



# Volvo Group

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# Agenda

FINANCIAL STRATEGY

VOLVO GROUP FUNDING

RATING

CASH FLOW

DOWNTURN MANAGEMENT

# The Volvo Group - Financial Strategy

## Shareholders

Long-term attractive and stable total return

## Debt providers

Strong credit rating  
Financial strength and flexibility

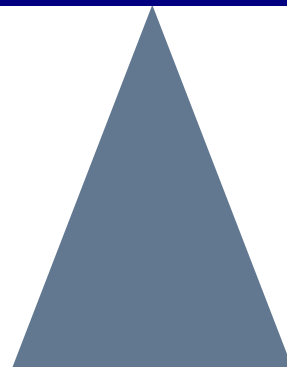
Financial key ratios to balance these objectives

### Financial objectives

Sales growth >10%  
Operating margin, Industrial Operations >7%

### Financial objectives

Net debt / Equity < 40%  
Financial Services equity ratio 8%



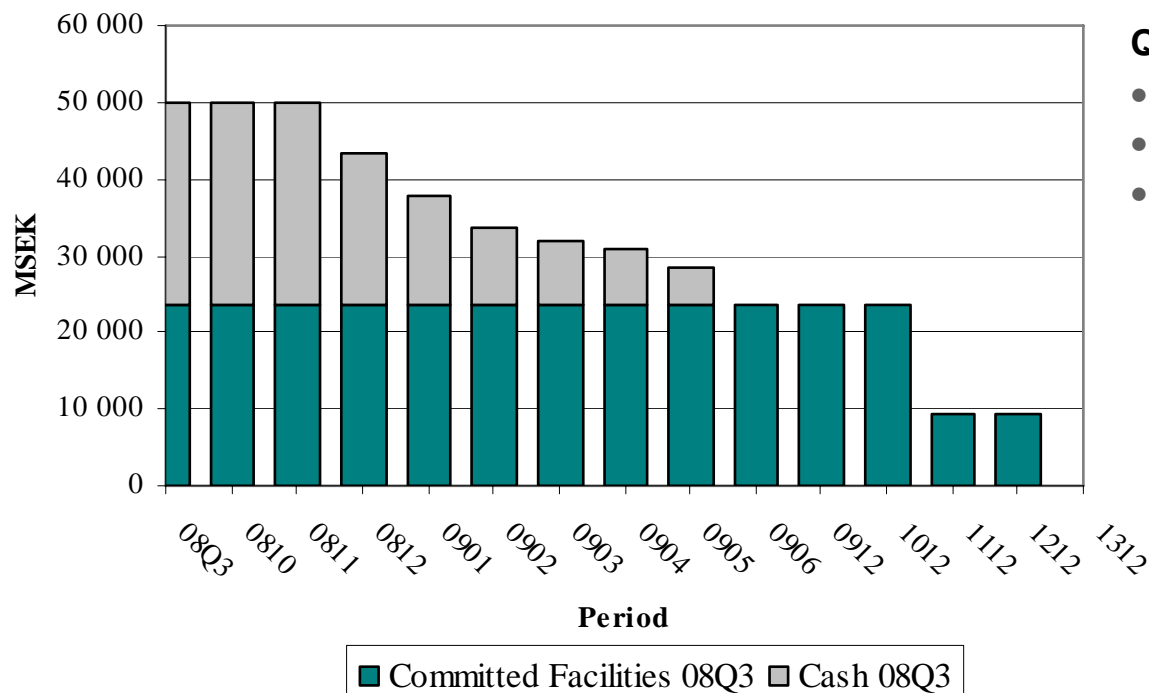
# Funding strategy

- Funding portfolios Q3-08
  - Industrial operations: SEK 43 bn
  - Customer finance: SEK 89 bn
- Diversification of funding sources
- Ambition for a strong and stable credit rating

# Volvo Group

## Financial Assets

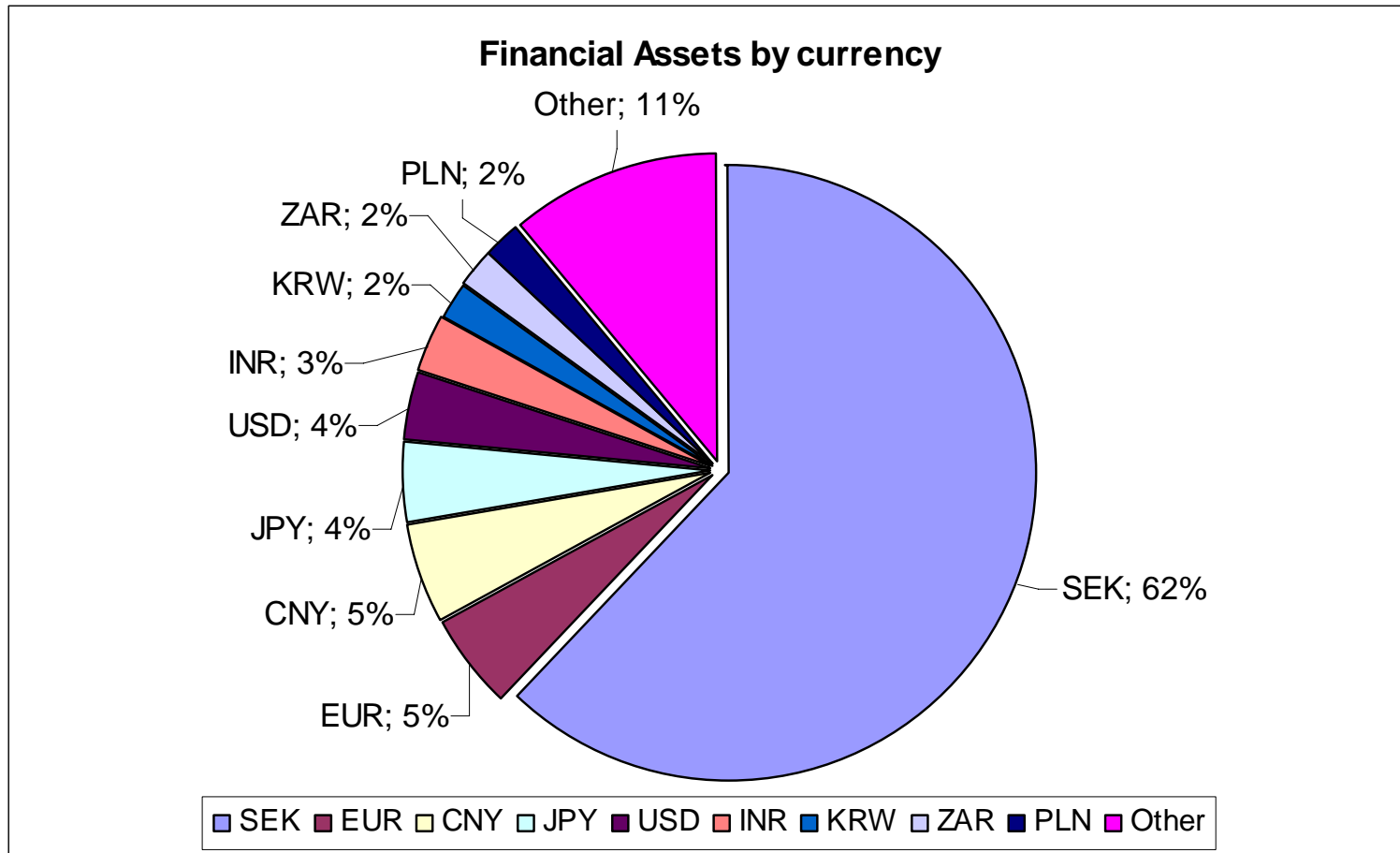
### Asset Portfolio and Committed Facilities



#### Q3 2008

- Cash SEK 25 bn
- Cash/sales ratio 6-10%
- Committed facilities SEK 23 bn

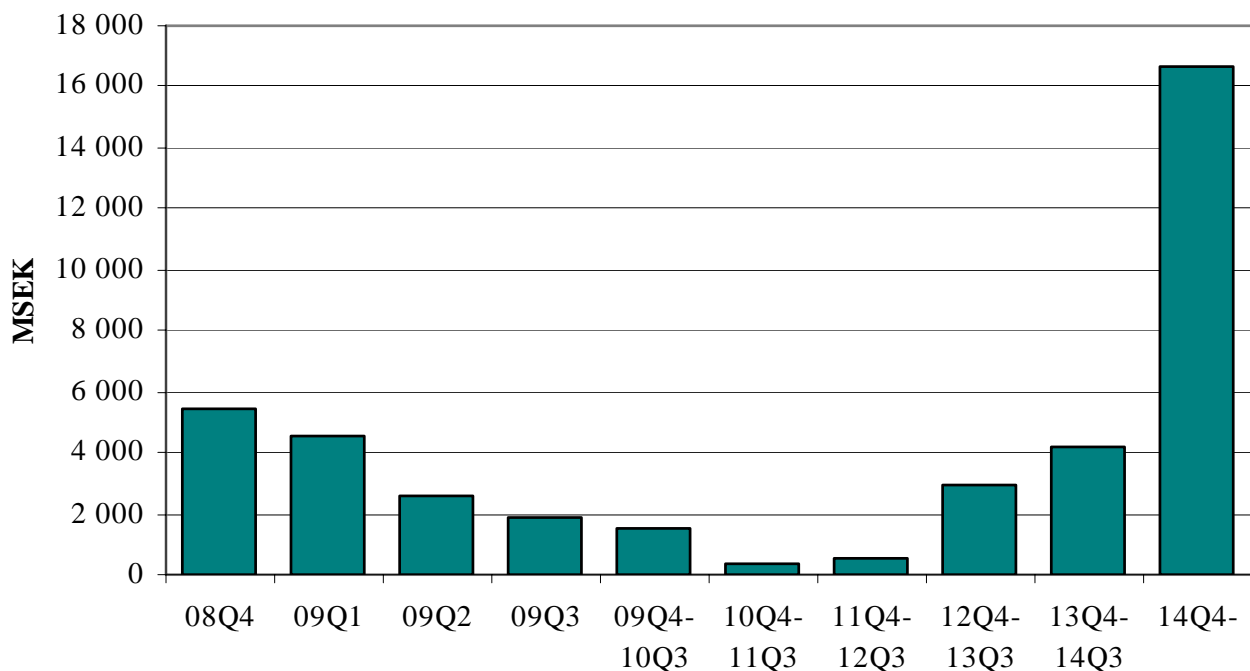
# Volvo Group Financial Assets



# Volvo Group

## Industrial Debt

**Industrial Debt Portfolio Structure - excl. Pensions (and prov. for post employment benefits)**



### Q3 2008

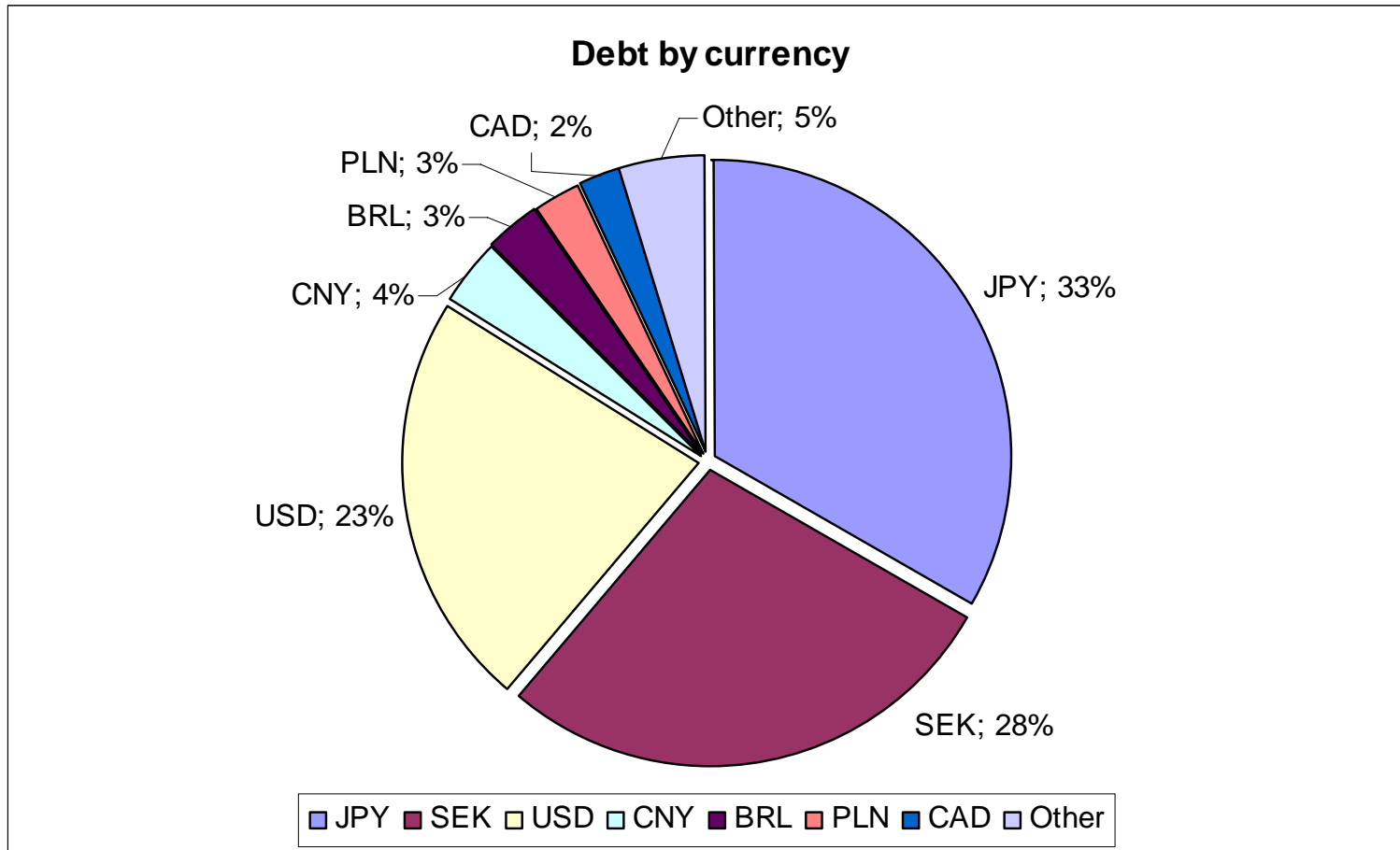
### Industrial debt portfolio

- Portfolio volume SEK 43 bn
- Average maturity 4.6 years

### Going Forward

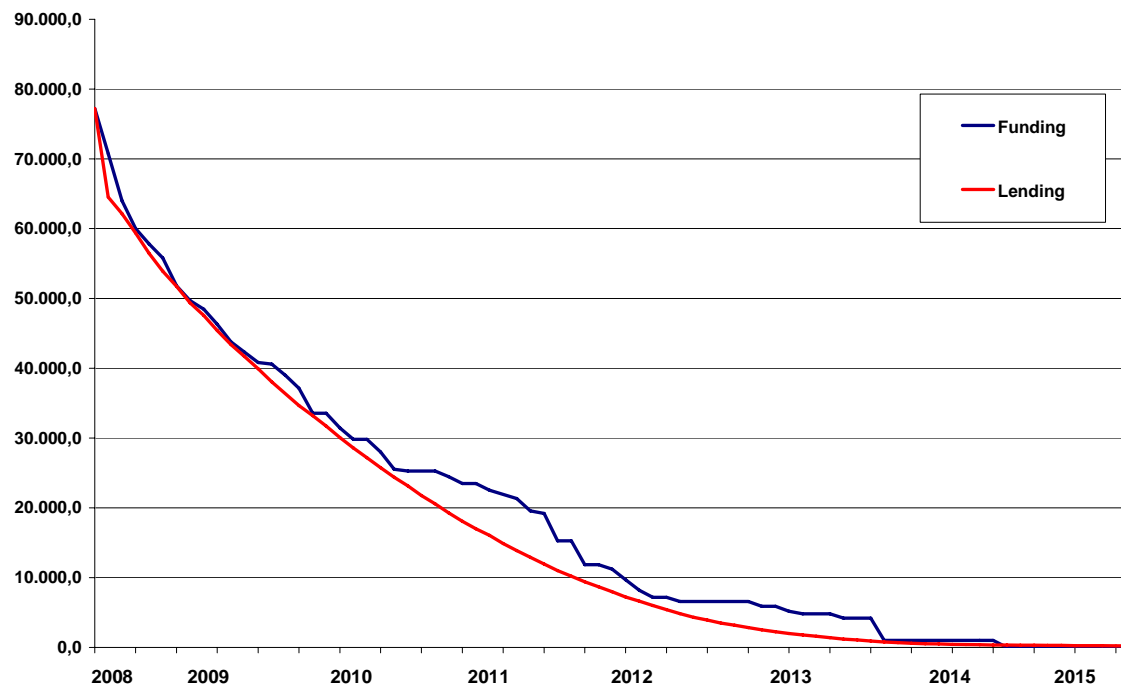
- Cash flow
- Limited requirements in 2008 & 2009

# Volvo Group Industrial Debt





# Customer Financing Debt Portfolio

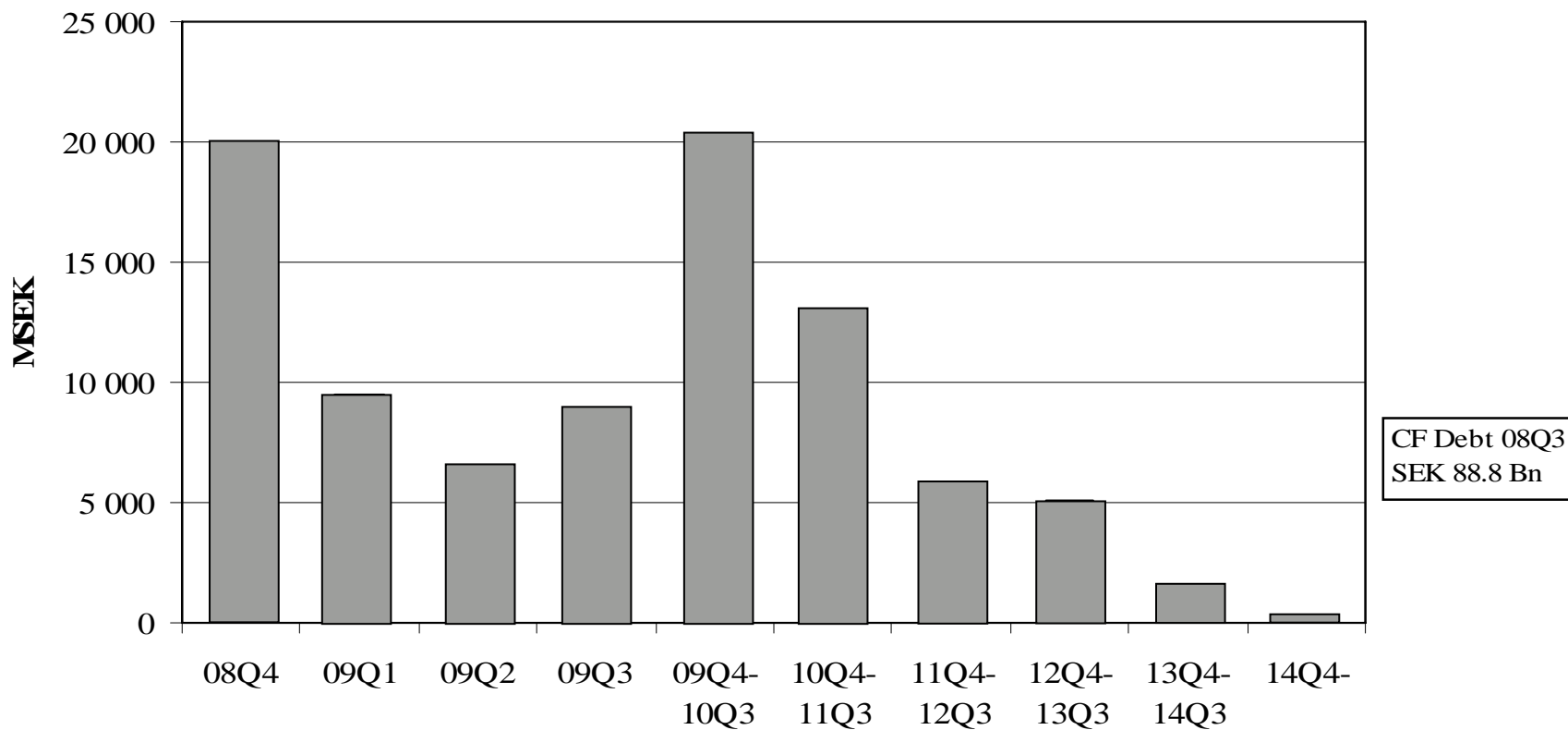


- Strict management of liquidity and funding risk
- Maturing debt matched against customer commitments
- Matching of currency, interest rate and duration
- Average maturity 1.4 years
- Total funding of SEK 89 bn as of Sep 30, 2008
- Equity ratio of 8%

# Volvo Group

## CF Debt

**CF Debt maturity structure**



# Diversified sources of funding

## Public Debt Programmes

### SEK 150 bn

- **Euro Medium Term Note (EMTN)**  
Programme Amount: USD 15 billion
- **SEK Medium Term Note (MTN)**  
Amount: SEK 10 billion
- **Euro Commercial Paper (ECP)**  
Amount: USD 1 billion
- **Swedish Commercial Paper (SEK CP)**  
Amount: SEK 20 billion
- **US Commercial Paper (US CP)**  
Amount: USD 1,350 million
- **Canadian Commercial Paper (CAD CP)**  
Amount: CAD 750 million
- **Australian Commercial Paper (AUD CP)**  
Amount: AUD 350 million

## Bi-lateral loans and facilities

### SEK 31.5 bn

## Long-term committed credit facilities

### SEK 26.5 bn

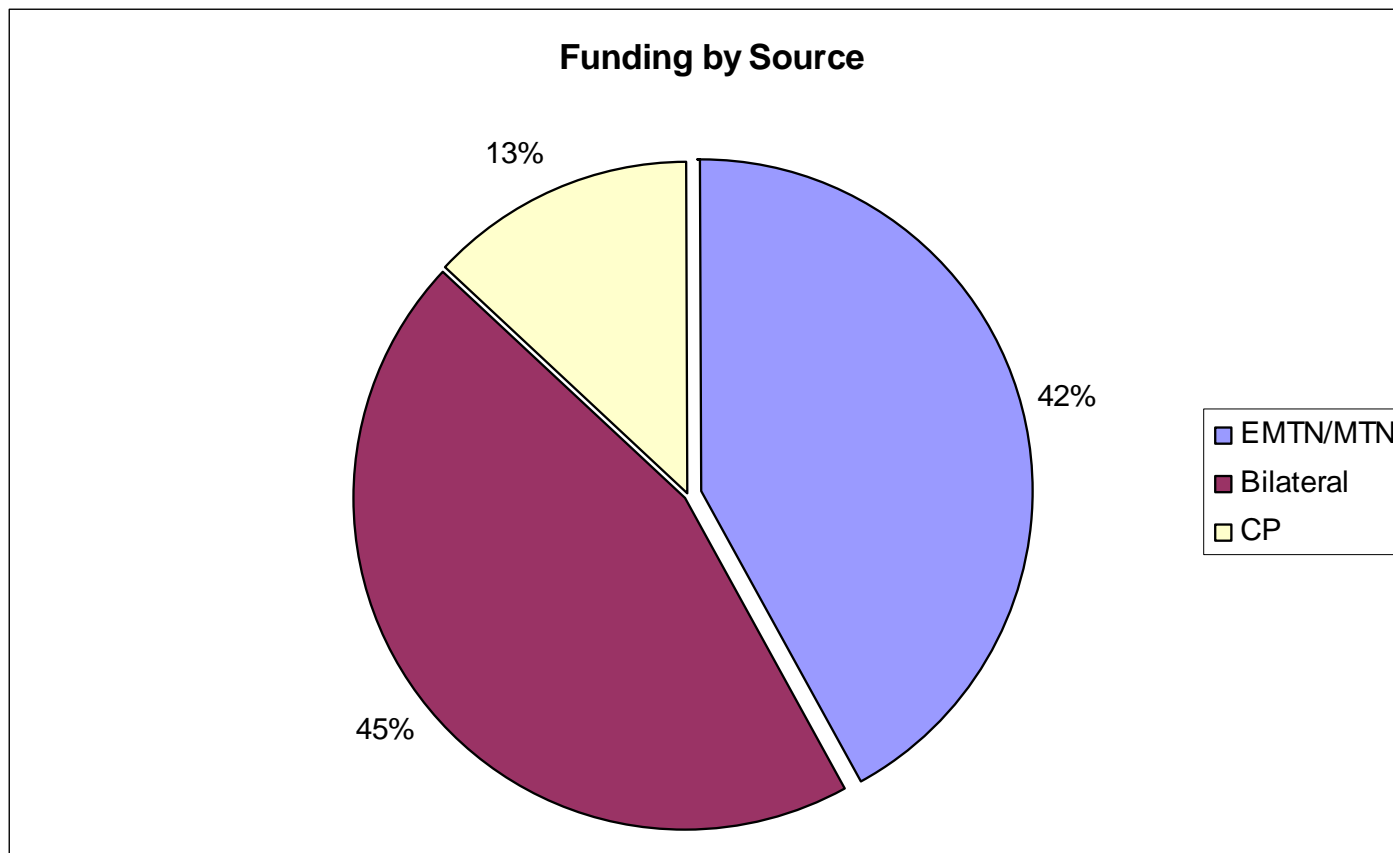
Undrawn:

EUR 1.45 bn maturing 2011

USD 1.4 bn maturing 2013

# Volvo Group

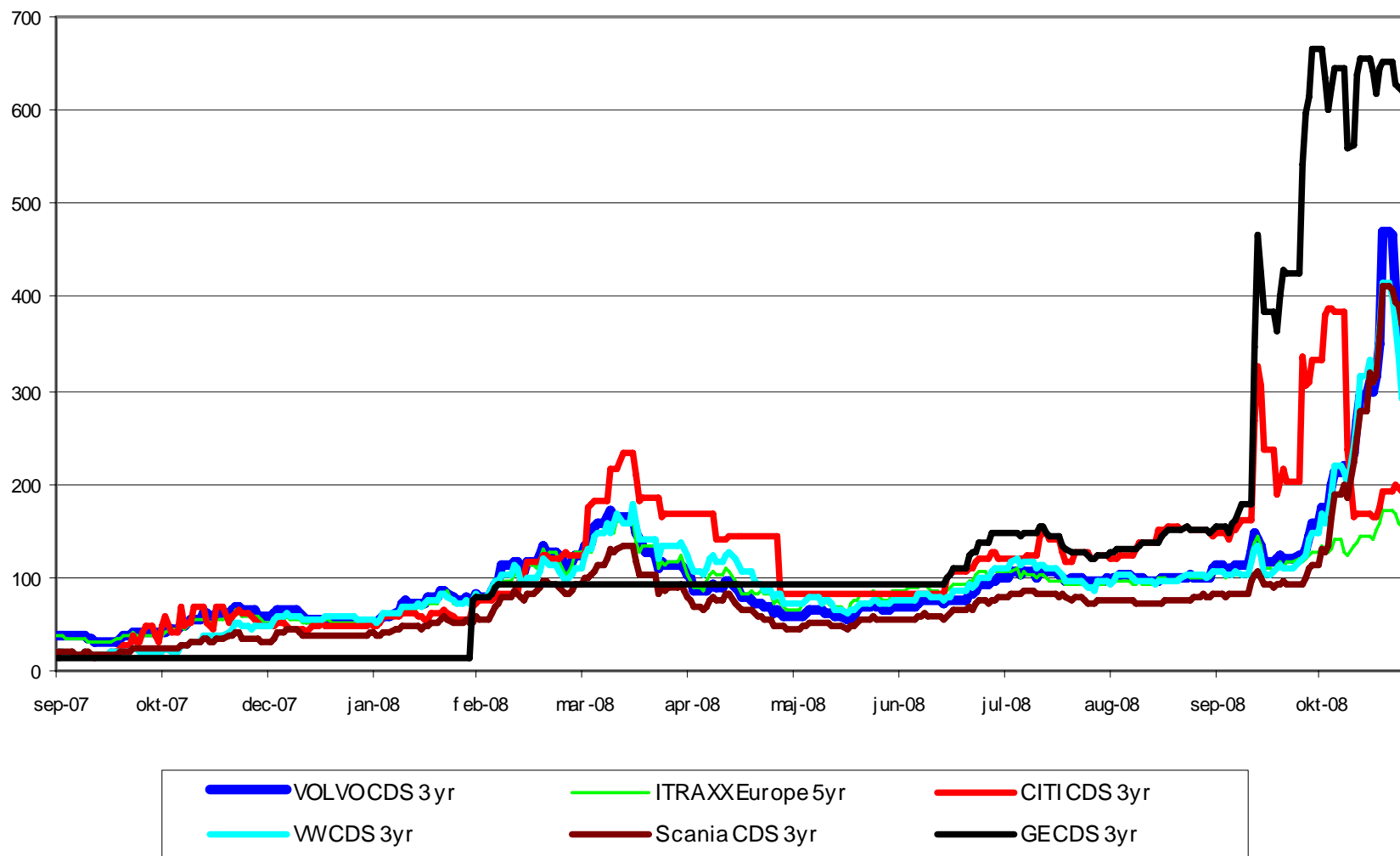
## Funding by source



# Rating

	<b><u>Short-term</u></b>	<b><u>Long-term</u></b>
Moody's (global)	P-2 stable	A3 negative outlook
S&P (global)	A2 stable	-
DBRS (Canada)	R-1 (low) stable	-
R&I (Japan)	a-1 +	AA-

# Funding environment 2008

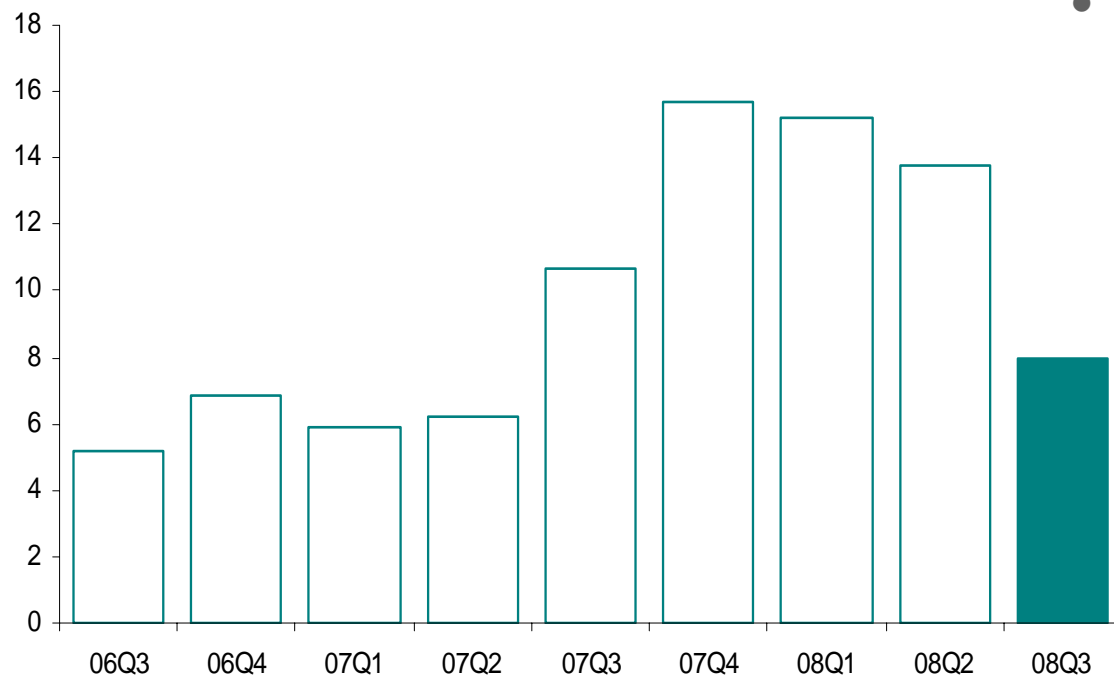


# Key transactions 2008

- SEKeq 7.0 bn NINJA Loan (Mizuho) Q3
- SEKeq 2.0 bn EIB (European Investment Bank) Q2
- SEKeq 1.7 bn DBJ (Development Bank of Japan) Q1 and Q4
- SEK 0.5 bn NIB (Nordiska Investeringsbanken) Q2
  
- SEKeq 12.0 bn EMTN issues Q1-Q4  
of which SEK 2.0 bn in Q3 & SEK 1.8 bn in Q4
- SEKeq 11.0 bn Bilateral Bank Funding Q1-Q4  
of which SEK 1.2 bn in Q3 & 1.8 bn in Q4

# Cash flow, Industrial Operations

## Operating cash flow 12-months, SEK bn



- Industrial operating cash flow; negative SEK 6.1 bn in Q3-08
- Net financial debt SEK 23.8 bn, including SEK 10.2 bn in pension liability, is 32.4% of shareholders' equity



# Cash flow

## Focus areas

### **Inventory**

- Improve work across the supply chain in order to decrease inventory tied up
- Best practice in working capital deployment

### **Receivables**

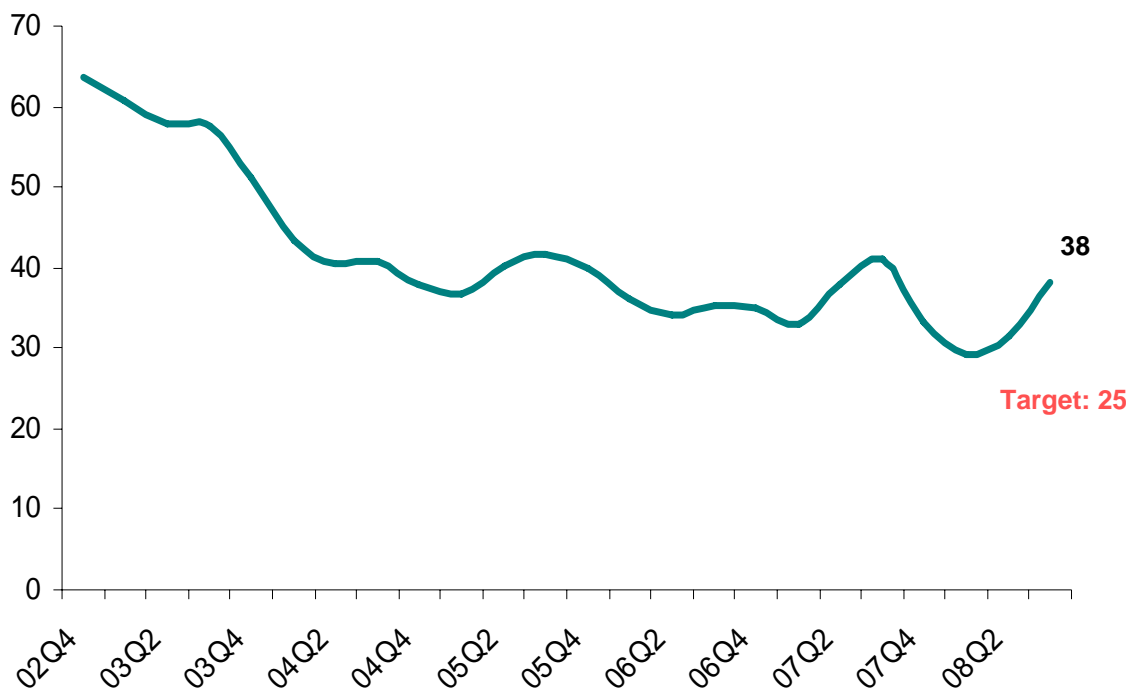
- Customer assessment
- Increased focus on pro active collection – before invoice is due
- Increased focus on Penalty interest invoices and collections

### **Payables**

- Supplier assessment

# Cash Conversion Cycle

## Cash Conversion Cycle Days



- Cash Conversion Cycle: 38 days
- Focus on working capital – Cash flow impact Q3:

- Receivables	+2.6 bn
- Inventories	-2.4 bn
- Payables	-6.5 bn
- Other	<u>-0.2 bn</u>
Total change	- 6.5 bn

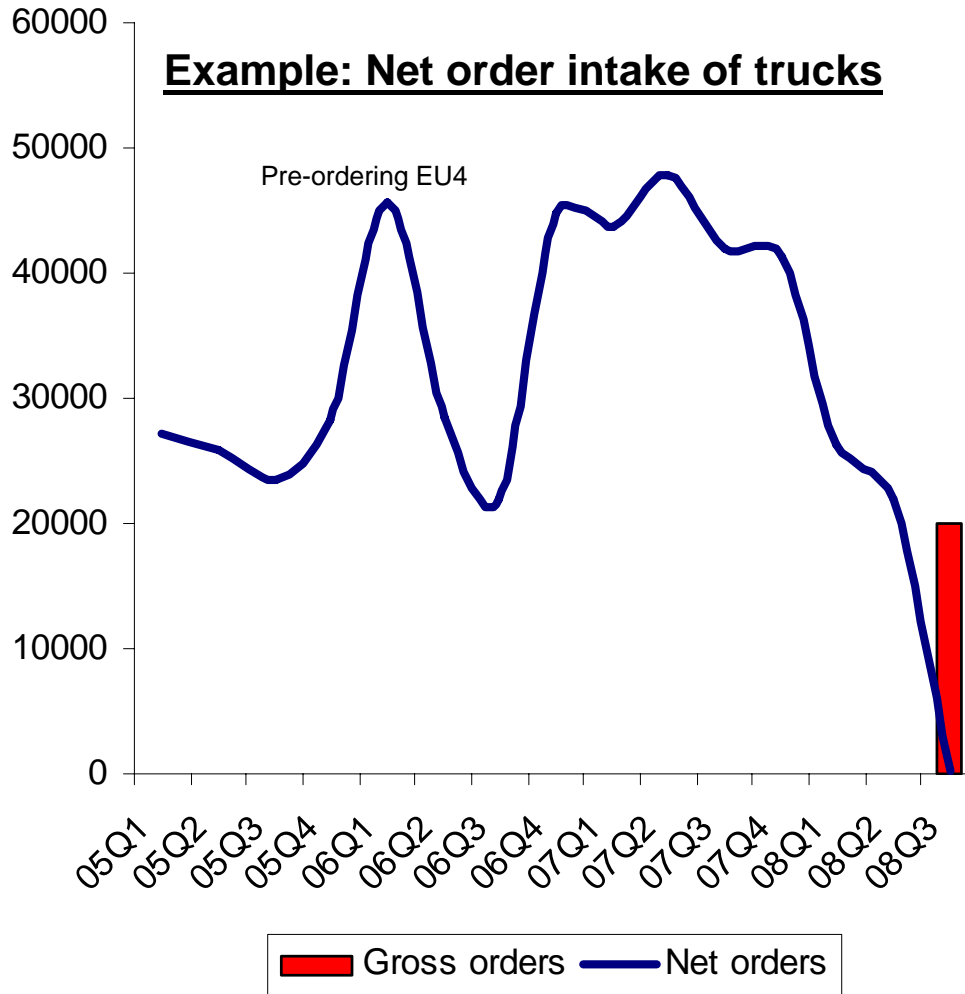


# DOWNTURN MANAGEMENT

# European market downturn...

...in all product segments

## Example: Net order intake of trucks



- Macro economic down-turn accelerated by collapse of financial system
- Customers expect a downturn and remain in a wait-and-see mode
- Industry production was fully ramped-up and there is now inventory building up in the market
- Used products cannot be flushed out to Eastern Europe

# Braking sharply

Also in Construction Equipment

- Sharp decline in order intake
- Production cut in Q3-
- High steel prices
- Slowdown also in Asia and South America

# Short term actions

## Cutting production to maintain price levels

- Cutting production rapidly in Q4 2008 and Q1 2009
- Reduction of temporary workforce and regular workforce.
- “Braking costs” in the next two quarters due to under absorption in the manufacturing system.
- Strict control of capital expenditures
- Prioritize R&D projects
- Reduce operating costs

# Medium term actions

## Drive productivity

- Fully implement Volvo Production System to make a step-change in manufacturing productivity.
- Improve efficiency in R&D, Sales & Marketing as well as Administration
- Drive profitability in US truck operations
- Optimize Asian truck business
- Quality launch of products for next emission regulations: EU5, US'10, JP'10, Tier4A
- Successfully introduce diesel-electric hybrids for city buses, and distribution trucks

# Operational Efficiency

## Actions taken

1. Implementation of lean practices in all aspects of our business
2. Strengthening our core processes and the way they interact with each other
3. Increasing knowledge and best practice sharing between Group companies
4. Accelerate IT solution harmonization on a Volvo Group level and increase IT low cost sourcing
5. Managing key projects as a portfolio
6. Continuing to invest in technological innovations.
7. Continued strong focus on leadership development

## Economic goals

- Long term value generation
- Aggressive working capital management
- Improve cost efficiencies
- Improved forecasting to manage volatility in margin change
- Improve cash-flows and cash-flow timing
- Increase in asset productivity
- Reduce discretionary spends



# Summary and moving forward

## Highlights

- Diversified sources of funding
- Funding secured

## Focus going forward

- Downturn management
  - Reduce production rates
  - Drive productivity
- Cash flow
- Operational efficiency