

VOLVO

Sell-Side Analysts Seminar
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Agenda



1. Net debt
2. Lease accounting
3. Pensions
4. New accounting principles

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Netting between IO and CF of financial receivables and liabilities

	Elimination within industrial operations		IO Net	CF	Elim	Reclass	Group
	IO gross	Transfer CF debt					
ASSETS							
Long term customer finance receivables	0		0	55	0	-9	46
<i>Prepaid pensions long term</i>	2		2	0	0	0	2
<i>Other I-t interet bearing receivables</i>	1		1	0	0	0	1
<i>Long term i- b receivables group comp</i>	40	-40	0	0	0	0	0
Long term interest bearing receivables	43	-40	3	0	0	0	3
Short term customer finance receivables	1	0	1	46	-1	-3	43
<i>Short-term interest bearing receivables</i>	1	-1	0	0	0	0	0
<i>Unrealised interest gain derivatives</i>	1		1	0	0	0	1
Short term interest bearing receivables	2	-1	1	0	0	0	1
Marketable securities	13	0	13	0	0	0	13
Cash and bank	50	-39	12	1	0	0	13
TOTAL FINANCIAL ASSETS	109	-80	29	103	-1	-12	119

Netting between I&C and CF of financial receivables and liabilities cont.

	Elimination within industrial operations		I O Net	CF	Elim	Reclass	Group
	I O gross	Transfer CF debt					
LIABILITIES							
Provision for post-employ benefits	10		10	0	0	0	10
I-b current liabilities to group companies	2	-40	-39	38	0	0	0
Current loans	54	0	54	5	-1	0	59
<i>L-t i-b loans fr gr comp</i>	0	-39	-39	39	-1	0	-1
<i>Bond loans</i>	33		33	0	0	0	33
<i>Other long term i-b loans</i>	34		34	7	0	0	41
Non-Current interest bearing liabilities	67	-39	27	46	-1	0	73
INTEREST BEARING LIABILITIES (in net debt)	133	-80	53	90	-1	0	142
NET FINANCIAL POSITION	-24	0	-24	13	1	-12	-22


} Interest bearing liabilities ,131

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Leasing - definitions



Lessee	the user of a leased asset
Lessor	the owner of the asset that is being leased to the lessee
Finance lease	a lease that transfers substantially all the risks and rewards incident to ownership of an asset
Operating lease	a lease other than finance lease

Volvo as the lessee



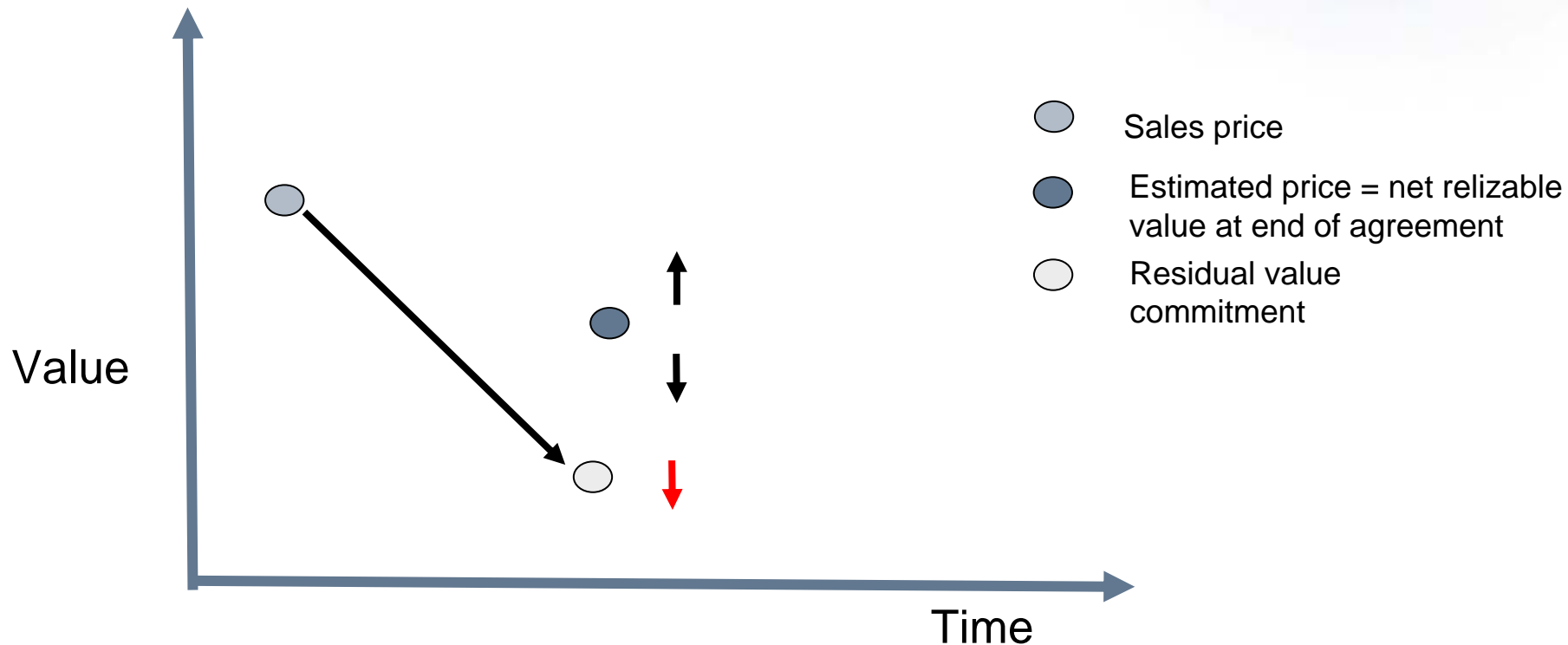
Finance leases

- Volvo reports the asset and related obligation in the balance sheet at the lower of the leased asset's fair value and the present value of minimum lease payments
- Future leasing fees are reported as loans
- The leased asset is depreciated on a straight line method.
- Lease payments are allocated between amortization and interest expenses

Operating leases

- Lease payments are charged to the income statement over the lease contract period.

Volvo as the lessor, operating lease with Residual Value Commitment



Volvo as the lessor

Operating leases

Two variants based on leasing contract or deferred income accounting

Leasing contract

- Reported as non-current assets in *Assets under operating lease*
- Depreciated by straight-line method (depreciated amount is should reflect the residual value commitment when undertaking expires)
- Lease income distributed over the lease period

Sales with residual value commitments – operating lease model

Sales combined with repurchase agreements/commitments is accounted for as an operating lease transaction if significant risks of the product are retained in Volvo

– Residual value significant



On balance treatment

– Reported as non-current assets in *Assets under operating lease*

– Income is deferred over the committed period

– Assets are depreciated on a straight-line basis to the residual value liability at the end of the commitment.

– Adjustment of depreciation or write-down of the carrying value if changes in NRV, net realizable value

Sales with residual value commitments – revenue up front

Sales combined with repurchase agreements/commitments is accounted for as sales if significant risks of the product are not retained in Volvo.

- Commitment not significant
- Independent transaction
- Trade-backs

Off balance treatment

- Sales and gross profit reported at the time of sale
- Provisions are made on a continuing basis based upon estimations of the used product's future net realizable values (consideration of current prices, expected future price development, expected inventory turnover period and expected variable and fixed selling prices) compared to the residual value commitment

Residual value exposure

- Residual value exposure, equals the residual value liability/commitment.
- For the Industrial operation these liabilities are separate accounted for, for on balance transaction see Annual Report 2007 notes 26, 27.
- Residual value exposure, off balance is included in Other contingent liabilities. (the exposure should include provision in note 25...)
- In the Customer Finance segment no separate residual value liability accounts exists.
- If a sales transaction is accounted for as an operating lease by a product business area and the product is financed by a VFS company, the same product is recognized twice in the balance sheet. The internal transaction need to be eliminated.
- Consequently the residual value liability will be eliminated and the residual value exposure will be included in the Customer finance receivable of VFS.

Volvo as the lessor

Finance leases

- Reported as non-current respective short-term receivables in the Customer Finance operations
- Payments from finance lease contracts are distributed between interest income and amortization of the receivable in the Customer Finance operations

Reclassification in segment reporting:

Leases classified as operating in consolidated financial statements have been reclassified to finance leases in the segment reporting of Customer Finance, if the residual value in these contracts is guaranteed to Customer Finance by another business area. Customer Finance's sales as well as depreciation are reduced as a consequence which affect cash flow from operating activities.

Disclosures in the Annual report



- Note 1 Accounting principles
- Note 2 Key sources of estimation uncertainty (*Residual value risks*)
- Note 16 Long-term customer-financing receivables (*Finance leases*)
- Note 19 Short-term customer-financing receivables (*Finance leases*)
- Note 25 Other provisions (*Provision for residual value risks*)
- Note 29 Contingent liabilities (*Residual Value Commitments*)
- Note 31 Leasing (*future rental income and rental payments, book values, rental expenses*)
- Note 36 Goals and policies in financial risk management

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Provision for postemployment benefits

- Postemployment benefits
 - Pensions and health-care benefits (US operations).
- Defined benefit plans (Volvo risk) and Defined contribution plans (Employee risk):
 - Volvo's pension costs consist mainly of defined contribution plans.
 - Balance sheet provisions only related to defined benefit plans
- Defined benefit obligation
 - Present value of obligations

Provision for postemployment benefits

- **Plan assets**
 - Investments in pension fund
- **Funded plans and unfunded plans**
 - Funded plans are secured by Plan assets, mainly in the U.S., Sweden, UK and Belgium.
 - Funded plans are reported net in the balance sheet.
 - Unfunded plans are secured by provision in the accounts, mainly in France and health-care in the US
- **Funded status**
 - Relation between Defined benefit obligation and Plan assets.
 - Underfunded plans are Defined benefit obligations in excess of Plan assets i.e deficit in pension funds

Actuarial assumptions for actuarial calculations %, 2007

	Sweden	U.S	UK	France
Discount rate	4,50	5.75-6.25	5,75	5,25
Inflation	2,00	2,50	3,40	2,00
Expected return on plan assets	6,00	7,65	5.30-6.10	
Expected salary increases	3,20	3,50	4.20-4.90	3,00

Financial assumptions shall be based on market expectations for the period over which the obligation are to be settled

Status pension funds end 2007

	Sweden	US Pensions	US Other benefits	UK	France	Other Plans	Total
Obligations at Dec 31, 2007	8 451	11 207	5 582	4 608	1 800	4 336	35 984
Plan assets at Dec 31 2007	6 648	12 195	136	4 911	-	1 878	25 768
Funded status at Dec 31 2007	(1 803)	988	(5 466)	303	(1 800)	(2 458)	(10 216)
Unrecognized actuarial (gains) and losses	1 616	(111)	67	255	115	278	2 220
Unrecognized past service costs	-	(1)	(66)	-	422	(2)	353
Net provisions for post-employment benefits at Dec 31, 2007	(187)	876	(5 445)	558	(1 263)	(2 182)	(7 643)
whereof reported as							
Prepaid pensions and other assets	12	1 226	242	558	-	93	2 131
Provisions for post-employment benefits	(199)	(350)	(5 687)	-	(1 263)	(2 275)	(9 774)

Underfunded plans

- Accounting

- Smoothing in P&L due to "the corridor".
- Plan assets are measured at fair value.
- Expected return on plan assets is recognised in the P&L. Interest income.
- The difference between expected return on plan assets and actual return on plan assets = actuarial losses.
- Actuarial losses will not immediately be recognised in the P&L but, if outside "the corridor", amortized over the duration of the obligation.

Underfunded plans



- Cash flow effects

- The investments in plan assets are administered by a pension foundation (Sweden) or external trusts (UK, US).
- There are no legal requirements to compensate underfunded plans in Sweden, UK or France.
- In US new funding rules went into effect in 2008. Plans must be at least 80 % funded at the beginning of each year to avoid various penalties and restrictions.
- Extra compensations will have no effect on net financial position.

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New standards and amendments effective 1 January 2009

<i>STANDARD / AMENDMENT:</i>	<i>VOLVO IMPACT:</i>
• IAS 1 Revised, 'Presentation of financial statements' →	Yes, addition of comprehensive income
• IAS 23 Revised, 'Borrowing costs' →	Yes, capitalization of borrowing costs
• IFRS 8, 'Operating segments' →	Yes, limited effect (no change in identification of segments)

No significant impact on Volvo:

- IFRIC 15, 'Agreements for the construction of real estate'.
- IAS 32 and IAS 1 Amendment, 'Puttable financial instruments and obligations arising on liquidation';
- IFRS 1 and IAS 27 Amendment, 'Cost of an investment on first-time adoption';
- IFRS 2 Amendment, 'Vesting conditions and cancellations'

New standards and amendments effective 1 January 2010 (FY beginning on/after 1 July 2009)

<i>STANDARD / AMENDMENT:</i>		<i>VOLVO IMPACT:</i>
• IFRS 3 Amendment, 'Business combinations and consequential amendments';	→	Yes, in case of acquisitions
• IAS 27 Amendment, 'Consolidated and separate financial statements';	→	Yes

No significant impact on Volvo:

- IAS 39, 'Financial instruments: Recognition and measurement – Amendments for eligible hedged items'; and
- IFRS 5, 'Non-current assets held for sale and discontinued operations' (May 2008 Annual Improvements project)

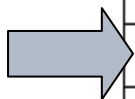
On the IASB agenda – *new standards*

New standards and major projects	Last document issued	Estimated publication date					Estimated publication of final document	IASB-FASB Collaboration	
		2008 Q4	2009 Q1	2009 Q2	2009 H2	2010		MoU ¹	Joint ²
Common control transactions							TBD		
→ Consolidation		ED			IFRS			✓	✓
→ Derecognition			ED		IFRS			✓	✓
Emissions trading schemes					ED	IFRS			✓
→ Fair value measurement guidance	DP			ED		IFRS		✓	
Financial instruments with characteristics of equity	DP				ED		2011	✓	✓
→ Financial statement presentation	DP					ED	2011	✓	✓
Government grants ³							TBD		
IFRS for private entities	ED		IFRS						
Income taxes		ED				IFRS		✓	✓
Insurance contracts	DP				ED		2011		✓
→ Leases			DP			ED	2011	✓	✓
Liabilities ⁴	ED				IFRS				
Management commentary	DP		ED		CG				
→ Post-employment benefits (including pensions)	DP				ED		2011	✓	
→ Revenue recognition		DP				ED	2011	✓	✓

On the IASB agenda - *amendments*

Amendments to standards

	Last document issued	Estimated publication date					Estimated publication of final document	IASB-FASB Collaboration	
		2008 Q4	2009 Q1	2009 Q2	2009 H2	2010		MoU	Joint
Annual improvements 2007-2009	ED			IFRS					
Annual improvements 2008-2010					ED	IFRS			
Discontinued operations (IFRS 5)	ED			IFRS				✓	
Earnings per share (IAS 33)	ED				IFRS			✓	
Financial instruments: enhanced disclosures (IFRS 7)	ED		IFRS						
First-time adoption of IFRSs (IFRS 1): additional exemptions	ED				IFRS				
Joint ventures	ED			IFRS			✓		
Related party disclosures (IAS 24)	ED	ED			IFRS				
Share-based payment: group cash-settled transactions (IFRS 2 and IFRIC 11)	ED		IFRS						



Financial Statement Presentation

Statement of financial position	Statement of comprehensive income	Statement of cash flows
<i>Business</i> <ul style="list-style-type: none"> • Operating assets and liabilities • Investing assets and liabilities 	<i>Business</i> <ul style="list-style-type: none"> • Operating income and expenses • Investment income and expenses 	<i>Business</i> <ul style="list-style-type: none"> • Operating cash flows • Investing cash flows
<i>Financing</i> <ul style="list-style-type: none"> • Financing assets • Financing liabilities 	<i>Financing</i> <ul style="list-style-type: none"> • Financing asset income • Financing liability expenses 	<i>Financing</i> <ul style="list-style-type: none"> • Financing asset cash flows • Financing liability cash flows
<i>Income taxes</i>	<i>Income taxes on continuing operations (business and financing)</i>	<i>Income taxes</i>
<i>Discontinued operations</i>	<i>Discontinued operations, net of tax</i>	<i>Discontinued operations</i>
	<i>Other comprehensive income, net of tax</i>	
<i>Equity</i>		<i>Equity</i>

Financial Statement Presentation (cont.)

- Volvo presented its revised financial statements at a hearing in Stockholm September 4.
- Discussion topics:
 - *Function and nature of cost required*
 - *Classification of pension obligations, lease receivables/liabilities?*
 - *Financing section = net debt?*
 - *Same headlines, sublines in all statements*
 - *No total assets required?*
- Volvo aims to respond to proposed changes together with users/analysts
- Comment period ends April 14, 2009

Joint ventures

- Exposure draft published in Q2 2007. IFRS expected in Q2 2009. Effective date to be decided.
- Proposed removal of the option to consolidate a joint venture according to the proportionate method. Equity method would remain as only alternative.
- Volvo accounts for joint ventures according to proportionate method under current standard (IAS 31).

Volvo's view:

- *Proportionate method is in line with management approach*
- *Common establishment form in emerging markets (a “one-line”-effect irrespective of the size of the new establishment)*
- *Key ratios risk to deteriorate (ex consolidate income, but not sales etc)*
- *Conflicts with the intention of the joint venture set up (distinguish between investments and extension of operations)*



Backup

Customer offering



**Insurance/
Service &
Maintenance
Contracts
(Non risk based)**

**Operational
Lease
(10.3%)**

**Receivables
Management
(0.8%)**

**Installment
Credit
(36.2%)**

**Finance Lease
(36.2%)**

**Dealer Financing
(16.5%)**

Balance sheet Q3 2008

Assets

SEK M	Industrial operations		Customer Finance		Eliminations and reclassifications		Total	
	Sep 30 2008	Dec 31 2007	Sep 30 2008	Dec 31 2007	Sep 30 2008	Dec 31 2007	Sep 30 2008	Dec 31 2007
Assets								
Non-current assets								
Intangible assets	38 727	36 441	65	67	0	0	38 792	36 508
Tangible assets								
Property, plant and equipment	50 002	47 132	69	78	0	0	50 071	47 210
Assets under operating leases	15 572	13 850	462	288	8 179	8 364	24 213	22 502
Financial assets								
Shares and participations	1 847	2 189	25	30	0	0	1 872	2 219
Long term customer financing receivables	424	444	55 416	47 870	(9 542)	(7 828)	46 298	40 486
Deferred tax assets	8 865	8 434	346	346	1	3	9 212	8 783
Other long-term receivables	4 592	5 601	35	39	(20)	(861)	4 607	4 779
Total non-current assets	120 029	114 091	56 418	48 718	(1 382)	(322)	175 065	162 487
Current assets								
Inventories	56 012	43 264	695	381	0	0	56 707	43 645
Short-term receivables								
Customer-financing receivables	521	789	46 031	42 695	(3 430)	(5 123)	43 122	38 361
Current tax assets	1 734	1 660	86	43	0	0	1 820	1 703
Other receivables	45 940	53 976	1 398	1 713	(2 190)	(11 272)	45 148	44 417
Marketable securities	13 496	16 488	2	2	0	0	13 498	16 490
Cash and cash equivalents	11 610	13 538	1 261	1 053	(173)	(47)	12 698	14 544
Total current assets	129 313	129 715	49 473	45 887	(5 793)	(16 442)	172 993	159 160
Total assets	249 342	243 806	105 891	94 605	(7 175)	(16 764)	348 058	321 647

Balance sheet Q3 2008

Shareholder's Equity & Liabilities

Shareholders' equity and liabilities

Equity attributable to the equity holders of

the parent company	72 926	74 550	8 739	7 652	0	0	81 665	82 202
Minority interests	600	579	0	0	0	0	600	579
Total shareholders' equity	73 526	75 129	8 739	7 652	0	0	82 265	82 781

Non-current provisions

Provisions for post-employment benefits	10 169	9 746	33	28	0	0	10 202	9 774
Provisions for deferred taxes	6 188	7 868	1 525	1 259	0	0	7 713	9 127
Other non-current provisions	7 893	7 067	64	95	121	139	8 078	7 301
Non-current liabilities	37 096	41 339	46 680	42 285	(3 546)	(11 895)	80 230	71 729
Current provisions	11 383	10 437	113	129	60	90	11 556	10 656

Current liabilities

Loans	54 480	40 539	5 443	4 382	(851)	(49)	59 072	44 872
Trade payables	49 591	52 376	426	287	0	0	50 017	52 663
Current tax liabilities	2 553	0	467	451	0	0	3 020	451
Other current liabilities	-3 537	(695)	42 401	38 037	(2 959)	(5 049)	35 905	32 293
Total shareholders' equity and liabilities	249 342	243 806	105 891	94 605	(7 175)	(16 764)	348 058	321 647

Contingent liabilities

8 668 8 153

Lease Accounting

	Income statement		Balance sheet				Cash	Deferred leasing income	Residual value liability	Interest-bearing liability	Contingen liabilities	
	Operating income	Finance net	PPE	Assets u op lease	Customer finance receivable	Inventory					Provision	Contingent liabilities
Volvo as a lessee												
<u>Finance lease:</u>												
- Value at inception of the lease			+							+		
- Lease payments		-								-		
- Depreciation		-	-									
<u>Operating lease:</u>												
- Lease payments		-								-		
Volvo as a lessor												
<u>Finance lease:</u>												
- Value at inception of the lease					+					-		
- Lease payments		+			-					+		
<u>Operating lease:</u>												
- Value at inception of the lease				+				+	+			
- Lease payments		+						+	-			
- Depreciations		-		-								
- Write-downs due to expected future losses		-		-								
- Expired operating lease - buy-back option realized				+								
- Sale of used truck		+		-				+				
<u>Sales combined with repurchase agreements:</u>												
- At sale				+				+	+			
- Revenue recognition over the commitment period		+							-			
- Depreciation		-		-								
- Write-downs due to expected future losses		-		-								
- Expired contract - buy-back option realized				-								
- Sale of used truck		+						+				
<u>Sales combined with repurchase agreements - limited risks:</u>												
- At sale		+										+
- Write-downs due to expected future losses		-										-
- Expired contract - buy-back option realized		-										-
- Sale of used truck		+										-



VOLVO