




**VOLVO GROUP**

# CAPITAL MARKET DAY 2010

**Mikael Bratt**

SVP AB Volvo and CFO Volvo Group



Upturn management

Cash flow

Volvo Group funding

Conclusions

## STRATEGIC DIRECTION 2010-2012



Profitable Growth	Product Portfolio Management	Operational Excellence
Required scale in all business areas achieved  ✓	Capitalize on scale to optimize R&D based on shared technology and common architecture  Good progress	Reduce operating cost to improve profitability  Good progress

## 2009 DOWNTURN MANAGEMENT SUMMARY

Targets achieved		2009
S&A	✓	- SEK 21 bn cost reduction in place
R&D	—	- Competitive future product portfolio
Inventory	✓	- Working capital reduced
PPE	✓	
Overdues	✓	
Headcount reduction	✓	- Reduction of 18,000 employees

**Make improvements sustainable!**



## UPTURN MANAGEMENT

- ▶ Hold on to implemented cost reductions
- ▶ Increased focus on efficiency
- ▶ Build flexibility in cost structure
- ▶ Increase working capital turn-over
- ▶ Price management

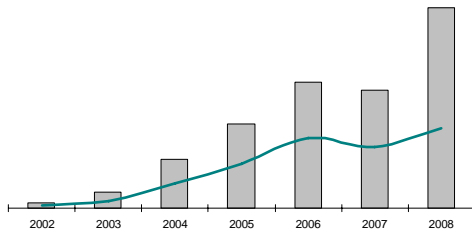
## Focus in 2010-2012

### INCREASED EFFICIENCY

- Reducing Selling & Admin costs further
- Strict control of capital expenditures
- Maintain inventory levels
- Improve R&D efficiency

## Volvo IT Sourcing over the business cycle

FTE's sourced to India and corresponding savings



### 2008 – 2009

**Recession Management** Reducing IT cost base for Volvo Group by SEK 1.8 bn run-rate in only 6 months

*-still safeguarding strategic initiative and keeping quality in deliveries and services*

### 2010 – 2013

**Upturn Management**

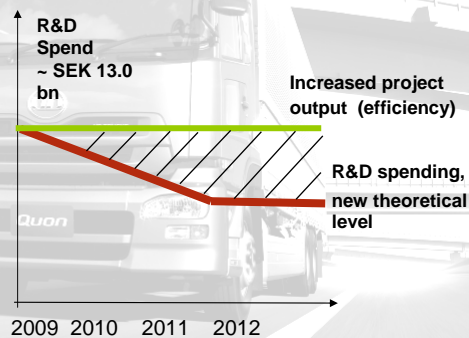
To meet future demands without letting IT spend back to levels of 2008.

AB Volvo  
Capital Markets Day - June 2010  
7

**VOLVO**


## R&D efficiency – A competitive edge in our Industry

- Global environmental demands
- Competitive global products
- Shorter time to market
- Project RnD<sup>30</sup>  
- Improve R&D efficiency by 30%



AB Volvo  
Capital Markets Day - June 2010  
8

**VOLVO**



Upturn management

Cash flow

Volvo Group funding

Conclusions

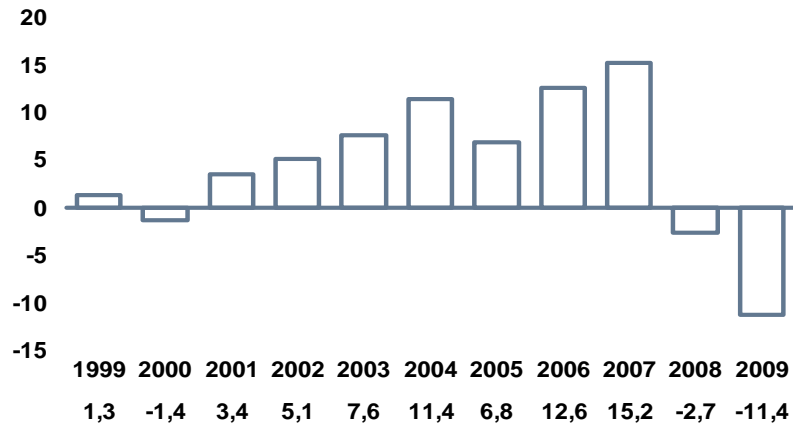


## CASH FLOW

- ▶ Operating cash flow
- ▶ Cash conversion cycle

## Volvo Group – Operating cash flow

Industrial Operations, SEK bn

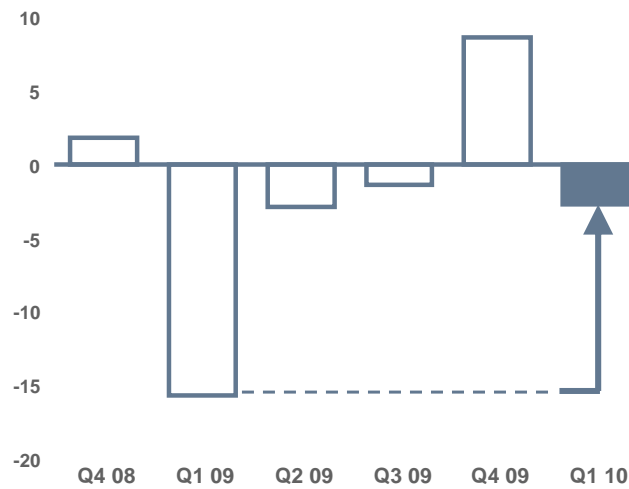


AB Volvo  
Capital Markets Day - June 2010  
11

**VOLVO**

## Volvo Group – cash flow

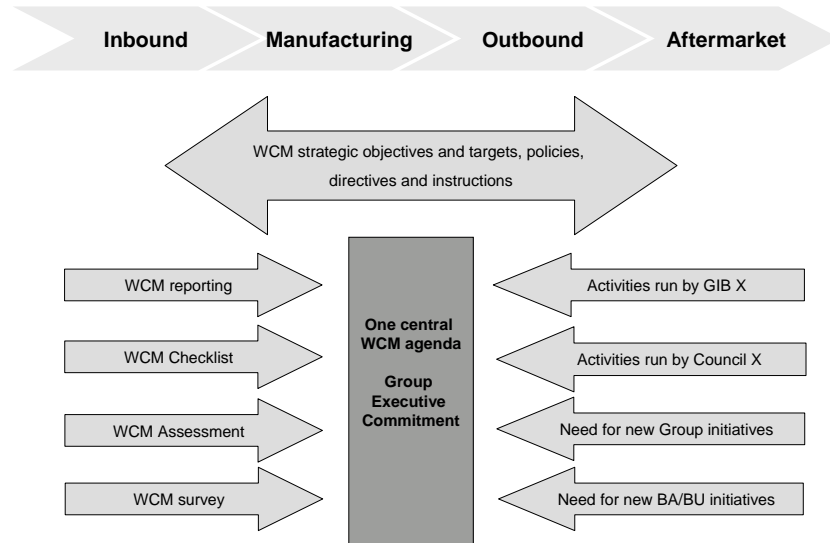
Industrial Operations  
SEK bn



AB Volvo  
Capital Markets Day - June 2010  
12

**VOLVO**

## Volvo Group working capital management

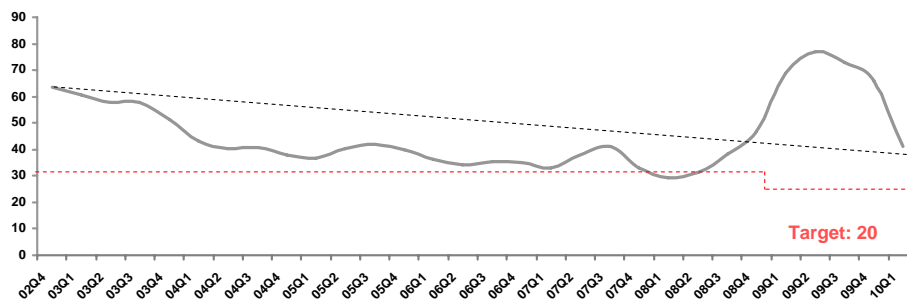


AB Volvo  
Capital Markets Day - June 2010  
13

**VOLVO**


## Cash conversion cycle

Net of days in account receivables, inventory and account payables



AB Volvo  
Capital Markets Day - June 2010  
14

**VOLVO**



Upturn management

Cash flow

Volvo Group funding

Conclusions



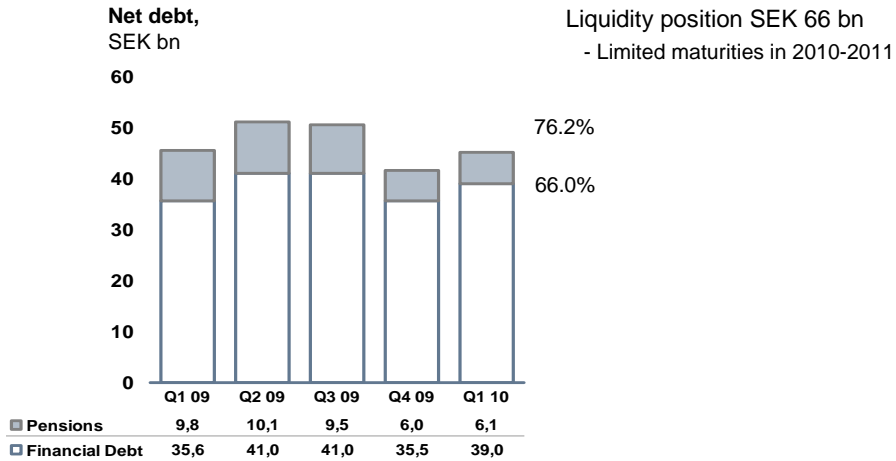
## VOLVO GROUP FUNDING

- ▶ Net financial debt
- ▶ Funding update 2010
- ▶ Credit rating



## Volvo Group – Net financial debt

Industrial operations



AB Volvo  
Capital Markets Day - June 2010  
17

**VOLVO**

## Funding update 2010

### Completed key transactions

- Club loan of EUR 775 M prolonged 2 year. 12 banks participating
- JPY "bridge" of JPY 50 bn prolonged 1 year with Mizuho

### Committed transactions

- EIB loan of EUR 400 M in 5-7 yr duration

### Transactions to be discussed

- Agency (EKN) backed funding

AB Volvo  
Capital Markets Day - June 2010  
18

**VOLVO**

## Credit rating

	Short-term	Long-term
▶ Moody's (global)	P-2	Baa2 stable
▶ S&P (global)	A-3	BBB- neg
▶ DBRS (Canada)	R-2 (high)	
▶ R&I (Japan)	a-1	A-, stable

Upturn management

Cash flow

Volvo Group funding

Conclusions



GOING FORWARD

- ▶ **Cost control in upturn**
- ▶ **Tight working capital management**

AB Volvo  
Capital Markets Day - June 2010  
21

**VOLVO**