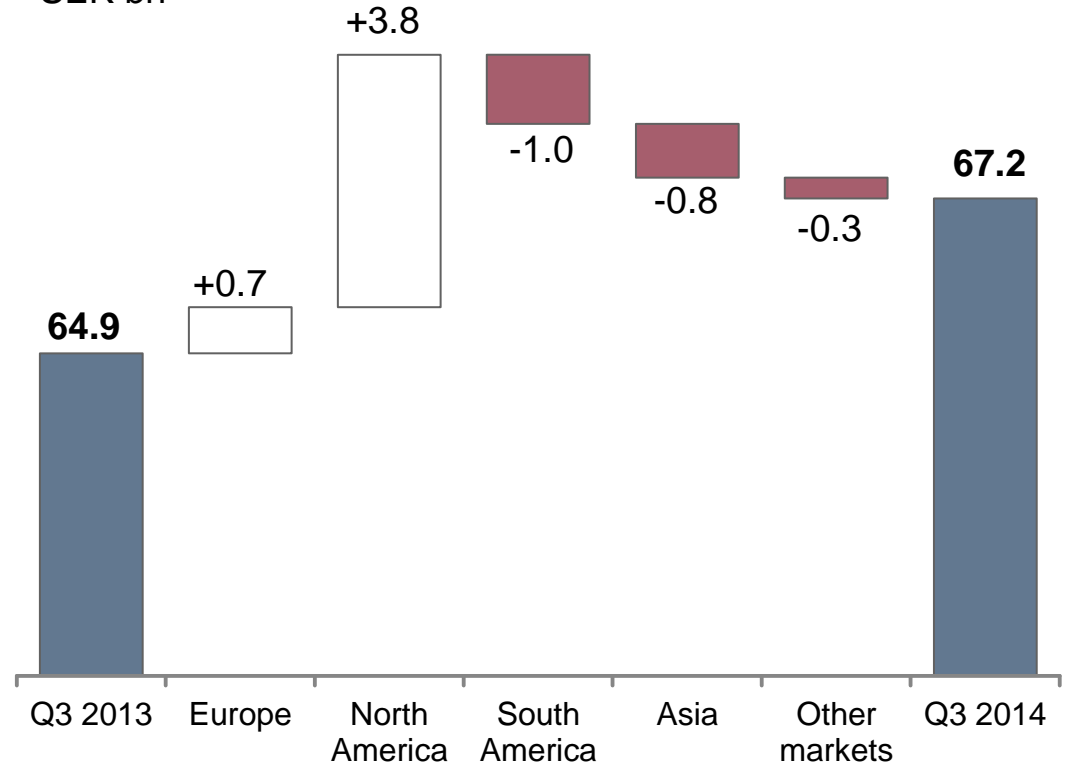


VOLVO GROUP

Good growth in North America partly offset by decline in South America and Asia



NET SALES
SEK bn



Volvo Group Headquarters

Third quarter 2014

A close-up, low-angle shot of the front of a Volvo car, focusing on the headlight and the upper part of the grille. The car is light-colored, possibly silver or white, and the background is a blurred outdoor scene with greenery and a bright sky. The text is overlaid on the left side of the image.

Volvo Group

Third quarter 2014

JAN GURANDER, CFO

VOLVO GROUP

Improvements in all Business areas

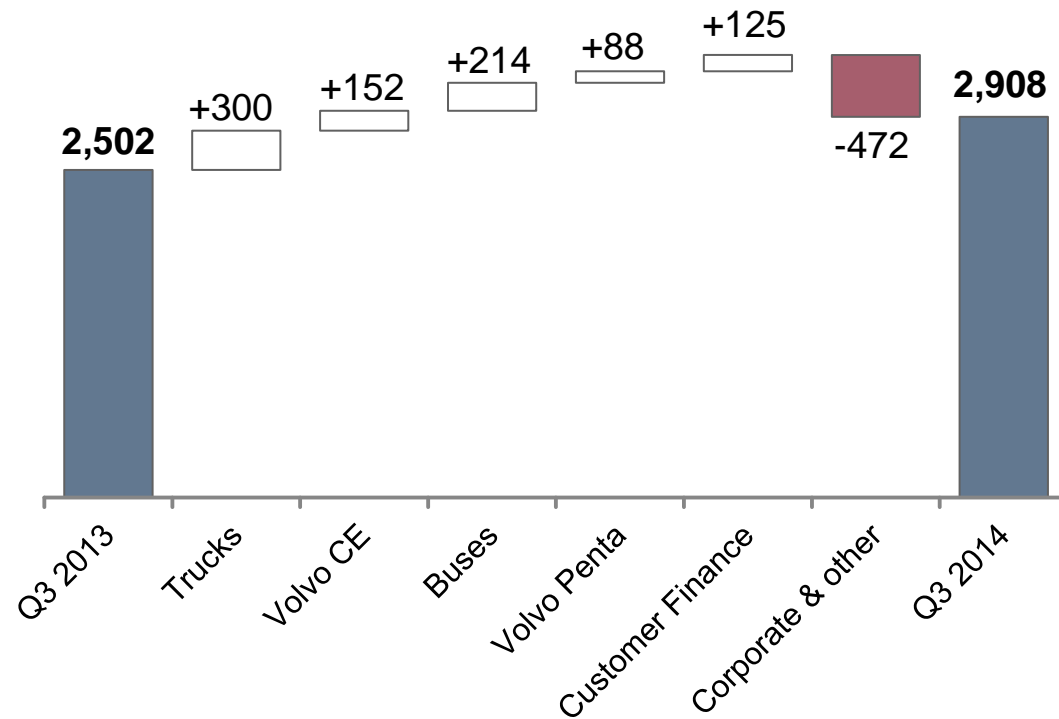
- + Trucks
- + Buses
- + Volvo CE
- + Volvo Penta
- + Customer Finance

- Corporate & other
- EPA litigation 422 M

OPERATING INCOME*

SEK M

➤ FX impact: + 485 M



Volvo Group Headquarters

Third quarter 2014

11

* Excluding restructuring charges

VOLVO

VOLVO GROUP

Good earnings improvement from increased traction in cost savings

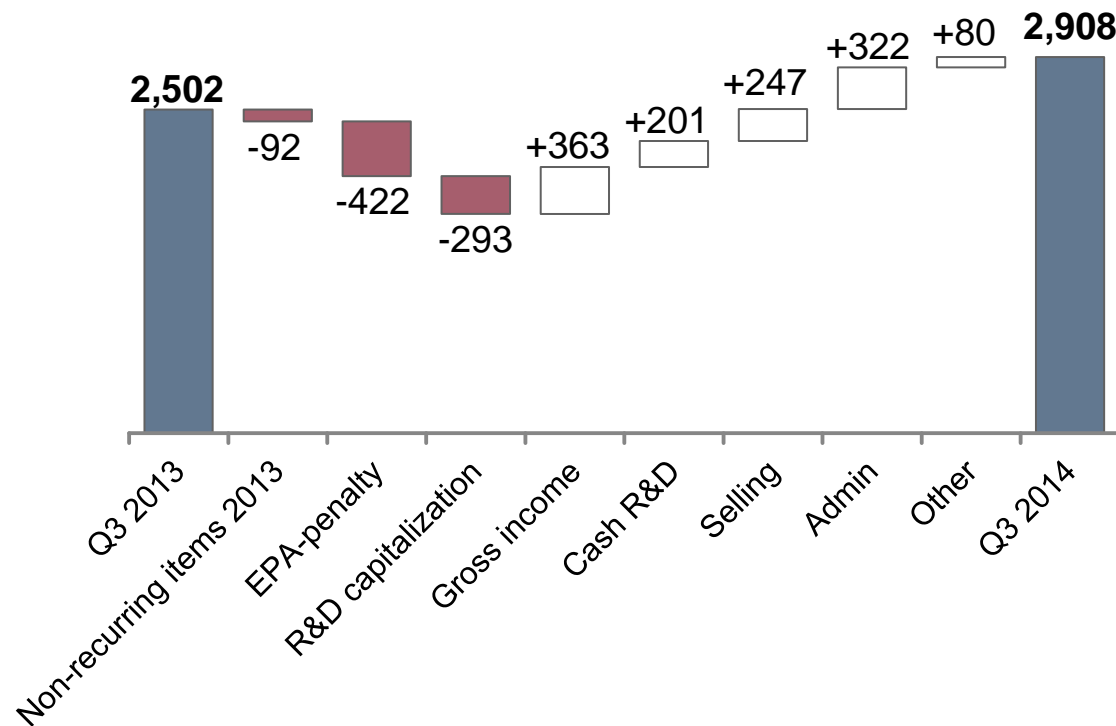
- + Price realization on new Volvo truck ranges
- + Lower selling & admin expenses
- + North American trucks
- + Lower cash R&D spending
- + Increased aftermarket

- EPA-litigation
- Lower capacity utilization
- Reduced R&D capitalization

OPERATING INCOME*

SEK M

➤ FX impact: +485 M



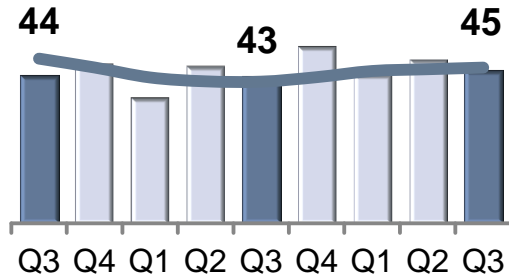
TRUCKS

Earnings improvement – but still not on targeted level

SALES TREND

SEK bn

12 months 189 bn



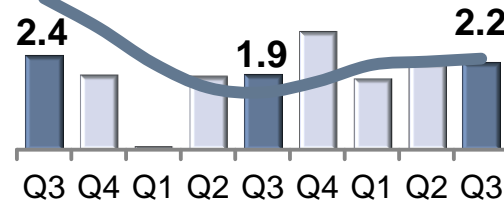
OPERATING INCOME*

SEK bn

12 months 9.1 bn

Currency: + 353 M

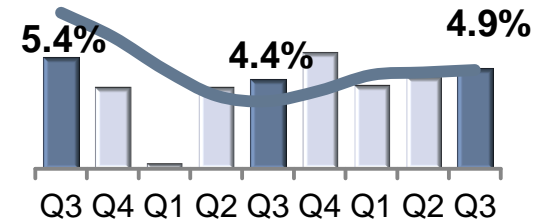
R&D am/cap: - 195 M



OPERATING MARGIN*

%

12 months 4.8%

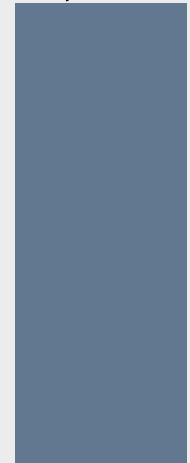


TRUCKS

Price realization on Volvo range and improvements in NA partly offset by development in South America

OPERATING INCOME*
SEK M

1,893



Q3 2013

- + Price realization on new Volvo ranges
- + North America, improved margins & volume
- + Aftermarket
- + Reduced operating expenses
- + Currency +353 M

- Lower volumes and margins in South America
- Reduced R&D capitalization (-195 M)
- Lower industrial capacity utilization

OPERATING INCOME*
SEK M

2,193



Q3 2014

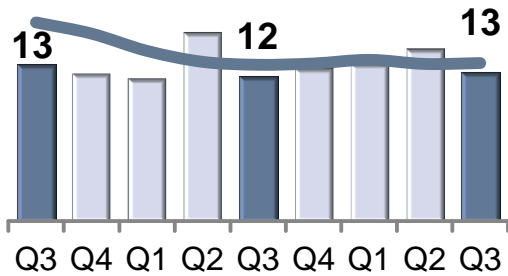
VOLVO CE

Sales flat, adjusted for currency – Market headwind accelerating

SALES TREND

SEK bn

12 months 54 bn

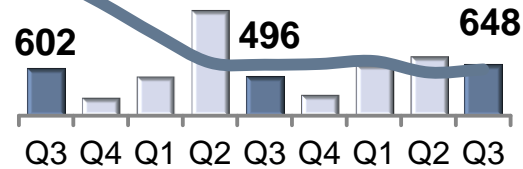


OPERATING INCOME*

SEK M

12 months 2.3 bn

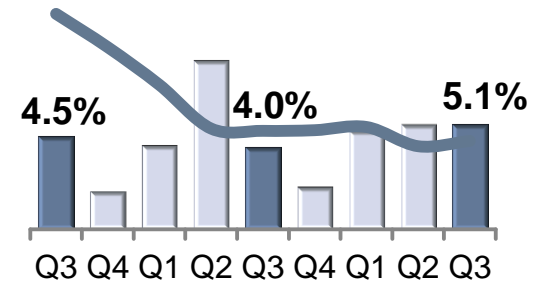
Currency: + 125 M



OPERATING MARGIN*

%

12 months 4.3%

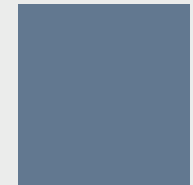


VOLVO CE

Earnings improvement in Q3 – lower capacity utilization in Q4

OPERATING INCOME*
SEK M

496



Q3 2013

- + 125 M in currency effect
- + Positive product mix in Europe

- Lower volumes and margins in China
- Lower industrial capacity utilization
- Capital gain from divestment of dealers in Q3 2013 (92 M)

OPERATING INCOME*
SEK M

648



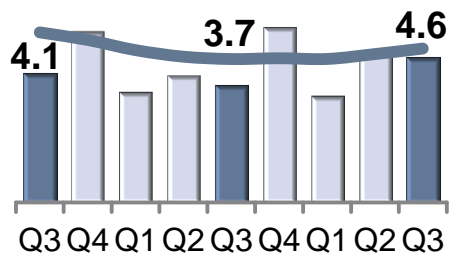
Q3 2014

BUSES



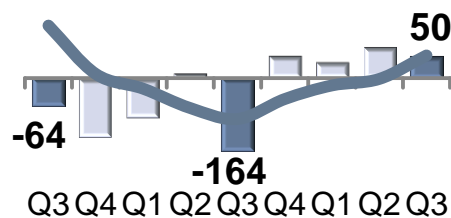
SALES TREND

SEK bn 12 months 18 bn



OPERATING INCOME*

SEK M 12 months 206 M
Currency: +63 M

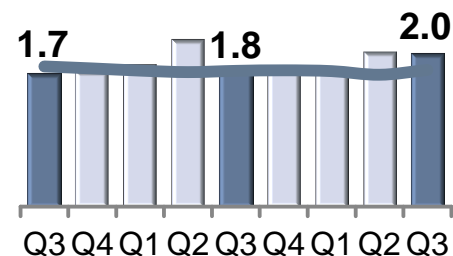


VOLVO PENTA



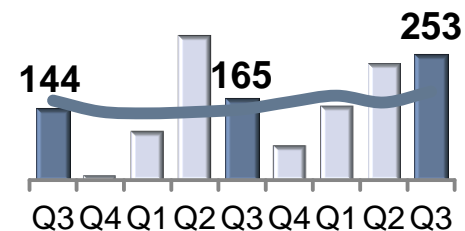
SALES TREND

SEK bn 12 months 8 bn



OPERATING INCOME*

SEK M 12 months 710 M
Currency: +65 M

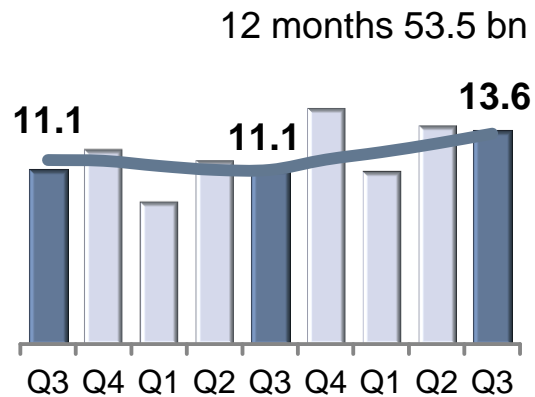


CUSTOMER FINANCE

Strong new business volume

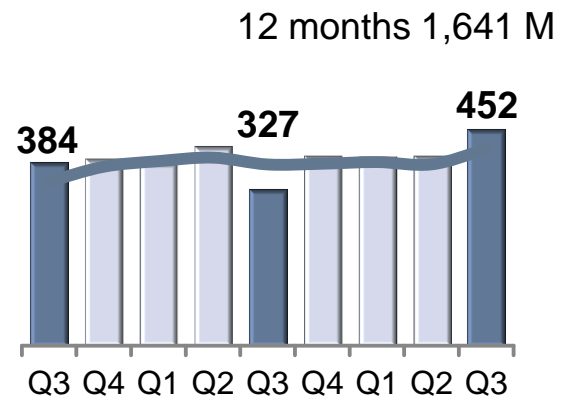
NEW FINANCING

SEK bn



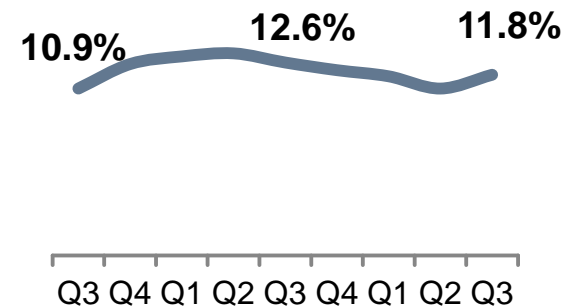
OPERATING INCOME*

SEK M



ROE

12 months, %



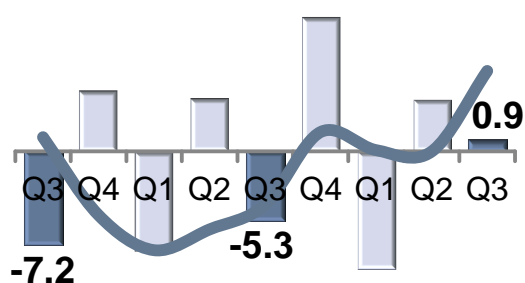
VOLVO GROUP

Positive cash flow trend and reduced investments

OPERATING CASH FLOW*

SEK bn,

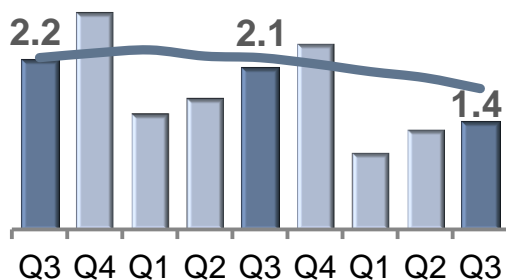
12-months SEK 6.2 bn



INVESTMENTS IN PPE*

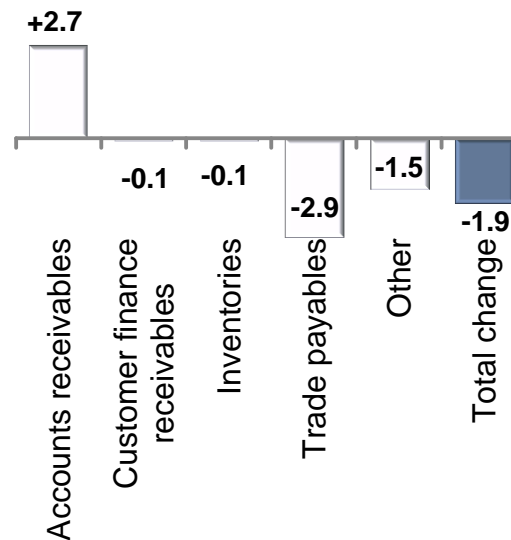
SEK bn,

12-months SEK 6.1 bn



CASH-FLOW EFFECT FROM CHANGES IN WORKING CAPITAL*

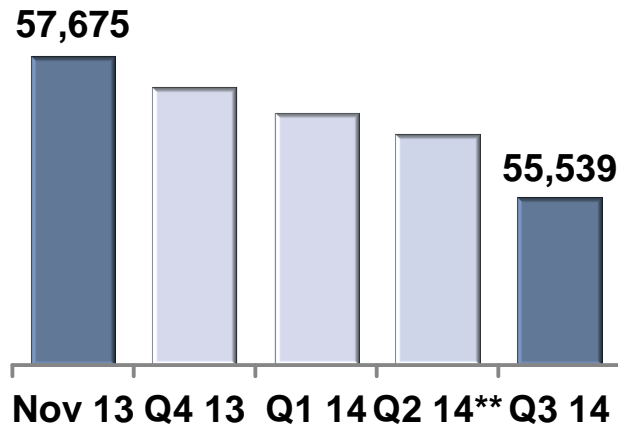
SEK bn



VOLVO GROUP

Reduction of white-collar employees and consultants according to plan

WHITE COLLAR EMPLOYEES & CONSULTANTS*



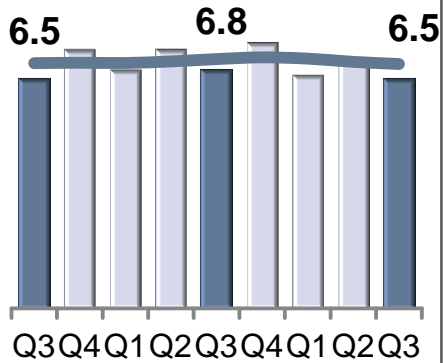
- Reduction target of 4,400. The majority to be implemented in 2014
- 2,136 net white collar reduction, including consultants, achieved group wide up until Q3 2014 of which 934 in Q3
- Voluntary leave program in France and Japan progressing according to plan



VOLVO GROUP

Structural cost reductions clearly visible in the result

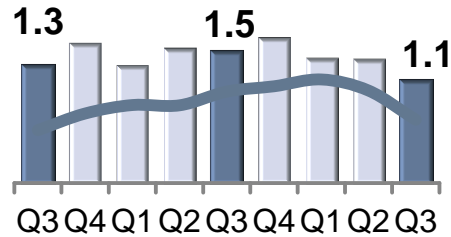
SELLING EXPENSES
SEK bn, 12-months 27.8



-247 M

Q3-14 vs. Q3-13

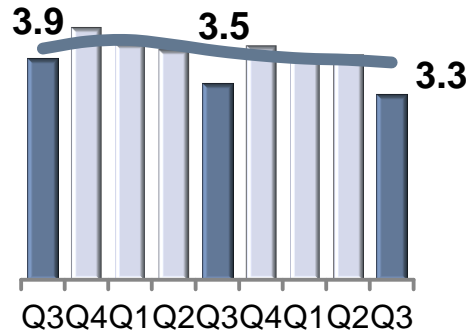
ADMIN EXPENSES
SEK bn, 12-months 5.5



-322 M

Q3-14 vs. Q3-13

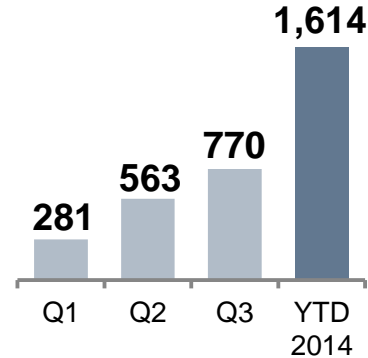
CASH R&D EXPENSES
SEK bn, % 12-months 15.4



-201 M

Q3-14 vs. Q3-13

**REALIZED SAVINGS
2014 VS 2013**
SEK M



VOLVO GROUP

Transforming the Group to realize our full potential

15
months to go

1999-2011

ACQUISITION-DRIVEN
GROWTH

2012-2015

TRANSFORMATION

2016 →

INCREASED PROFITABILITY

- 2012** Reorganization & strategy
- 2013** Extensive product renewal
- 2014** Drive organic growth and execute efficiency program
- 2015** Deliver profitability improvement

Key decisions – under execution

Overall efficiency

- Reduction of 4,400 white-collar employees & consultants
- R&D reduction

M&A

- Divestment of Volvo Rents and Aero
- Acquisition of Hauler business from Terex

Sales optimization

- Optimize European distribution channel
 - 300 workshop agreements terminated
 - Targeting 30-40% more available workshops for Renault Trucks' customers
 - Consolidation of back-office functions & WC reduction
- Right-sizing of Japan sales organization, -950 employees
- UD exit from the US market
- End sales of logistical services to external customers

Industrial optimization

- Optimize European industrial footprint
 - HD assembly lines 6→5
 - Cab assembly from Umeå to Gothenburg, Sweden
 - MD truck assembly from 2→1 plant
- Japanese Industrial restructuring
 - Phase out of legacy engines & transmissions
 - Close or divest Konosu foundry operations
 - Close or divest Hanyu transmission plant
 - Divest N-tech and Sakura Tex affiliated companies
 - Consolidate operations into one industrial site
 - Truck assembly capacity from 50,000 to 13,500 per year - Reduction of 700+ employees & consultants
- Exit truck assembly operations in Karsan, Turkey
- Insourcing of axle assembly to Hagerstown, US and Wacol, Australia
- Consolidate CKD from Jacksonville to Macungie, USA
- Consolidate parts warehouses; 3 closed & 3 down-sized in North America, moving from 2→1 in South Africa
- Close crankshaft plant in Spain
- Close remanufacturing in Eskilstuna & Eslöv, Sweden
- Exit casting of disc brakes to external customers, Sweden

New structural cost reduction activities added

15
months to go



Initiative

Key activities

1 Further cost reduction activities in Construction equipment

- Right size cost structure
- Address product profitability

2 Reorganization of sales and marketing in Group Trucks

- One joint Sales & Marketing organization for Group Trucks instead of three
- Less complex organization with fewer layers

3 IT Operations

- Review of what is core vs none-core

VOLVO GROUP

Strategic program 2013-2015 – changed format for follow-up

ONGOING PROFIT IMPROVEMENT PROGRAM

- Increase gross profit margin
- Reduce standard cost of sales
- Decrease wholesale selling expenses
- Increase own dealer soft offer
- Reduce cash spend in R&D
- IT cost on 2% of total cost

Old format of follow-up

- Trucks focus
- Market/mix/volume dependent
- Progress difficult to track externally

New format of follow-up

- Group focus
- Cost focus
- Improved transparency
- Market/mix/volume independent

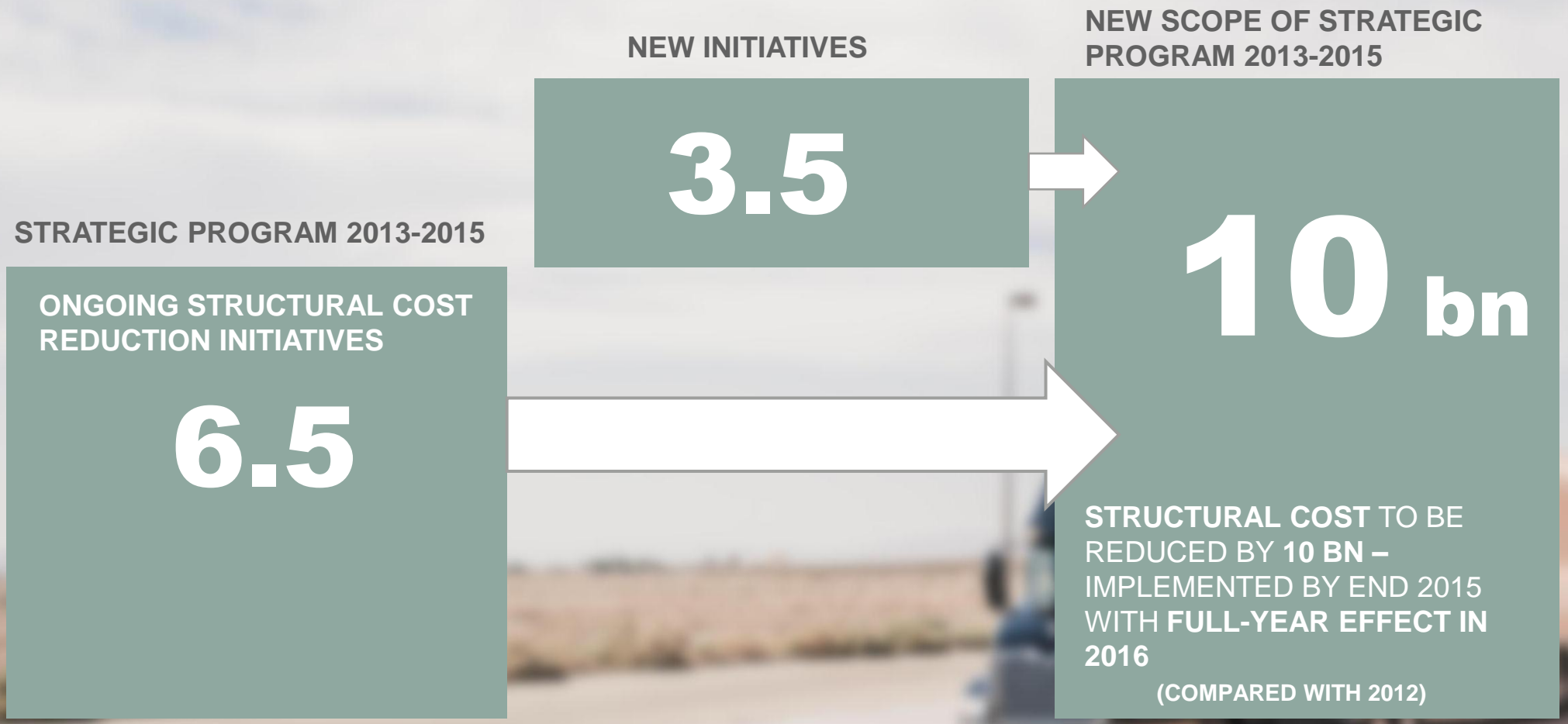
FOCUS ON STRUCTURAL COST REDUCTION

Volume, product and market mix dependent

Structural cost

VOLVO GROUP

Strategic program 2013-2015 – increased scope



Structural cost to be reduced by 10 bn – implemented by end 2015 with full-year effect in 2016

SEK bn	2012	2013	Q3 2014*	Targeted reduction 2016 vs 2012
<i>Structural reduction in Gross Income</i>		-	-0.7	
Cash R&D	16.9	15.9	15.4	
Selling expenses	27.9	28.5	27.8	
Admin expenses	5.6	5.9	5.5	
Total reduction vs. 2012		-0.1	-2.4	-10

* 12-months moving as of Q3 2014

Third quarter summary

POSITIVE FACTORS

- Good growth and improved profitability in North America
- As planned, increased momentum in cost savings
- Successful new Volvo truck ranges
- Positive cash flow trend

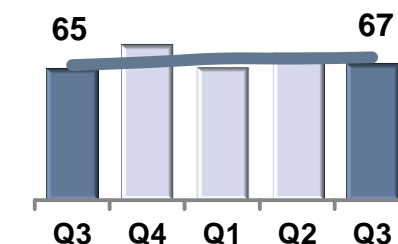
NEGATIVE FACTORS

- Accelerated decline for Construction Equipment in China
- Uncertainty in Europe
- Sales and margin decline for Trucks in South America
- Low capacity utilization in parts of our industrial system

NEW COST REDUCTION INITIATIVES

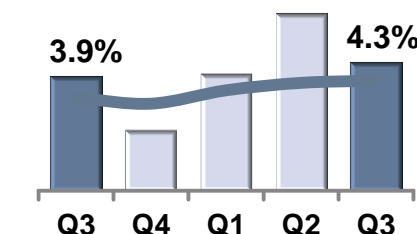
NET SALES

SEK bn 12 months 282 bn



OPERATING MARGIN*

SEK m 12 months 4.0%



* Excluding restructuring charges

VOLVO