

VOLVO

Volvo Group



Improving Performance

CAPITAL MARKETS DAY, ESKILSTUNA, MAY 23, 2017

Volvo Group Capital Markets Day

AGENDA

10:00 WELCOME
 10:10 DEMO AND SHOW
 11:00 – 12:45 TEST DRIVING
 11:30 – 12:45 LUNCH OPEN

13:00 INTRODUCTION

Martin Lundstedt, President and CEO
 Jan Gurander, Deputy CEO and CFO

13:25 IMPROVING PERFORMANCE

Strong global presence
North American transformation
Regain profitable market shares
UD Trucks turnaround
Group Trucks Asia and JV strategy
Continuous improvements
Transformation and focus on core products

Claes Nilsson, President Volvo Trucks
 Dennis Slagle, President Mack Trucks
 Bruno Blin, President Renault Trucks
 Joachim Rosenberg, Chairman UD Trucks
 Martin Lundstedt, President and CEO
 Jan Ohlsson, EVP Group Trucks Operations
 Martin Weissburg, President Volvo Construction Equipment

15:00 COFFEE BREAK

15:30 GROWING SERVICES

Capture untapped potential
Case: Retail development
Case: Uptime center in North America

Martin Lundstedt, President and CEO
 Martin Merrick, SVP Retail Development, Volvo Trucks
 Dennis Slagle, President Mack Trucks

16:30 LEADING IN TECHNOLOGY

Product leadership for customer success
Case: Automation in the real world

Lars Stenqvist, EVP Group Trucks Technology
 Peter Burman, Program manager, Boliden Mine Automation

18:00 DINNER

IMPROVING PERFORMANCE

MARTIN LUNDSTEDT

PRESIDENT AND CEO



Volvo Group Headquarters

Capital Markets Day 2017

3

VOLVO

Improving performance

THE JOURNEY

1999-2011

Acquisition-
driven growth

Scale, synergies and
geographical expansion.



2012-2015

Transformation
to close the gap

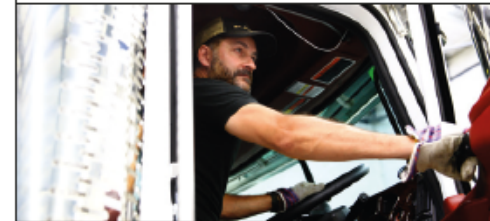
Product renewal, restructuring
and cost efficiency.



2016 >

Improving
performance

Customer focus, simplicity,
speed, continuous improvements
and organic growth.



Reinforcing the performance culture

- Clear leadership and profit & loss responsibility for each brand
- Those closest to the customer are empowered to make the right decisions
- More regionalized value-chain approach
- Simplicity, improved speed
- A mindset for continuous improvement



Leverage Group assets

All business areas to deliver on P&L responsibility ...

... with ability to pull on Group-common assets:

- Customers and dealers
- Common Architecture and Shared Technology (CAST)
- Powertrain technology
- Financial services
- Connectivity, electromobility and automation
- Knowledge and talent
- Etc.



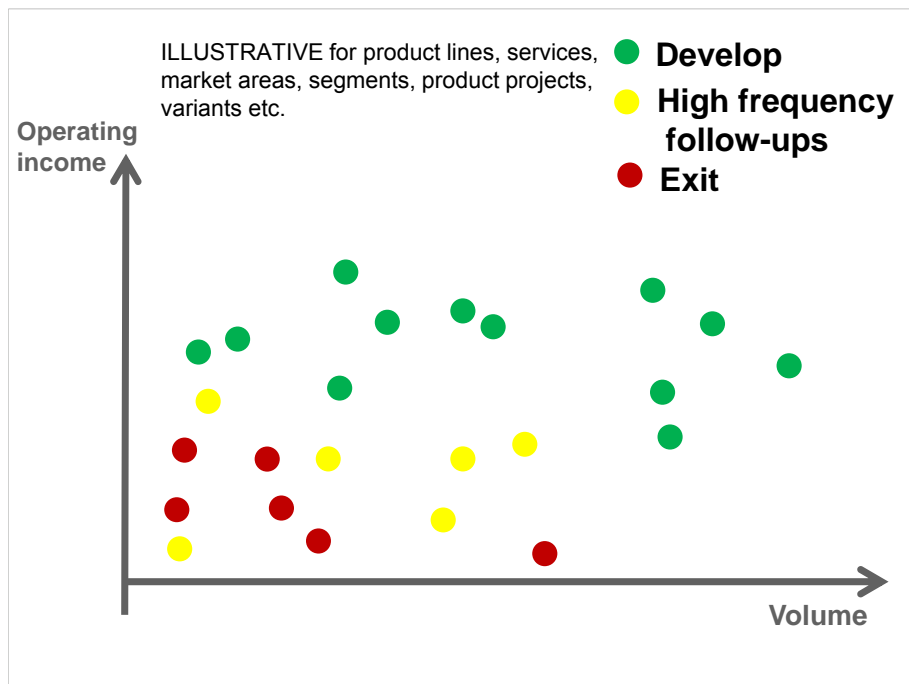
IMPROVING PERFORMANCE

JAN GURANDER
DEPUTY CEO AND CFO



Improving performance

WE CONTINUE TO REVIEW PERFORMANCE AND TAKE ACTIONS



Examples:

- Outsourcing of UD Condor
- Divestment of Real Estate
- Divestment of external IT operations
- Withdrawal of Renault Trucks from Argentina
- DVT JV closed
- Ownership in Sunwin JV scaled back
- Eicher Pro 8000 production to VECV
- Divestment of Governmental Sales under way

Improving performance

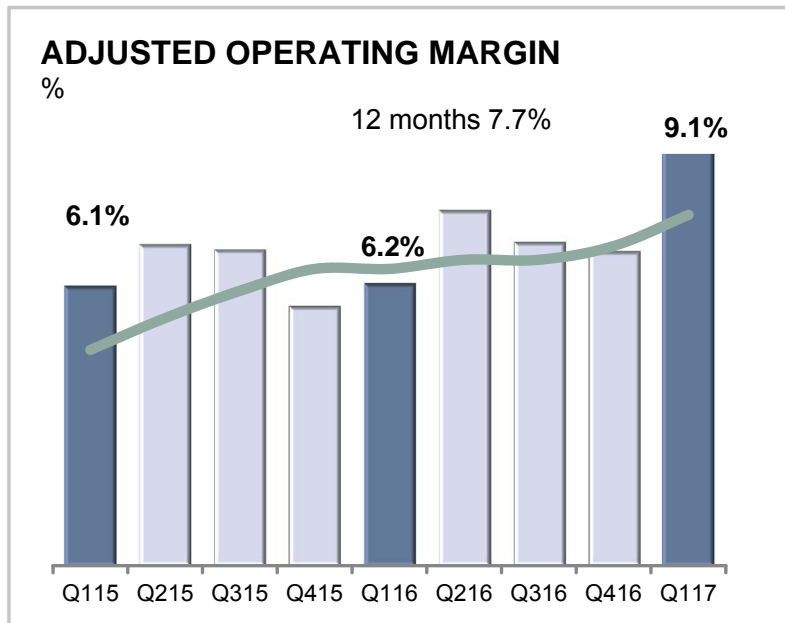
PROFITABILITY PER TRUCK BRAND AND REGION



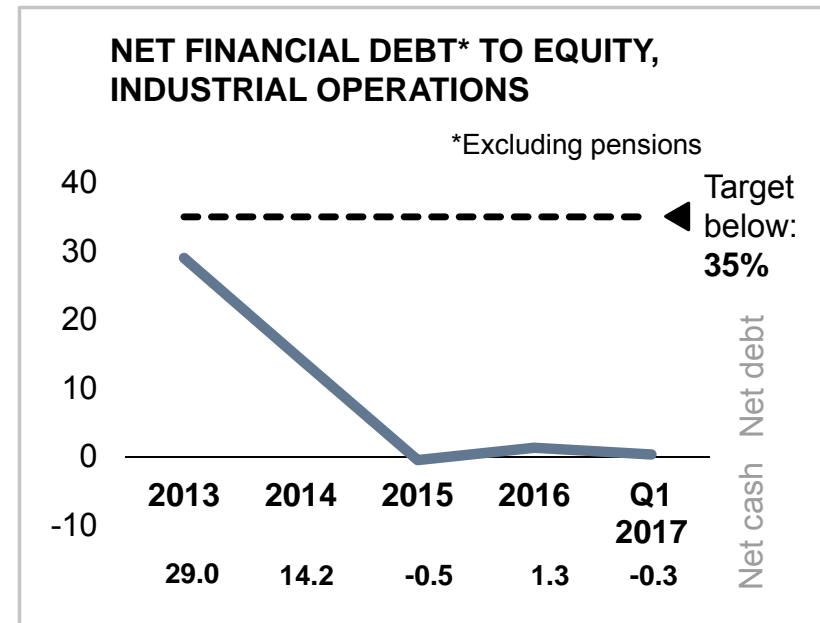
Improving performance

ON OUR WAY

Increasing profitability despite volume decline



Strengthened balance sheet



What we want to achieve

IMPROVING PERFORMANCE THROUGH THE BUSINESS CYCLE

Gradual and
consistent
earnings
improvement

Reduced
volatility
in earnings
and cash flow

Discipline
in capital
allocation/
investments

Strategic priorities

1

Reinforce Volvo as a global premium HD truck brand and **regain position and market shares** of **Renault, Mack and UD** as regional high-end truck brands

2

Capture Asia growth through JVs and Value Truck in a separate value chain – and leverage in other emerging markets

3

Create the most desirable **HD product and service portfolio** tailored to selected premium, high-end and value segments

4

Secure robust profitability through leading R&D, quality, purchasing and manufacturing operations using **Volvo Production System**

5

Establish brand specific sales operations with focus on **retail excellence** and a **growing service business**

6

Leverage Group assets in our non-truck Business Areas, creating additional profits, synergies and technology leadership

7

Revitalize the Volvo Group culture with focus on Customer Success, Trust, Passion, Change and Performance

Strategic priorities

1

2

3

4

5

6

7

IMPROVING PERFORMANCE

Strong global presence

Claes Nilsson, EVP and President Volvo Trucks

North American transformation

Dennis Slagle, EVP and President Mack Trucks

Regain profitable market shares

Bruno Blin, EVP and President Renault Trucks

UD Trucks turnaround

Joachim Rosenberg, EVP and Chairman UD Trucks

Group Trucks Asia and JV strategy

Martin Lundstedt, President Volvo Group and CEO

Continuous improvements

Jan Ohlsson, EVP Group Trucks Operation

Transformation and focus on core products

Martin Weissburg, EVP and President Volvo CE

GROWING SERVICES

Capture untapped potential

Martin Lundstedt, CEO

Case: Retail development

Martin Merrick, SVP Retail Development Volvo Trucks

Case: Uptime center in North America

Dennis Slagle, EVP and President Mack Trucks

LEADING IN TECHNOLOGY

Product leadership for customer success

Lars Stenqvist, EVP Group Trucks Technology

Case: Automation in the real world

Peter Burman, Boliden

STRONG GLOBAL PRESENCE

CLAES NILSSON

PRESIDENT VOLVO TRUCKS



Volvo Trucks Wanted Position:

WE ARE #1

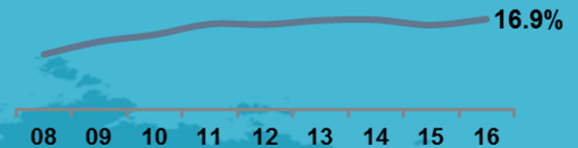
The world's most desired truck brand with industry leading performance and the most successful customers.



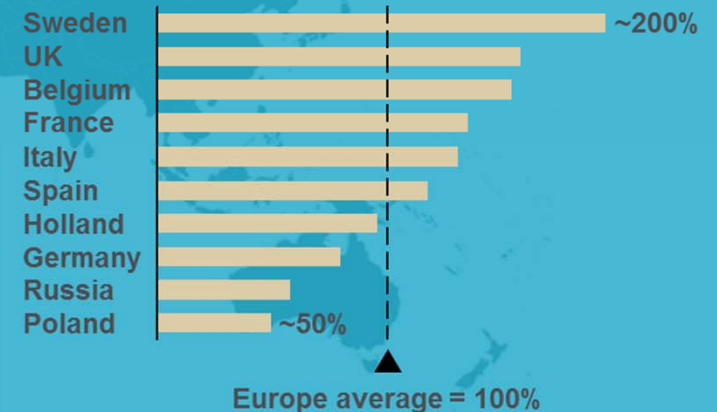
EUROPE

- Market demand on a high level
- Growing share in several segments and markets
- Commercial activities to grow service business
- Retail performance program
- Growing in the construction segment

MARKET SHARE EU28, HD



PARTS PER VEHICLE IN OPERATION, %

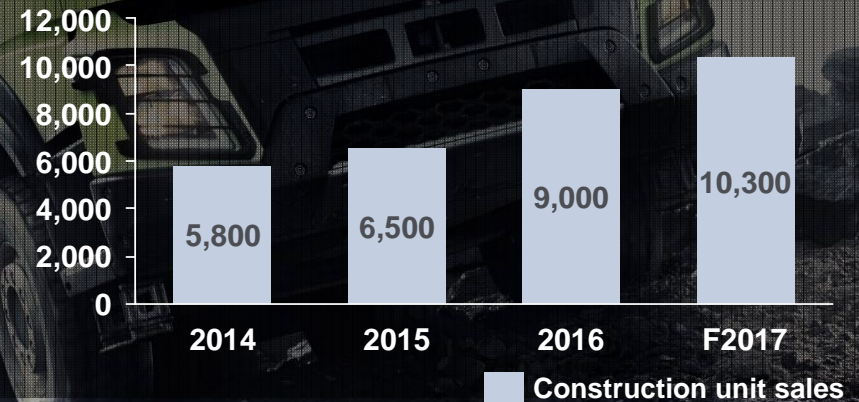


Growing in construction

Improving our customers' business with a competitive product line-up

- Extensive feature development
 - I-Shift with crawler gears
 - Automatic traction control
 - Tandem axle lift
 - Volvo Dynamic Steering
 - Rear air suspension
- Reinforced commercial focus

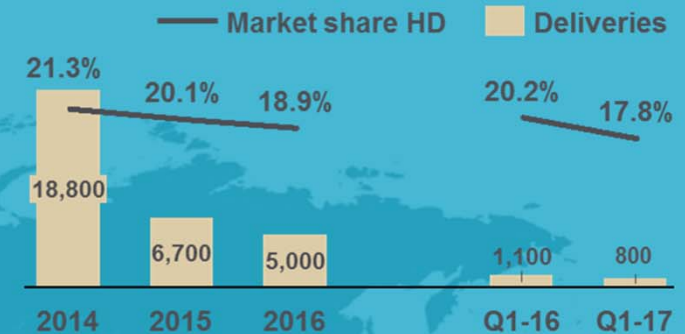
CONSTRUCTION SALES VOLUME



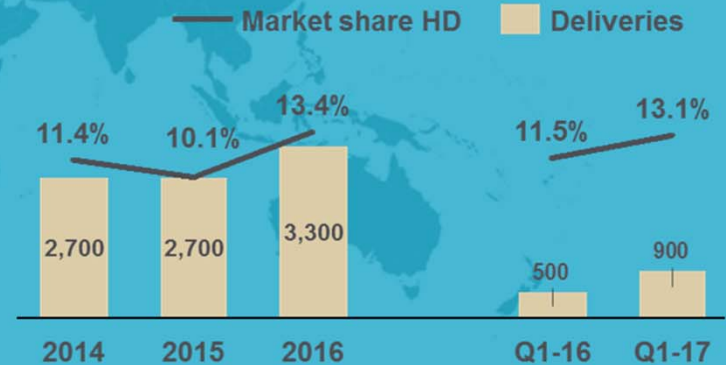
LATIN AMERICA

- Weak Brazil, good demand in neighboring countries
- Profitable business
- Sales and service network coping well with downturn
- Improving mining business

DELIVERIES BRAZIL



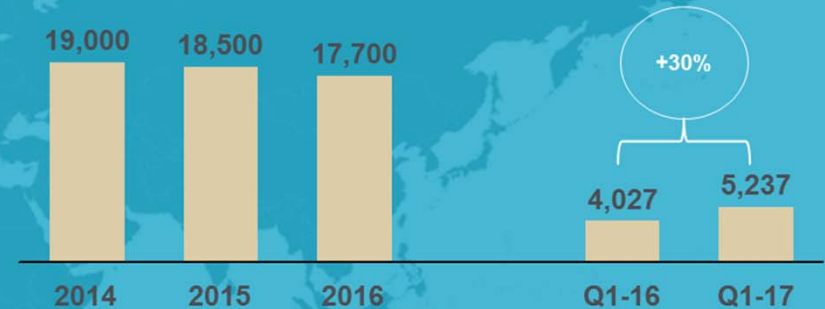
DELIVERIES PERU, ARGENTINA & CHILE



INTERNATIONAL

- Markets recovering in 2017
- Capturing opportunities with the European truck range
 - higher demand in mining
 - e-commerce in China
- Capturing service market growth
- Combining growth with profitability

DELIVERIES ASIA, AFRICA & OCEANIA



NORTH AMERICA

- Market bottoming out
- Successful captive engine and transmission strategy
- Network investing to capitalize on service potential
- New truck and feature launches



New truck and feature launches

NEW REGIONAL HAUL FAMILY IN NORTH AMERICA





NORTH AMERICAN TRANSFORMATION

DENNIS SLAGLE
PRESIDENT MACK TRUCKS



North American transformation

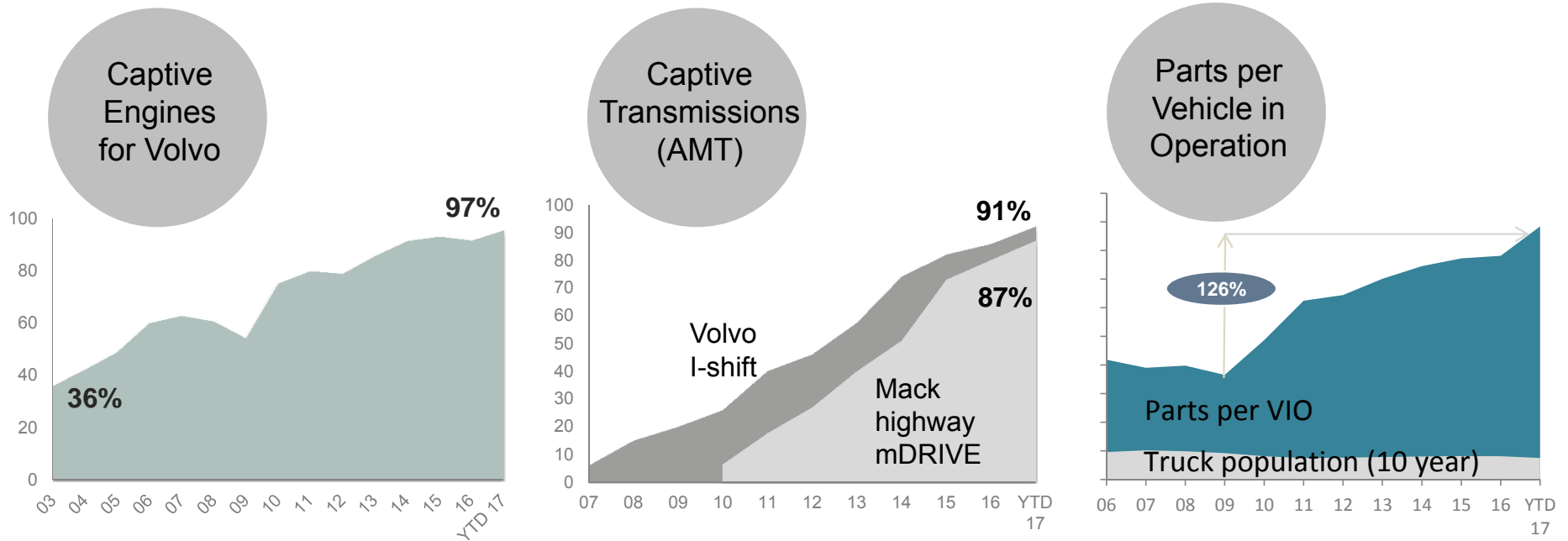
CONTINUOUS IMPROVEMENT JOURNEY SINCE 2008



- Right-size, restructure & manage brands
- Consistent strategic direction
- Price optimization & customer mix
- Restructured used truck operations
- Continuous dealer network improvement
- Proprietary driveline penetration
- Service business focus
- Productivity & quality improvements

North American transformation

KEY METRICS



North American transformation

PROVEN STRENGTH THROUGH THE CYCLE



2016 - Volumes down 34%
- Profitable

Lowered break-even unit volume by 40%

Service business fully absorbing sales & marketing costs

Firmly established lean organization mindset





REGAIN PROFITABLE MARKET SHARES

BRUNO BLIN

PRESIDENT RENAULT TRUCKS

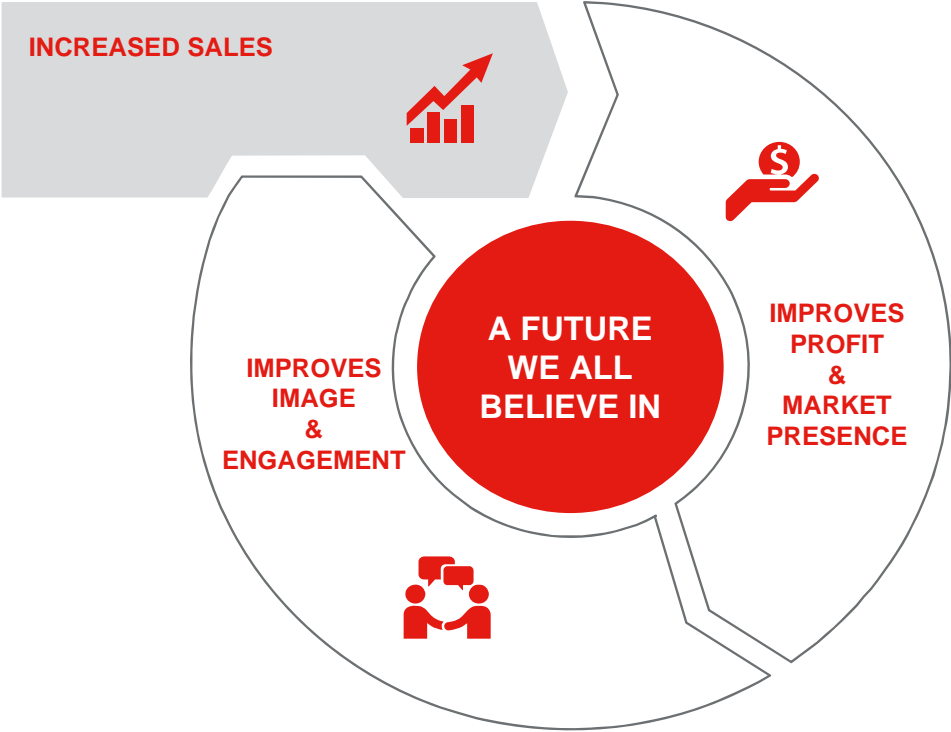


FUNDAMENTALS IN PLACE

- ✓ Lean and dedicated organization
- ✓ Right-sized cost base
- ✓ High service network density
- ✓ New model for market management in Europe
- ✓ Competitive and acclaimed product ranges



NEXT STEP – DRIVE SALES TO GAIN POSITIVE MOMENTUM



>> USE AND SELL THE GREAT OFFER WE HAVE

KEY LEVERS TO INCREASE SALES

PARTNERSHIPS



- Right and optimized set up for International markets
- Rebuild partnership with markets and dealers

DEEPER MARKET PRESENCE



- Increase number of dedicated salesmen
- Strict management of our dealers based on performance
- Close monitoring of our commercial presence

RESALE VALUE



- Truck range well received
- Used trucks center in Dubai and Hungary
- Dedicated label “Used Trucks by Renault Trucks”
- Cross market governance to boost sales

SALES SKILLS & PERFORMANCE



- Sales managers training
- Sales force training
- Technical training dedicated to salesmen

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PARTNERSHIPS & MARKET PRESENCE



Iran – Arya



Algeria – Souakri

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USED TRUCK OPERATIONS



KEY LEVERS TO INCREASE SALES

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UD TRUCKS TURNAROUND

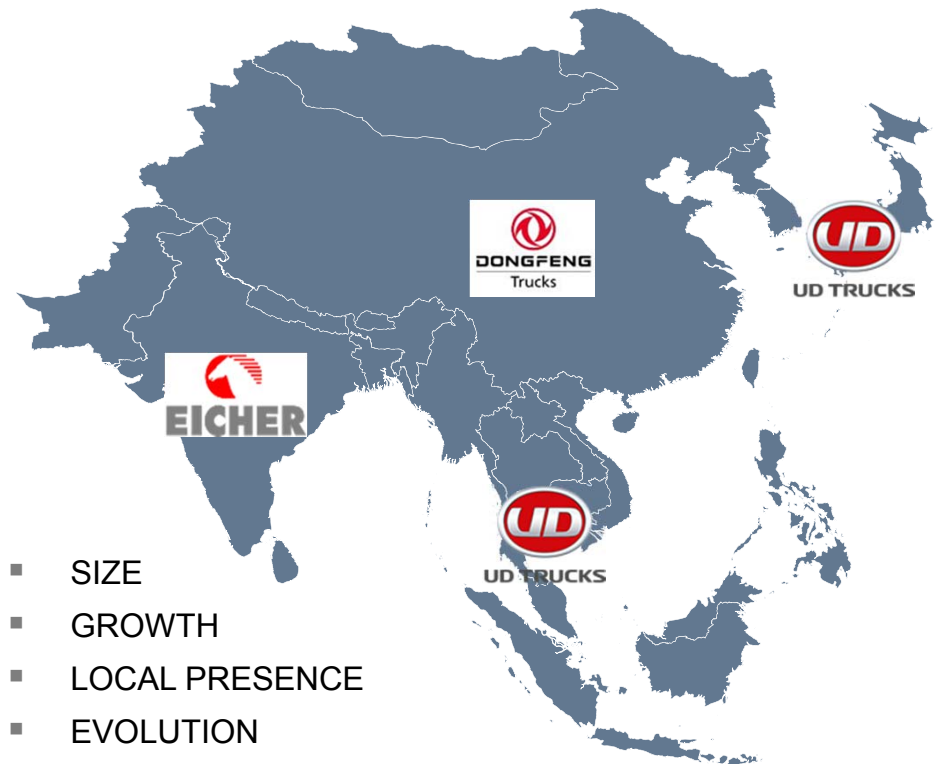
JOACHIM ROSENBERG

CHAIRMAN UD TRUCKS



Capture Asia growth

- 1 Reinforce Volvo as a global premium HD truck brand and regain position and market shares of Renault, Mack and UD as regional high-end truck brands
- 2 **Capture Asia growth** through JVs and Value Truck in a separate value chain – and leverage in other emerging markets
- 3 Create the most desirable HD product and service portfolio tailored to selected premium, high-end and value segments
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- 5 Establish brand specific sales operations with focus on retail excellence and a growing service business
- 6 Leverage Group assets in our non-truck Business Areas, creating additional profits, synergies and technology leadership
- 7 Revitalize the Volvo Group culture with focus on Customer Success, Trust, Passion, Change and Performance



UD Trucks on clear path towards profitability



2016

- Volume (units) 16,669
- Sales (SEK bn) 19.4
- Improving financial performance

Market share HD in Japan

17.0%

- Unsatisfactory **profitability** for years
- Integrated **value-chain** setup yields clear accountability, simplicity and speed in decision-making
- Clear **direction and a lean organization** prioritizing competence and 'local' creates energy and motivation
- Detailed **turnaround** plan in progress
 - Rejuvenate **product** range: focus on HD, modernize leveraging CAST and broaden coverage next years
 - Secure affordability-based **R&D** with quality at the core
 - Broaden and deepen **services** – strengthen retail excellence and accelerate connected capabilities
 - Increase **industrial agility** to address volatility, hunt opportunities and accelerate continuous improvement

GROUP TRUCKS ASIA & JV STRATEGY

MARTIN LUNDSTEDT
PRESIDENT AND CEO



Croner and Quester – UD growth engines

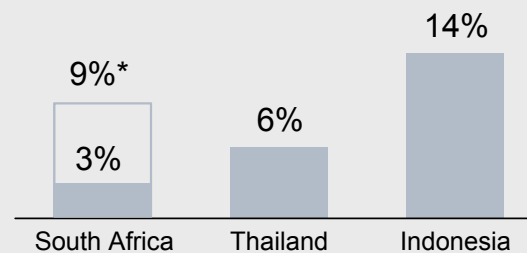


- Integrated **value-chain** setup
- Accelerate **Quester HD** and secure **Croner MD** ramp-up
- Continue to accelerate **service business**, leveraging captive components, e.g. engine
- Reduce **product cost** significantly
- Ramp-up Thailand **plant volumes** and gradually scale-up with KD, e.g. South Africa and Indonesia
- Developing a new business

2016

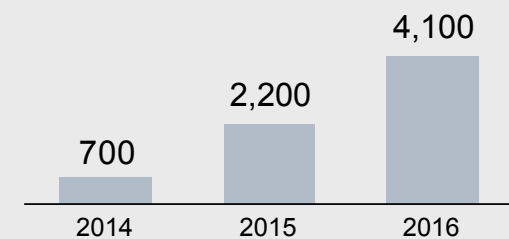
- Volume (units) 4,069
- Sales (SEK bn) 2.1
- Negative operating income

Quester market shares



* Quester and Quon had 9% HD market share combined

Sales volumes, units



Product range upgrade and service sales in focus

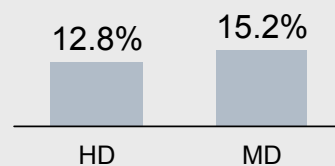


- Profitable growth through:
 - strong brand image
 - focus on HD and in particular tractors
 - retail excellence & service sales
- Competitive product offer with renewal of HD and MD range, including CN5 and CN6 powertrains
- Improve cost structure and lean production

2016

- Volume (units) 133,000
- Sales (SEK bn) 37.1
- Net income margin 1.2 %

Market shares China



VECV – profitable growth with HD breakthrough

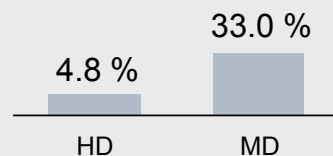


- Third largest truck & bus producer in India with good growth trajectory past decade
- Next level of profitable growth through:
 - strong brand image LD/MD
 - HD breakthrough
 - retail excellence & service sales
- Commercial activities to improve HD brand image and capabilities
- Competitive product offer BS4 (~EU4) further improved with BS6 (~EU6) introduction
- Leverage world class manufacturing processes

2016

- Volume (units) 56,812
- Sales (SEK bn) 10.2
- Net income margin 3.7%

Market shares India



Strengthen competitiveness through cooperation



UD Quester



VE Commercial Vehicles
Ownership 46%

Asian
ecosystem

TECHNOLOGY
COMPONENTS
SUPPLIERS
COMPETENCE



UD Croner



Dongfeng Commercial Vehicles
Ownership 45%

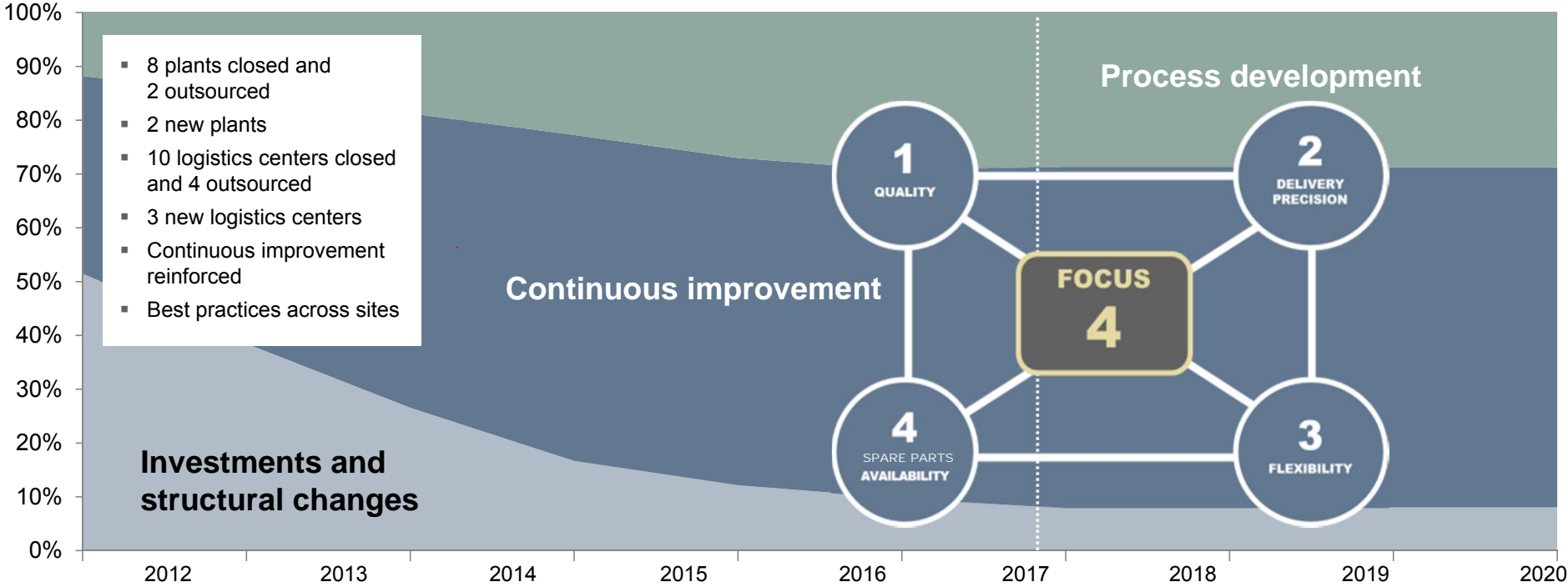
CONTINUOUS IMPROVEMENT

JAN OHLSSON

EVP GROUP TRUCKS OPERATIONS



From major industrial restructuring to customer driven continuous improvement



- 8 plants closed and 2 outsourced
- 2 new plants
- 10 logistics centers closed and 4 outsourced
- 3 new logistics centers
- Continuous improvement reinforced
- Best practices across sites



Result through continuous improvement

- Continuous introduction approach
- Standardized ways of working

- Reinforce local and regional levels
- Grow business with market companies



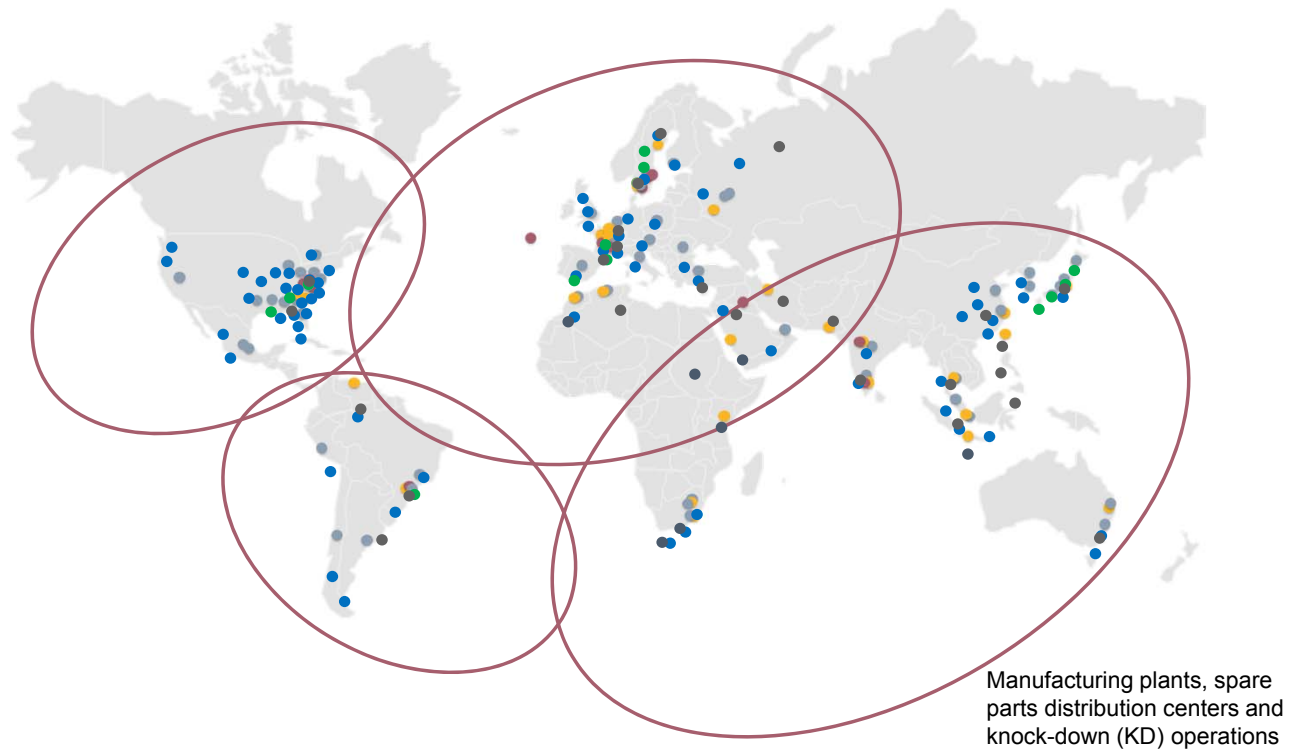
- Use regional supply chains
- Develop program planning

- Develop site capacity agility
- Closer dialogue with sales organization

VOLVO PRODUCTION SYSTEM

Global scale and regional agility

- CAST* enables two dimensions:
 - brand and application
 - commonality for scale
- Use regional value chains
 - decentralization of resources and decisions
 - end-to-end responsibility



*Common architecture and shared technology

Continuous improvement site by site – good progress and still potential to capture



- Leadership and team structure
- Involvement by idea generation
- Assessment for coaching and to secure progress
- ~300,000 implemented ideas per year
- Targeting 5% gross productivity



TRANSFORMATION AND FOCUS ON CORE PRODUCTS

MARTIN WEISSBURG

PRESIDENT VOLVO CONSTRUCTION EQUIPMENT



Internal transformation activities to improve performance

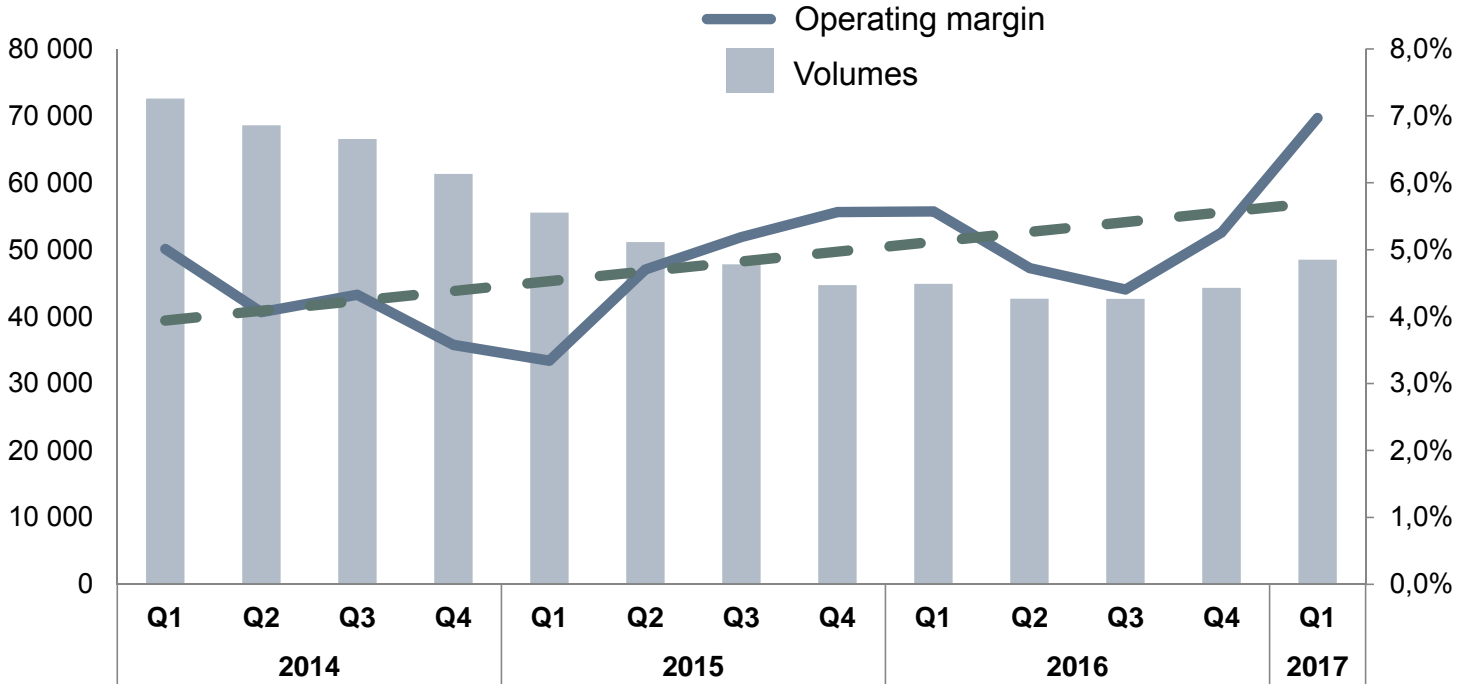


- Focus on core products and segments
- Product portfolio
- Continuous improvement:
 - Quality
 - Delivery precision
 - Cost
- Taking market share, growing field population



Transformation yielding result

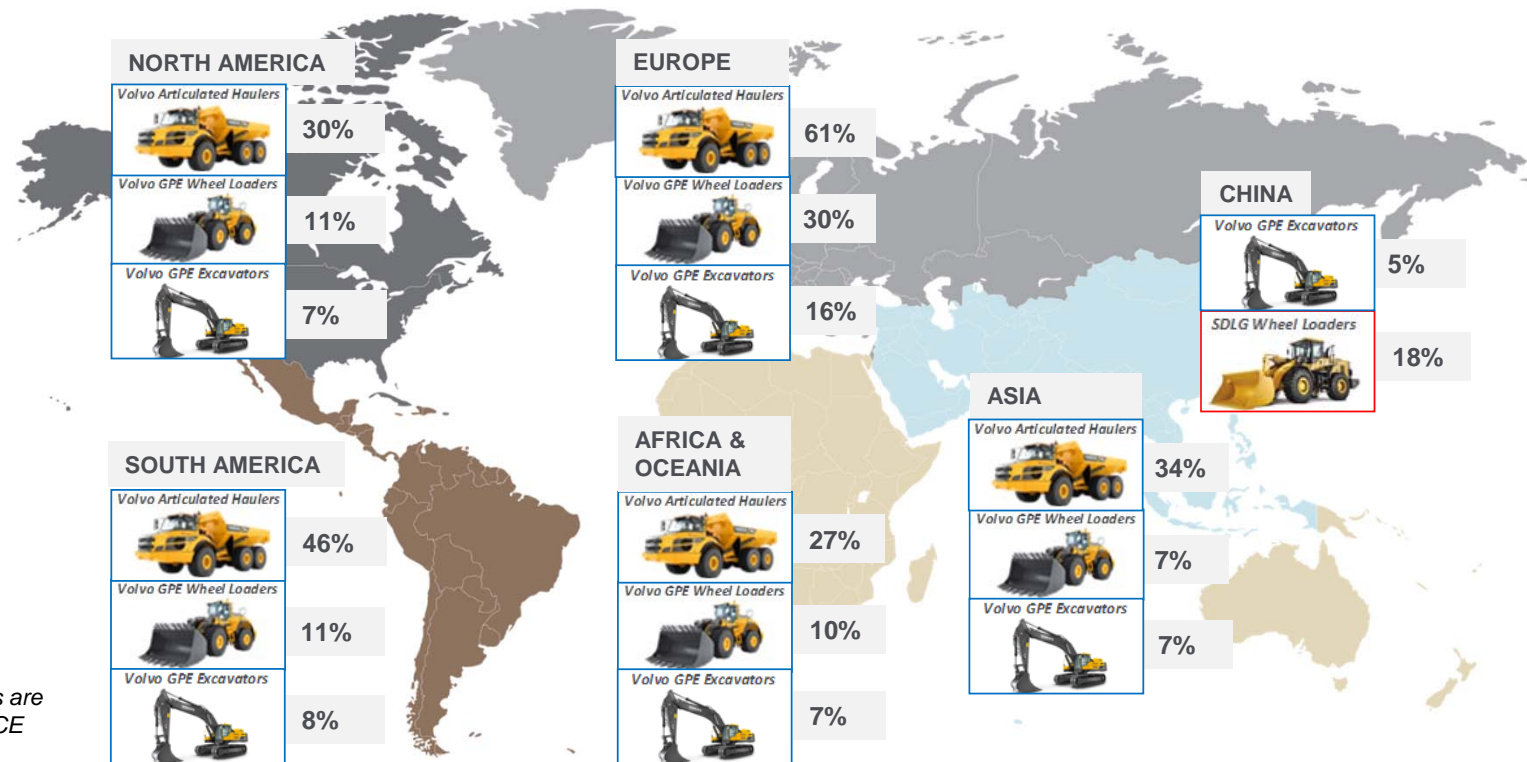
VOLUMES AND OPERATING MARGIN (adjusted for credit losses in China)
12 months rolling



10.0% in Q1-17

Strong positions in core products and markets

GAINING MARKET SHARES (2016)



Note: Market shares are according to Volvo CE estimation

Volvo Group Headquarters

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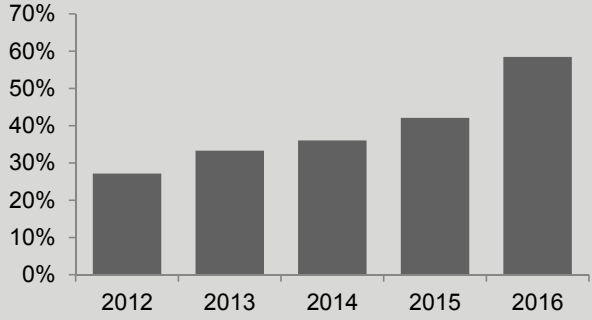
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Volvo Construction Equipment



Growing the service business

- Record high Customer Support Agreement penetration



- Phase-in of Group 8L engine
- Roll-out of proactive monitoring and operator 'Assist' apps

Fuel Efficiency	Productivity	Safety
Finance	Uptime	Rental
Attachments	Parts	New Life



Industry leadership in new technologies



GROWING SERVICES: CAPTURE UNTAPPED POTENTIAL

MARTIN LUNDSTEDT
PRESIDENT AND CEO



Growing services

MAKING OUR CUSTOMERS SUCCESSFUL



CUSTOMER'S
UPTIME AND
PRODUCTIVITY

CUSTOMER
RETENTION

MARKET
SHARES

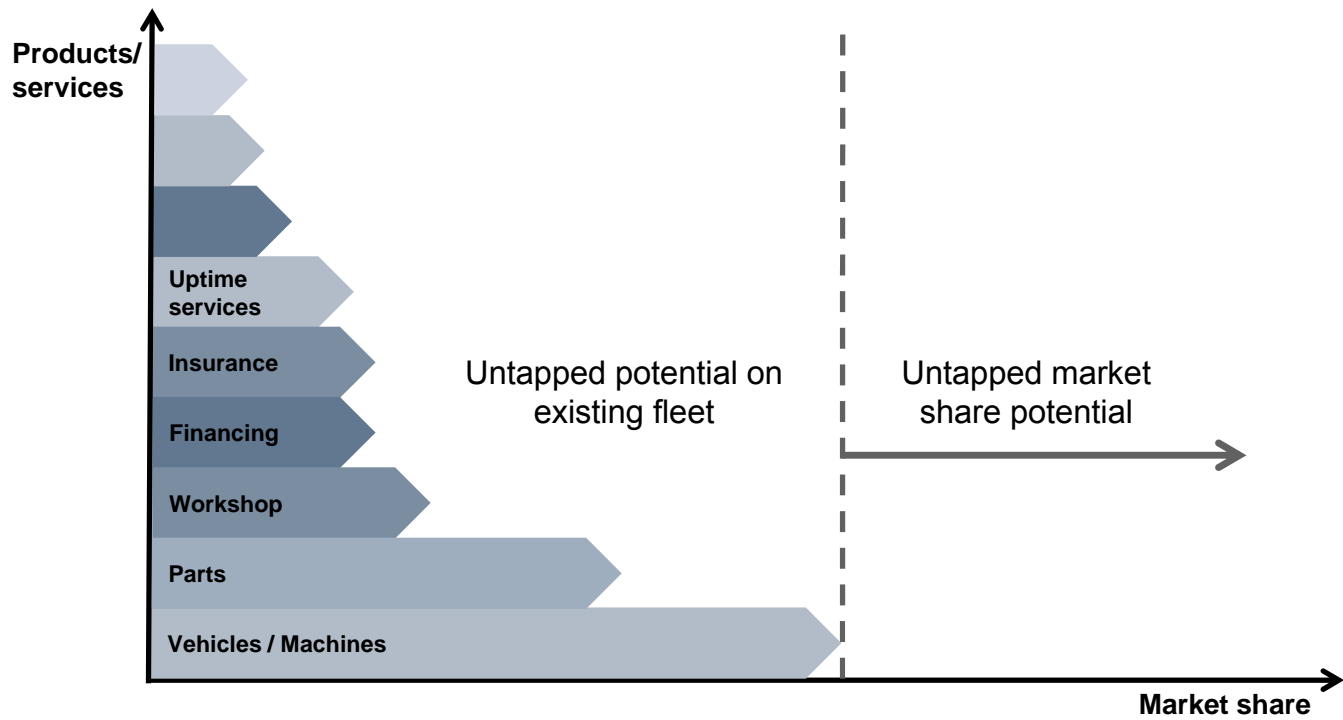
POPULATION

SERVICE
SALES

REDUCED
VOLATILITY

Growing services

UNTAPPED SERVICE POTENTIAL



New operating model for Trucks in Europe

CLEAR PRIORITIES FOR MARKET AND OEM



MARKET

focus on services

- Rolling fleet
- Customer mix
- Parts & service contract penetration
- Workshop utilization
- Etc.



OEM

focus on vehicles

- Product offering
- Pricing strategies
- Optimize factories
- Parts availability
- Etc.



CASE: RETAIL DEVELOPMENT

MARTIN MERRICK

SVP RETAIL DEVELOPMENT
VOLVO TRUCKS



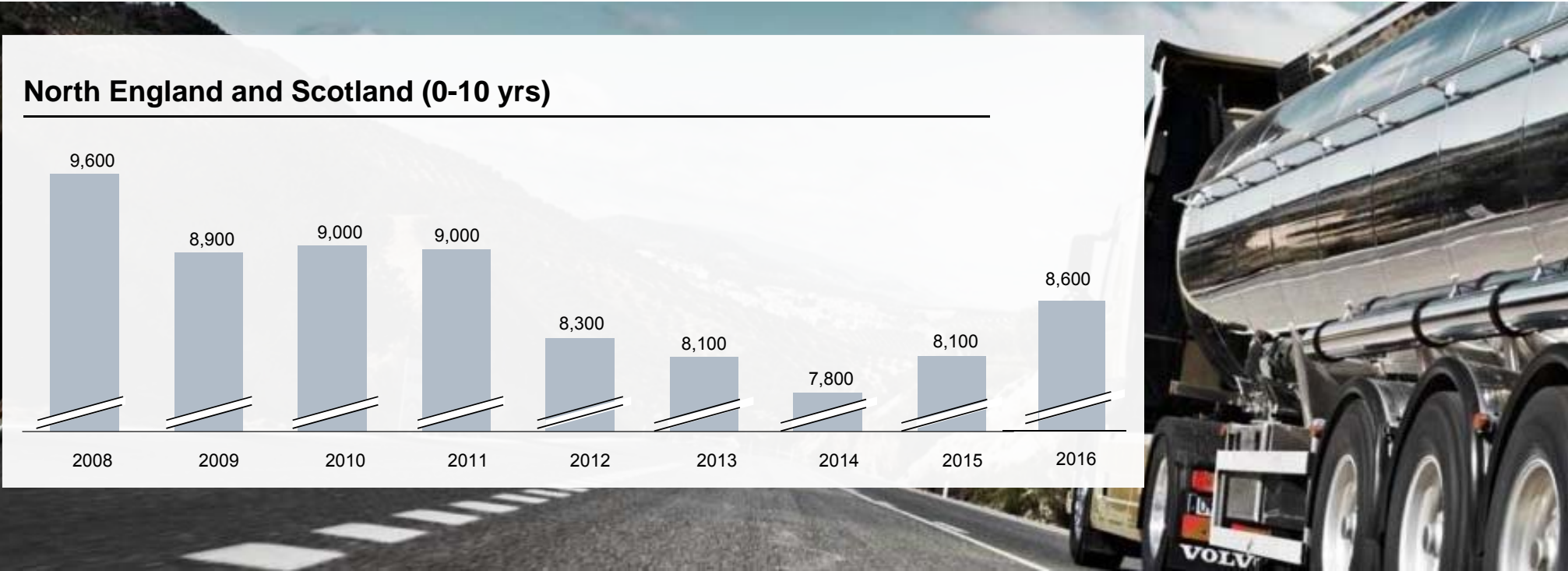
CASE: Volvo Truck and Bus Centre in North England & Scotland

REBUILT POPULATION WITH THE RIGHT CUSTOMER MIX TO GROW SERVICE PROFITABILITY

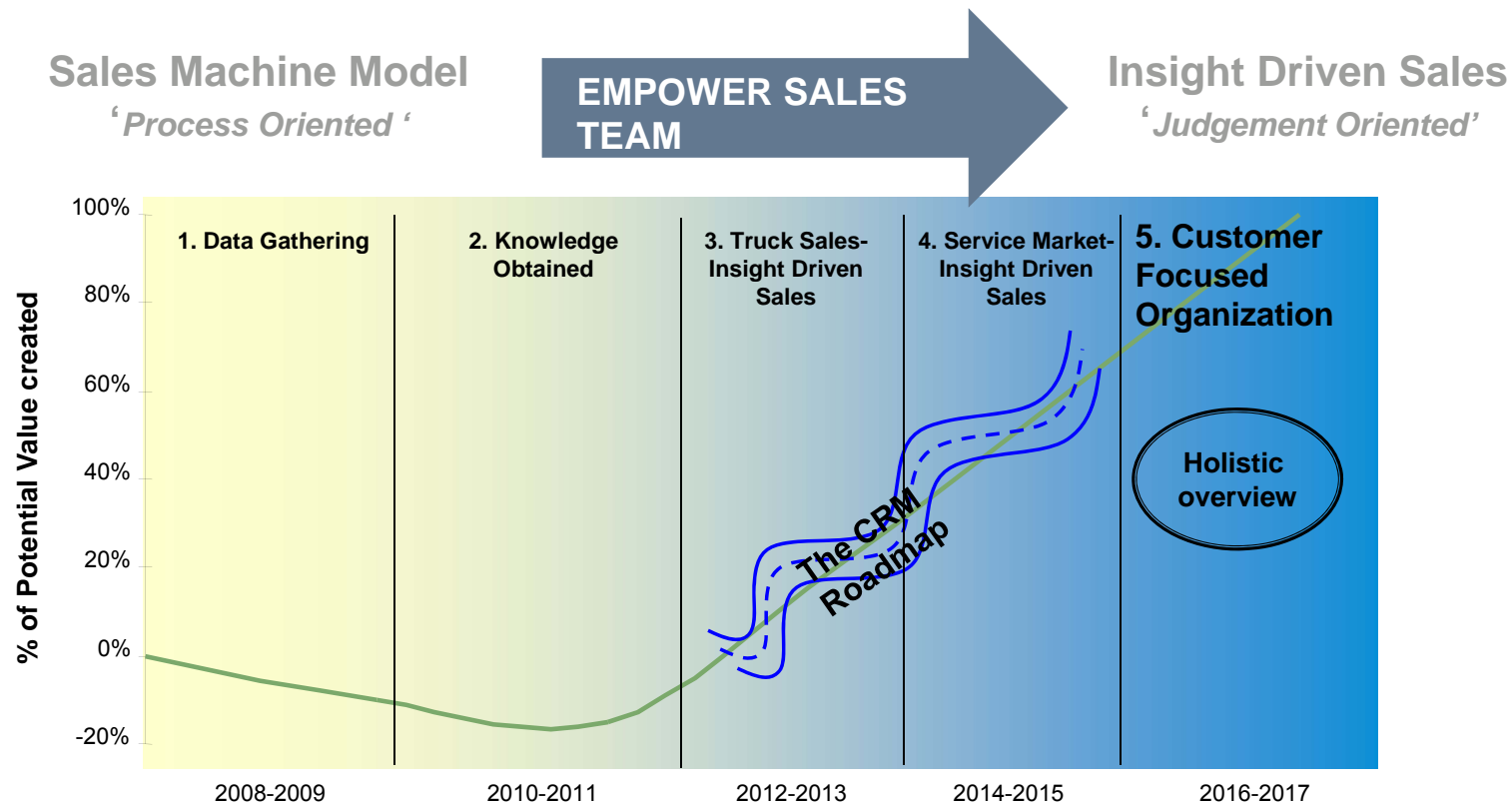


EMPLOYEES	420
DEALERSHIPS & WORKSHOPS	12
ANNUAL NEW TRUCK SALES	700
ANNUAL LABOUR HOURS SOLD	310,000

The challenge of a declining truck population



Our customer relationship management journey



Insight driven sales rendering results

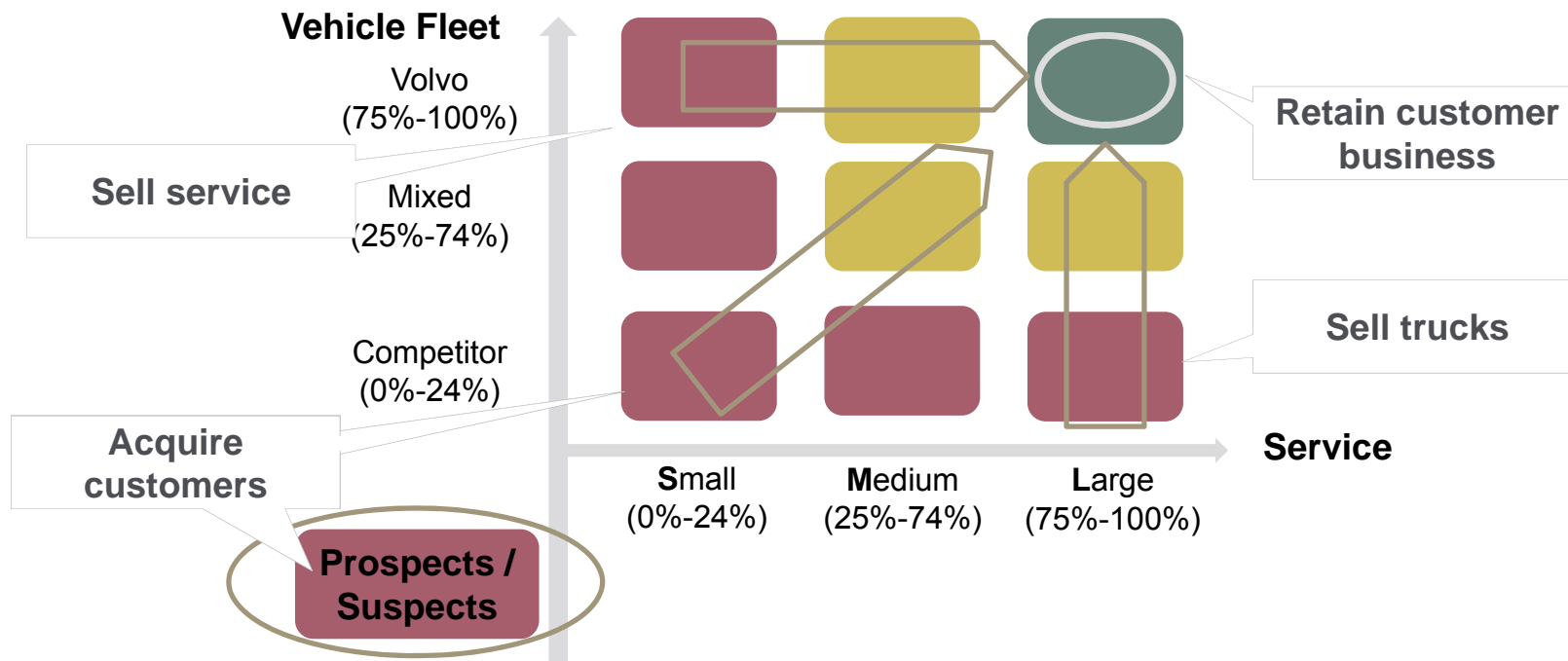
North England and Scotland	2014	2015	2016	2017 Pace
Customer satisfaction	85	84	87	88
Employee satisfaction (sales)	90%	98%	100%	100%
Earnings growth (YoY)	-21%	+8%	+ 93%	+101%
New truck sales (registrations)	512	714	667	776
Used truck sales (registrations)	286	203	276	300
Workshop hours	290,000	308,000	314,000	352,000
Growth in parts per VIO* (index 2013)	115%	122%	125%	127%



*Vehicle In Operation

Importance of individual customer strategy

SHARE OF PROFITABLE BUSINESS (STRIVE FOR VOLVO LOYAL CUSTOMER)



Key Takeaways

- Need **optimum truck population** to deliver **high profitability**
- Sell **right solution** to the **right customers**
- **Way of working** and **tools** are **fully aligned** to the **new Operating Model**
- Unique to see **total business** of **one customer**
- **Local ownership** to deliver potential, **supported** by central resource



CASE: UPTIME CENTER NORTH AMERICA

DENNIS SLAGLE
PRESIDENT MACK TRUCKS



Drivers of North American Uptime Focus

Industry-wide service bay and technician shortage

1



2

One unplanned “Down Day” can erase two years of fuel economy savings

Drivers of Uptime Center success



Co-location and culture of collaboration



Web-based case management system



Right mix of technology, live expert support, proactive communication



Connectivity



Ongoing improvements to North American dealer network

LEADING IN TECHNOLOGY

LARS STENQVIST

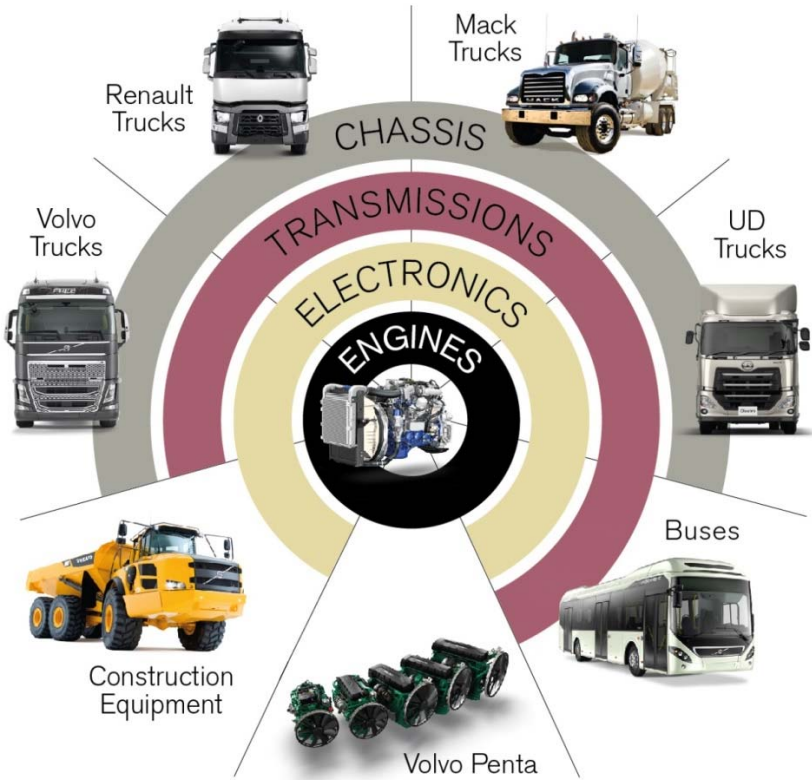
EVP GROUP TRUCKS TECHNOLOGY



Product leadership: For customer success

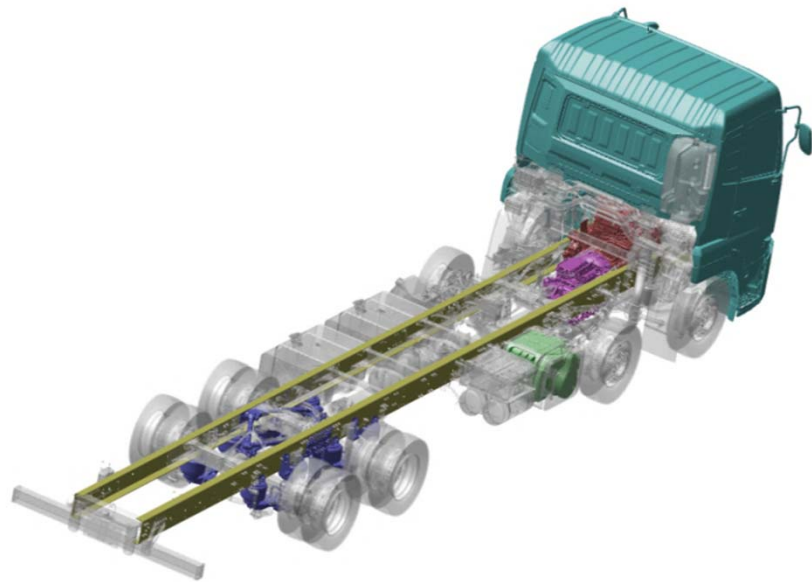


Leverage 15 years of creating a Common Architecture and Shared Technology system (CAST)



New tailor-made UD Quon

BASED ON GROUP COMMON ARCHITECTURE AND SHARED TECHNOLOGIES (CAST)



UD Croner – designed to excel in the MD segment

BASED ON GROUP COMMON ARCHITECTURE AND SHARED TECHNOLOGIES (CAST)



Strengthen competitiveness through cooperation



Focus on well-known *and* new technologies

LEVERAGE CAST SYSTEM TO ENABLE FUTURE INVESTMENTS



Volvo Group Headquarters

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VOLVO

Still a lot to explore in well-known technologies

THE FOUNDATION OF OUR BUSINESS FOR MANY YEARS TO COME

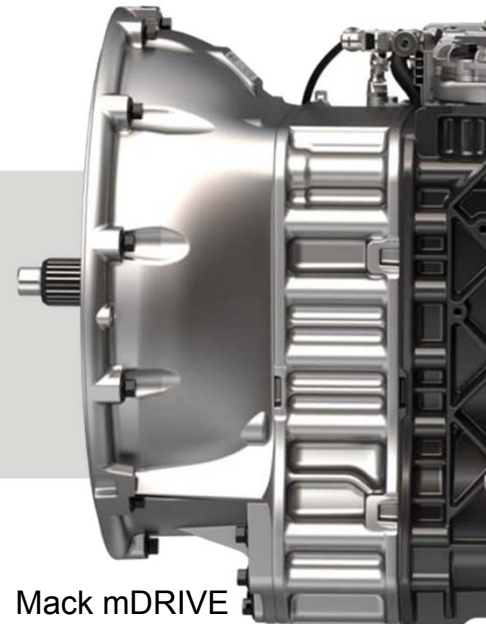


13L Turbo
Compound engine



Wave piston

RECENT EXAMPLES OF PERFORMANCE IMPROVEMENTS

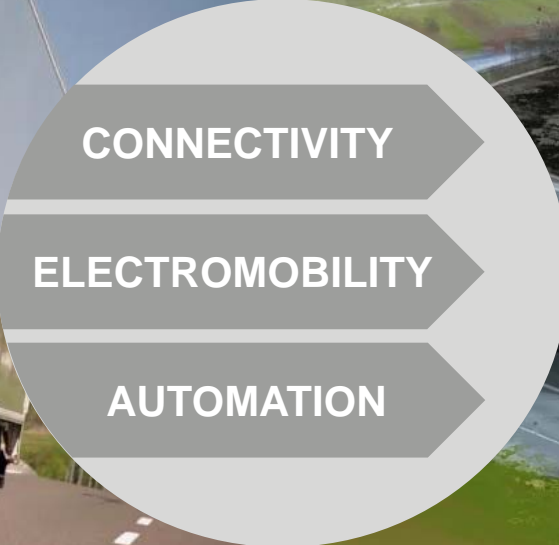


Mack mDRIVE
creeper gear ratios

New technologies: On our way

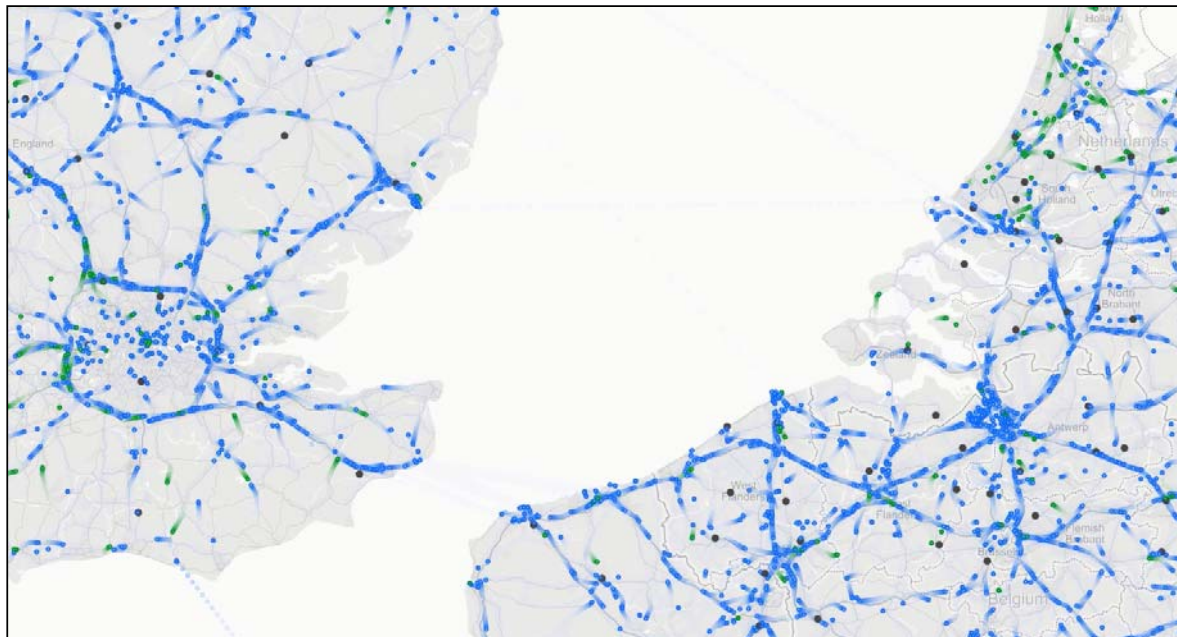
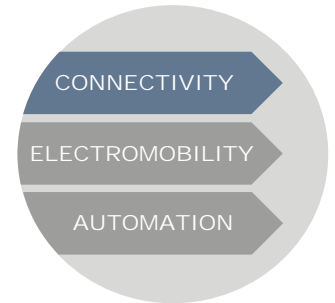
TODAY'S OFFER

FUTURE SOLUTIONS



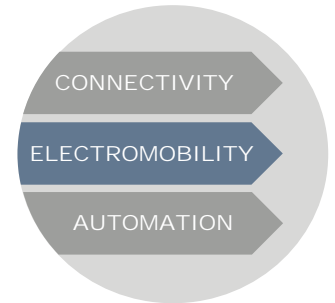
600,000 connected vehicles

ENABLER OF NEW PRODUCTS & SERVICES AND NEW WAYS OF WORKING



Connected vehicles Western Europe – real data

Competitive edge in electromobility



HYBRID BUSES



ELECTRIC HYBRID BUSES



FULL ELECTRIC BUSES

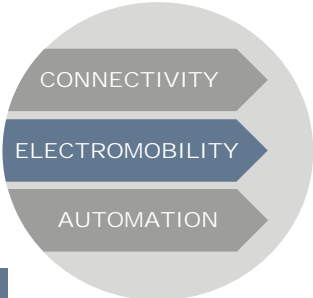


Energy reduction:  -30% to -40%

 -60%

 -80%

Truck electrification – next steps



FULL ELECTRIC



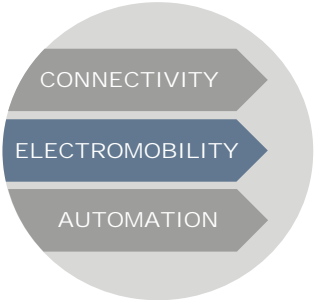
HYBRID SOLUTIONS



ELECTRIC HIGHWAYS



Construction equipment electrification



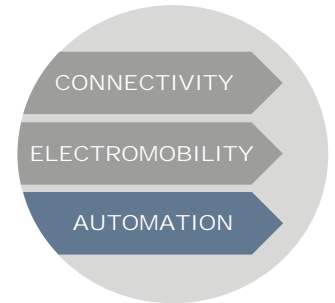
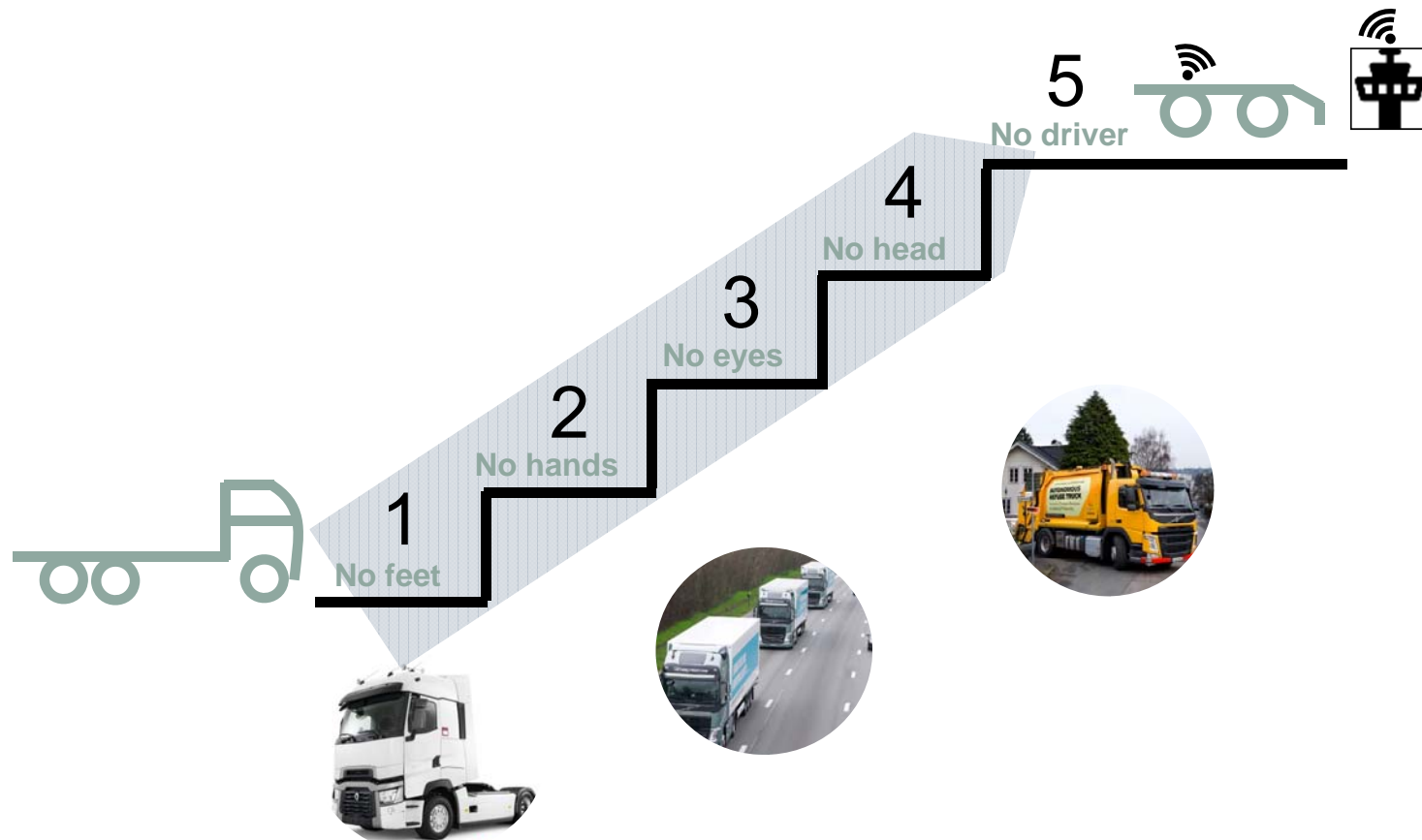
HYBRID SOLUTIONS



FULL ELECTRIC



Automation levels over time - stepwise



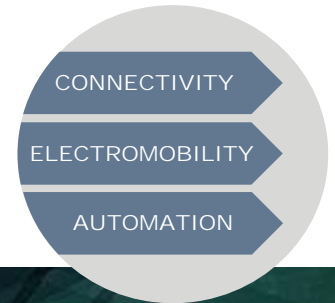
Partnership with Boliden

AUTOMATION BUSINESS DRIVERS AND OPPORTUNITIES



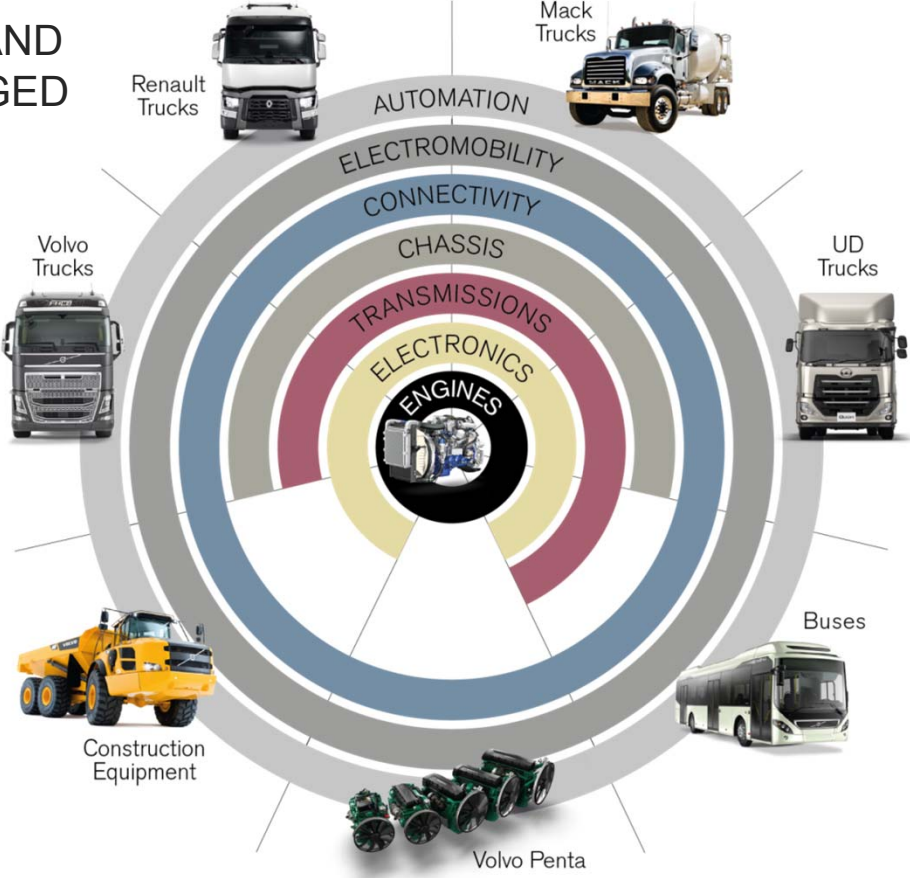
All three technologies converging

HIGHLY EFFICIENT AND INTEGRATED TRANSPORT SYSTEM



Leverage CAST to invest in the future

CONNECTIVITY, ELECTROMOBILITY AND AUTOMATION - ALSO TO BE LEVERAGED IN THE GROUP



Strategic priorities

1

Reinforce Volvo as a global premium HD truck brand and **regain position and market shares** of **Renault, Mack and UD** as regional high-end truck brands

2

Capture Asia growth through JVs and Value Truck in a separate value chain – and leverage in other emerging markets

3

Create the most desirable **HD product and service portfolio** tailored to selected premium, high-end and value segments

4

Secure robust profitability through leading R&D, quality, purchasing and manufacturing operations using **Volvo Production System**

5

Establish brand specific sales operations with focus on **retail excellence** and a **growing service business**

6

Leverage Group assets in our non-truck Business Areas, creating additional profits, synergies and technology leadership

7

Revitalize the Volvo Group culture with focus on Customer Success, Trust, Passion, Change and Performance

We are the Volvo Group

IMPROVING PERFORMANCE THROUGH THE BUSINESS CYCLE



- Continue to strengthen the performance culture: clear leadership and P&L responsibility for each brand
- Continuous improvement
- Improve volume flexibility to reduce earnings volatility
- Discipline in capital allocations/investments



- Improve uptime and productivity for our customers
- Reinforce service culture
- Capture untapped potential



- Leverage on 15 years of investments in the modular system CAST
- Well-positioned in both well-known and new technologies