



# VOLVO GROUP Investor Day

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**AB Volvo**

091104 Investor Day NY

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**VOLVO**

# Agenda



COST EFFICIENCY

CASH FLOW

VOLVO GROUP FUNDING

GOING FORWARD

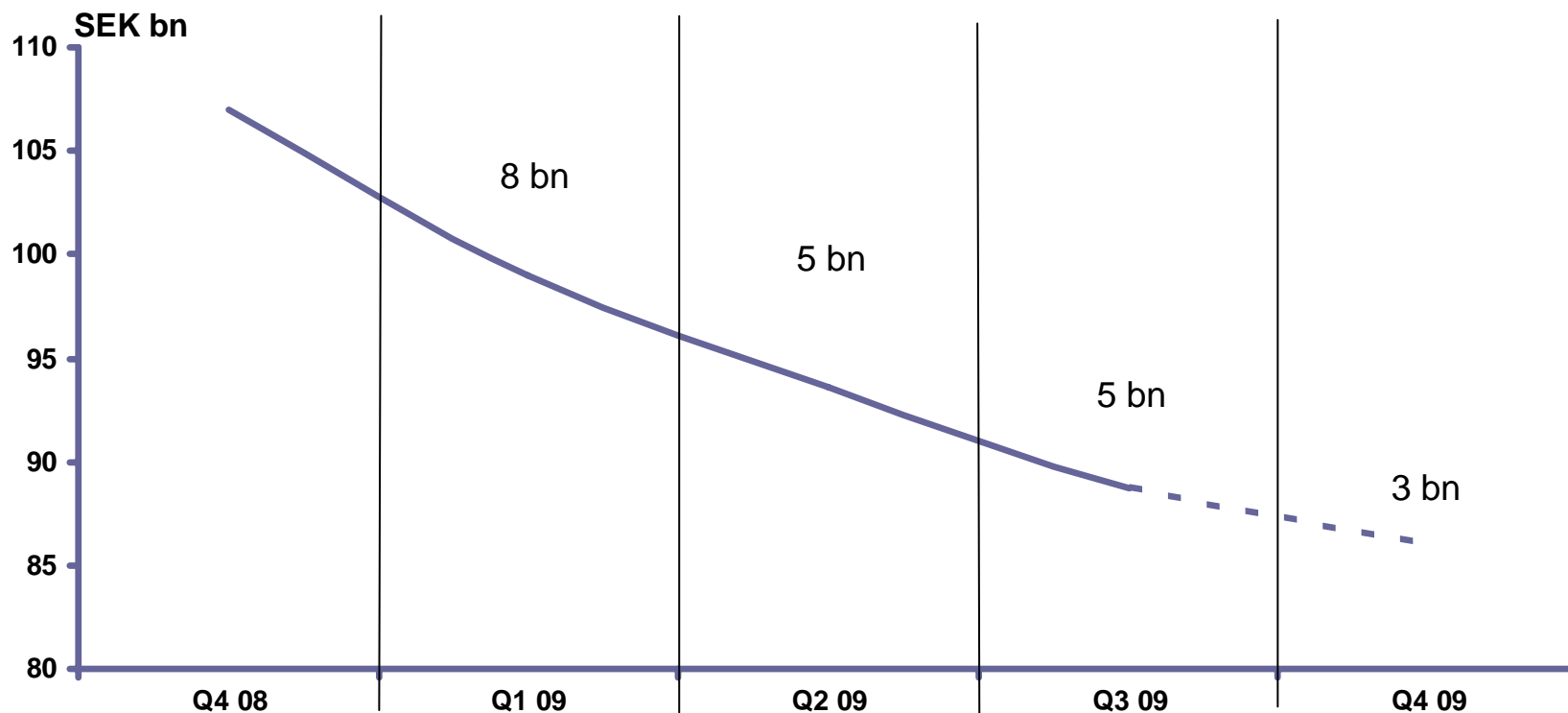


## COST EFFICIENCY

- ▶ Cost reduction program
- ▶ Actions taken
- ▶ Effects

# Annual cost level

## - Activities and development so far



- Annualized run rate expected to be reduced by SEK 21 bn from the end of 2009.

# Downturn management

## ACTIONS

### **Cutting production to adapt to demand and to maintain price levels on new products**

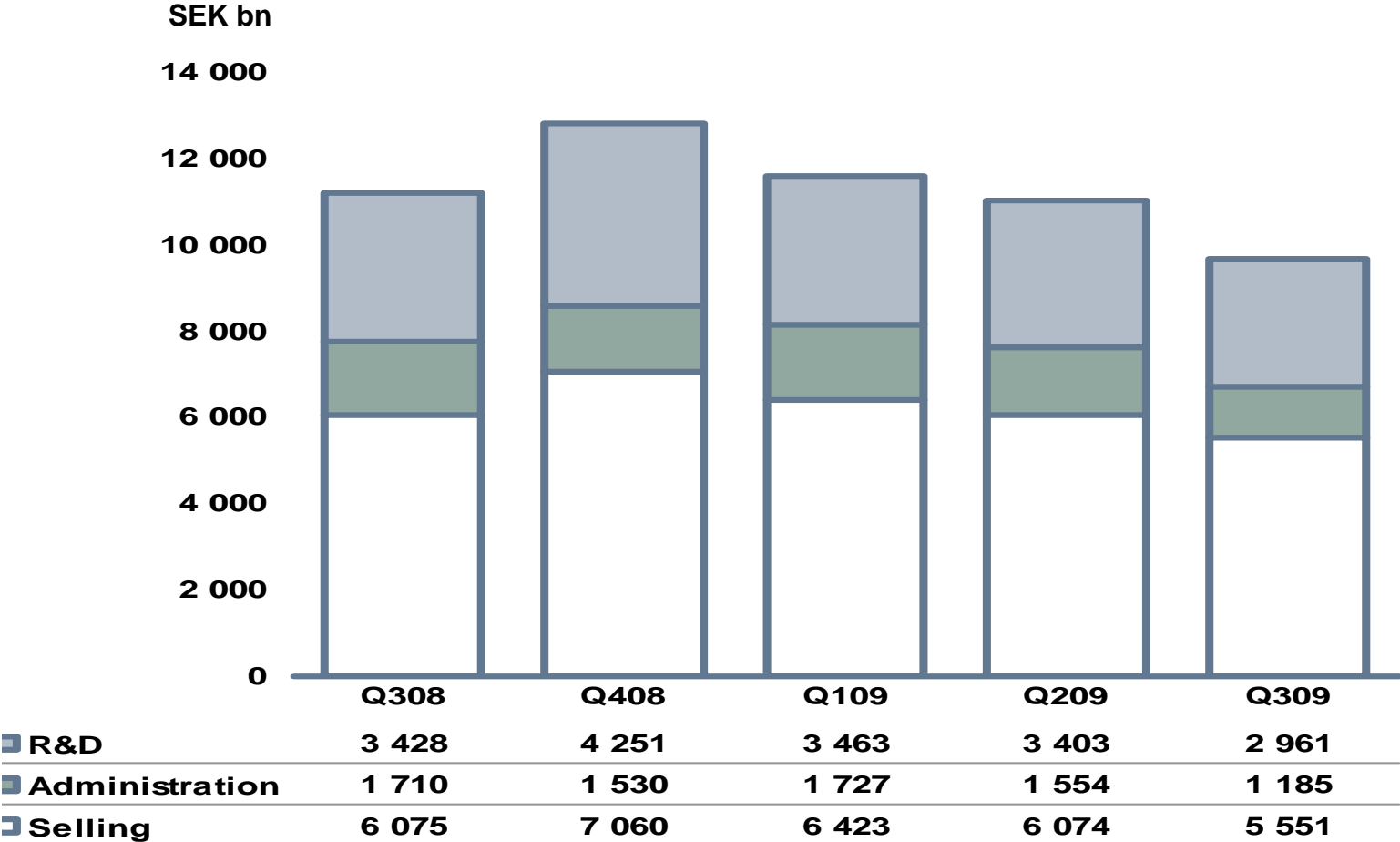
- Cutting production rapidly and drastically
- Significantly reduce workforce
- Reducing operating costs
- Strict control of capital expenditures
- Prioritize R&D projects
- Release excess inventory to generate cash
- Secure key suppliers

# Business Units: Organized to capture Group synergies

| Business Unit*                  | Responsibility   | Achievements / benefits  |
|---------------------------------|--|--|
| Volvo Information Technology    | Group competence centre and supplier of IS/IT services           | <ul style="list-style-type: none"> <li>•€180m in cost reductions 2008-09 with same or improved quality.</li> <li>•Selective external business (~15%) driving cost efficiency and business value</li> </ul> |
| Volvo Parts Logistics           | Aftermarket logistics and support                                | <ul style="list-style-type: none"> <li>•Multiple brands in one aftermarket distribution structure increases efficiencies</li> </ul>  |
| Volvo Logistics Corporation     | All external logistics (inbound, outbound and packaging)         | <ul style="list-style-type: none"> <li>•&gt;€100m in savings last 3 years alone</li> <li>•Competitive in external automotive market</li> </ul>   |
| Volvo Business Services         | Shared service centre (SSC) for Finance & Accounting + HR admin. | <ul style="list-style-type: none"> <li>•Recognized (awarded) as “one of most admired SSC in Europe”.</li> </ul>  |
| Non-Automotive Purchasing (NAP) | Leverage the combined purchasing power.                          | <ul style="list-style-type: none"> <li>•Annual value contribution ~€100m</li> </ul>  |

\*Excluding Powertrain, 3P and Volvo Group Real Estate

# Reduction in R&D and SGA





## CASH FLOW

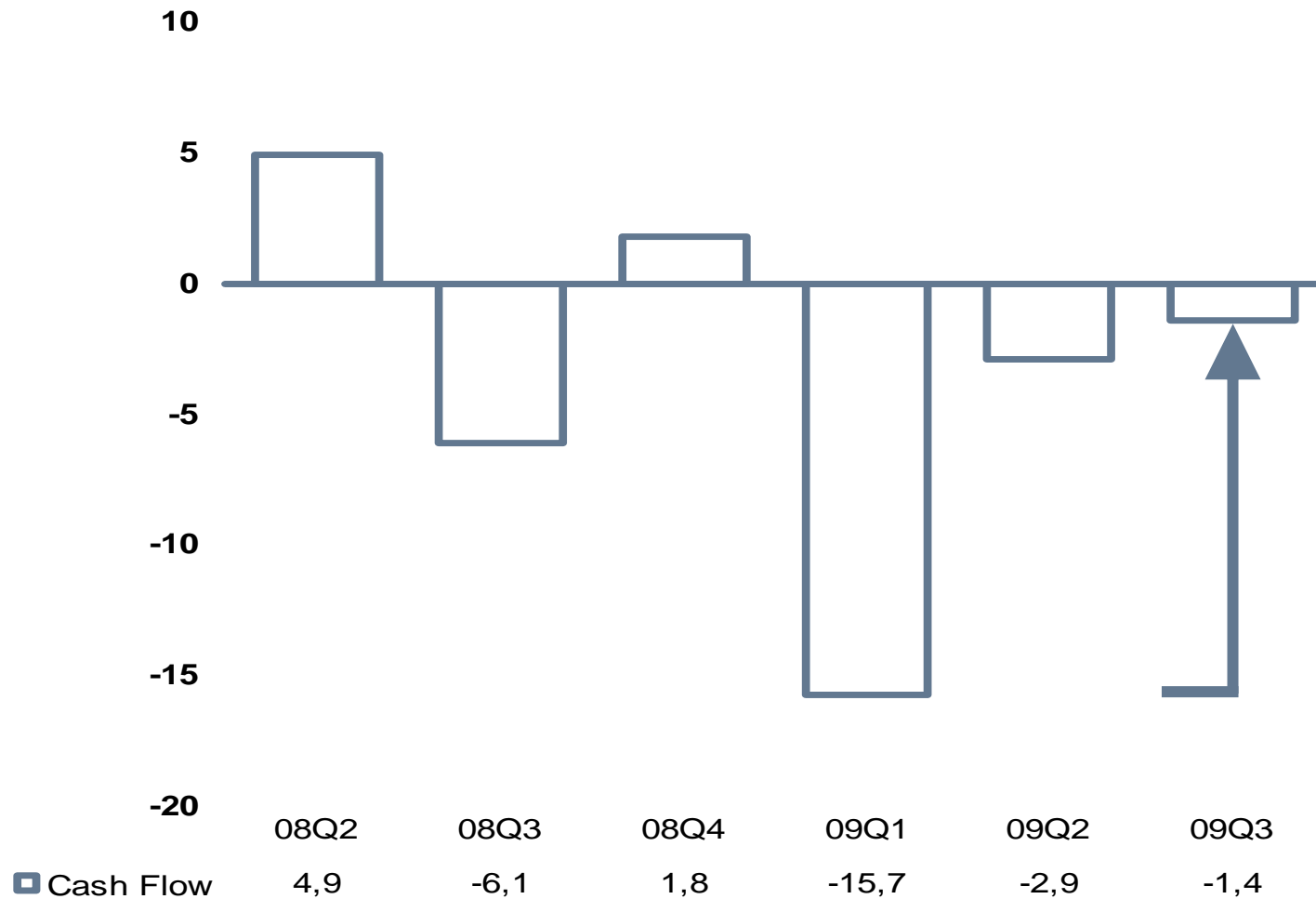
- ▶ Operating Cash flow
- ▶ Working Capital
- ▶ Focus Areas



# Volvo Group – Cash Flow

## Industrial Operations

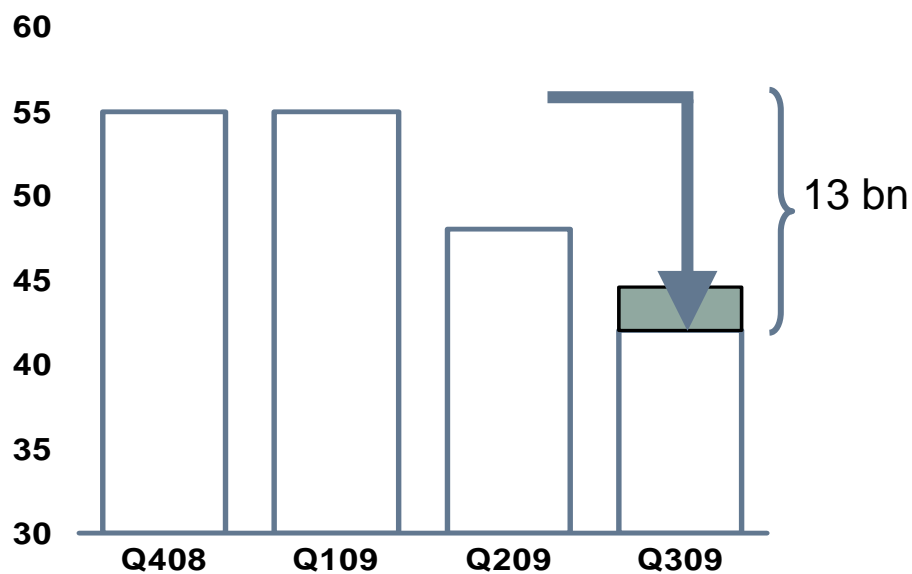
SEK bn



# Working Capital

## Inventories, Volvo Group

SEK bn



■ Currency

■ Inventories

|  |    |    |    |    |
|--|----|----|----|----|
|  | 55 | 55 | 48 | 42 |
|--|----|----|----|----|

## Industrial Operations

- Operating cash flow; negative 1.4 bn in the quarter
- Focus on working capital
  - Receivables - 1.6 bn
  - Inventories - 3.4 bn
  - Payables + 0.7 bn
  - Other + 2.5 bn
  - Total change - 1.8 bn

# Cash Flow & Working Capital Management

## Short term activities 2009

### Accounts receivables

- Volvo Group overdue targets
- New Volvo Group collection process in place for overdue >30 days

### Inventory

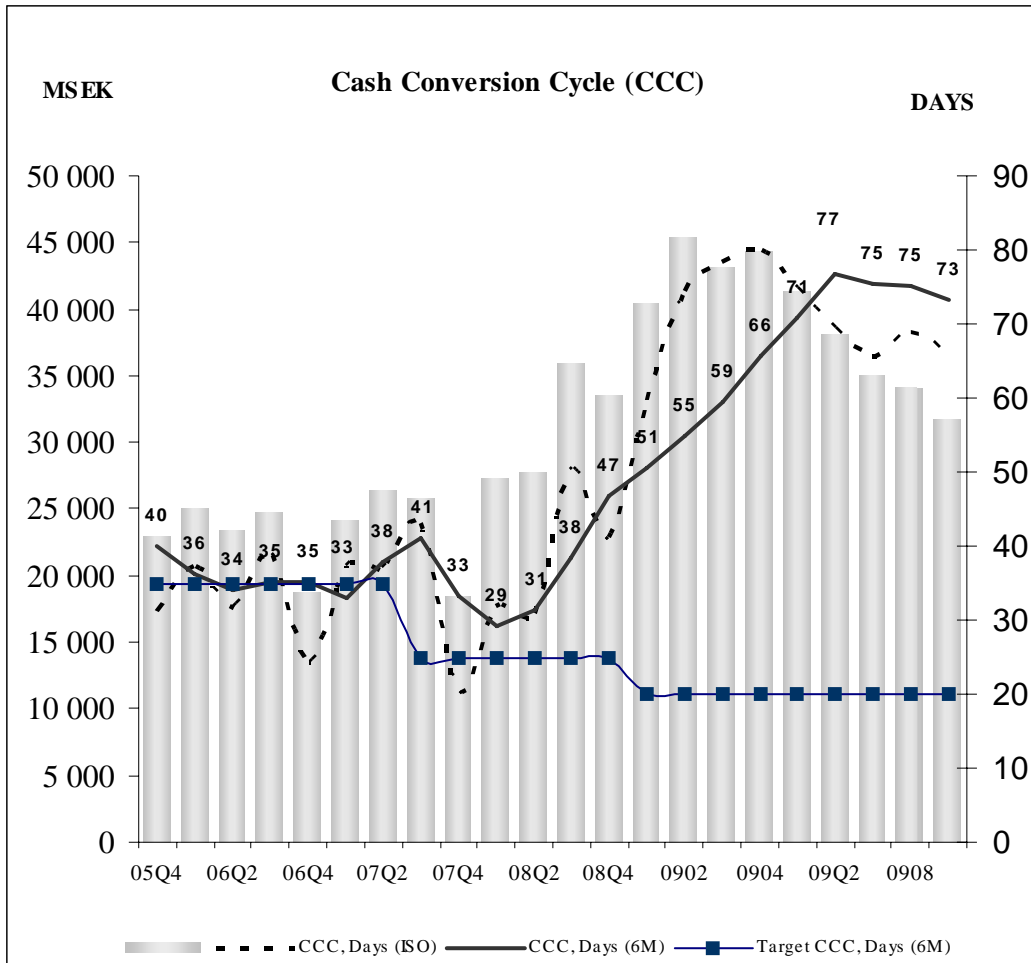
- Incentive structure to sell from existing inventory – in place for VTC, RT and VBC
- Align production volumes and purchasing of volumes to “real order book”
- Rebuilding of inventory units coming back to meet several customers demands (customer trade backs agreements)
- Volvo Group Working Capital Pilot Program

### Accounts payables

- Accounts payable ledger recovery to start up in August for all Swedish units connected to VBS in step 1
- Development of Request to Pay training

# Cash Conversion Cycle

Q3 2009



CCC – 6 months average

- 73 days

Cash flow impact Q3 2009 ISO

- Receivables +1.6 bn SEK
- Inventories +3.4 bn SEK
- Payables -0.7 bn SEK

Total change +4.3 bn SEK

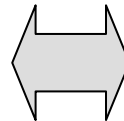
# Volvo Group Working Capital Pilot Program

Complete demand/supply chain approach



## Group initiatives (Some examples)

- TDP – Volvo Group tactical decision process
- Forecast, volume and capacity planning
- Purchasing Strategies & Policies
- Business case rules
- Performance KPI's and measurements
- Roles & Responsibilities (interactions)
- Follow up of adherence
- Directives, Policies & Instructions for WCM & Inventory
- Communication
- Education



## BA/BU initiatives (Some examples)

- Business case rules
- Improve market request forecast quality
- Improve handling of order structure
- Review Body builder process
- Review sales administration
- Review product launches'
- Review of Logistic process & portfolio



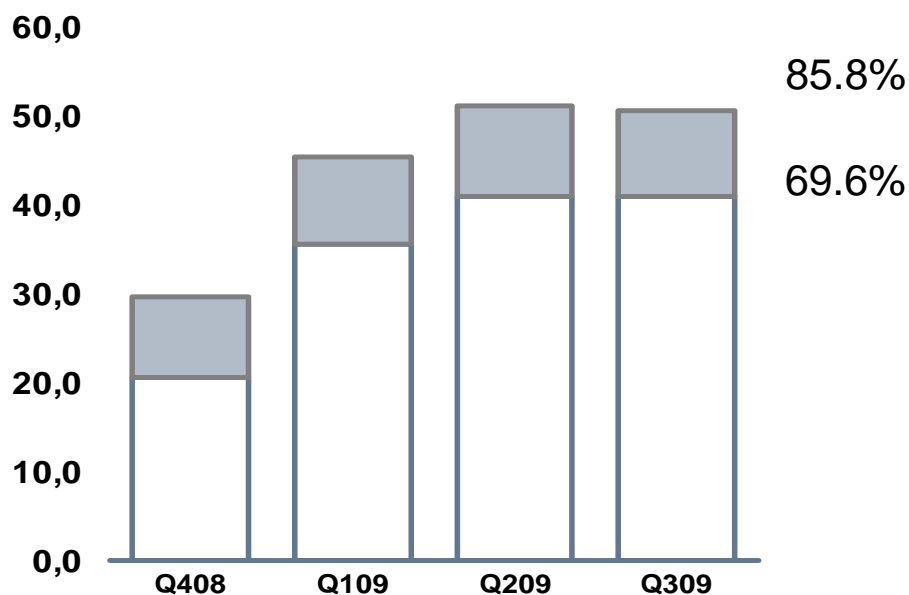
## VOLVO GROUP FUNDING

- ▶ Net Financial Debt
- ▶ Liquidity and debt maturity
- ▶ Funding activities

# Volvo Group – Net Financial Debt

## Industrial Operations

Net debt,  
SEK bn



|                  |      |      |      |      |
|------------------|------|------|------|------|
| ■ Pensions       | 9,2  | 9,8  | 10,1 | 9,5  |
| ■ Financial Debt | 20,5 | 35,6 | 41,0 | 41,0 |

### Changes in Net financial debt

|             |                 |
|-------------|-----------------|
| - Cash Flow | 1.4 bn          |
| - Currency  | - 1.9 bn        |
| - Other     | <u>- 0.2 bn</u> |

**Total** - **0.7 bn**

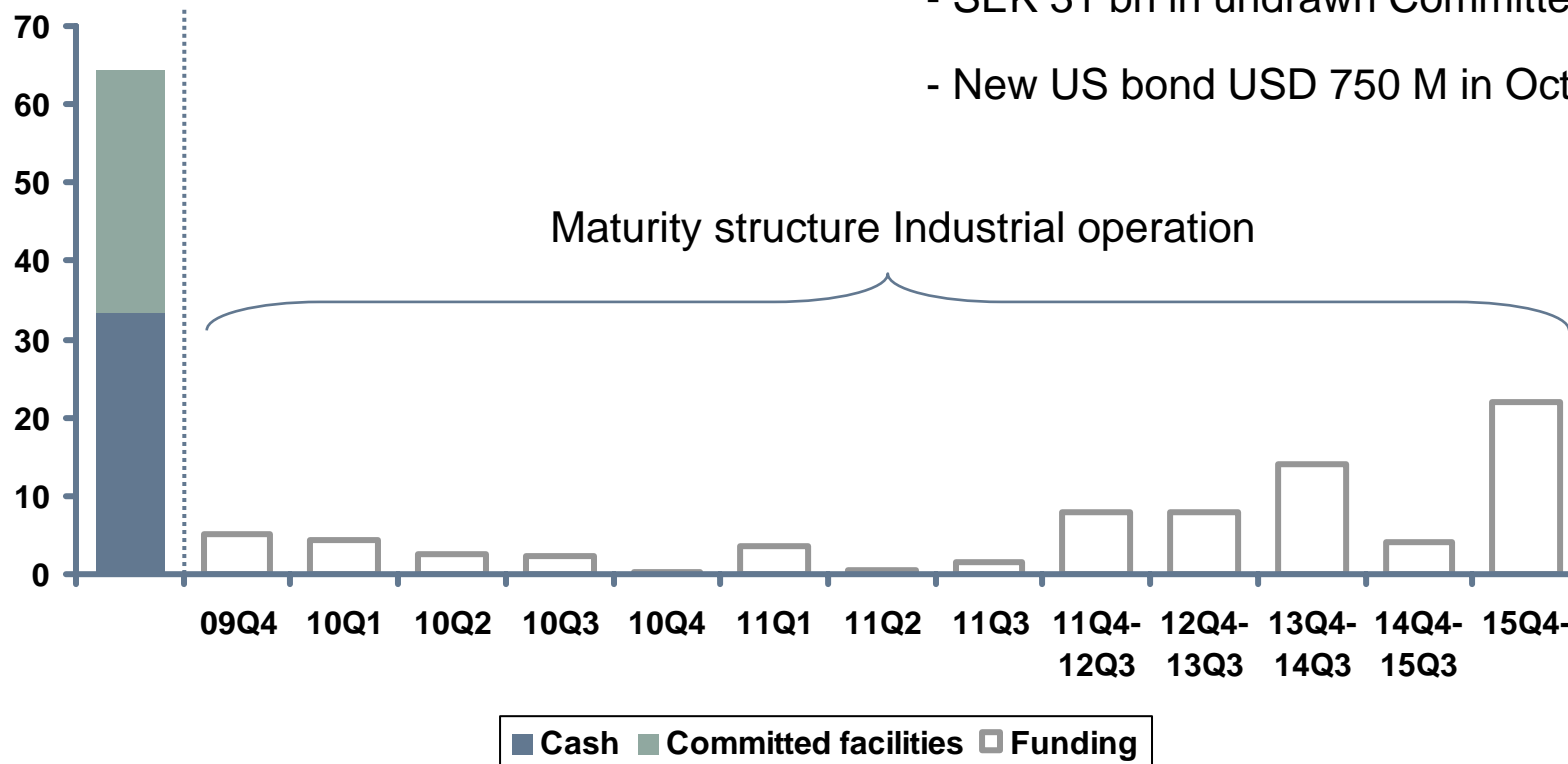
# Volvo Group Funding

## Liquidity and debt maturity

### Cash & Committed Facilities

Liquidity position SEK 64.5 bn

- SEK 33.5 bn in liquid assets
- SEK 31 bn in undrawn Committed Facilities
- New US bond USD 750 M in October





# Completed Key Transactions YTD 2009

## Capital Market Transactions

- EUR Bond, EUR 700 M, 5 yrs (Feb 09)
- SEK Bond, SEK 4,150 M, 3 yrs (Mar 09)
- EUR Bond, EUR 500 M, 3.5 yrs (May 09)
- USD Bond, USD 750 M, 5.5yrs (Sep 09)

## Bank and Agency Loan Market

- EIB, EUR 400 M, 7 yrs (Mar 09)
- French Government Loan, EUR 250 M, 2 yrs (May 09)
- DBJ, JPY 25 bn (~ SEK 2 bn), 3 yrs (Jun 09)
- Japanese Funding, JPY 50 bn (~SEK 4 bn), 1 y roll over of bridge loan (Mar 09)
- Export credit funding SEK 7.5 bn 1-5 yrs, (Apr-Jun 09)
- Revolving Credit Facility, with core relationship banks, EUR 775 M, 1 y with 1 y extension option (Apr 09)



## GOING FORWARD

- ▶ Cash flow
- ▶ Reach competitive cost level