

Rating Action: AB Volvofinans

Moody's confirms AB Volvofinans A3/C ratings, negative outlook

Prime-2 rating is affirmed

London, 12 October 2006 -- Moody's Investors Service has today confirmed the A3 long-term foreign currency deposit rating and the C Bank Financial Strength Rating (BFSR) for AB Volvofinans. The outlooks on both ratings are negative. Concurrently, Moody's has affirmed the P-2 short-term foreign currency deposit rating. These actions conclude the rating review initiated on 9 June 2006.

In confirming the ratings, Moody's acknowledges Volvofinans's leading position within its specialist field of vehicle financing and the success of Volvo marque as market leaders in Sweden for 48 consecutive years. The agency also notes the firm's diversified income stream: indeed, Volvofinans is no longer dependent on the financing of Volvo cars, as other activities provide 59% of the company's pre-tax profits.

Although Volvofinans's good financial fundamentals continue to support its C BFSR, Moody's continues to view the Swedish company's 50% shareholder, Ford Credit International Inc., and its ultimate parent, Ford Motor Company, as negative rating factors. However, Moody's points out that, as a licensed and fully regulated 'credit market' company in Sweden, Volvofinans benefits from measures that ringfence it financially from its shareholders. Moody's also notes the positive dynamic of Volvo car sales in Sweden, which have thus far not been affected by the credit deterioration at Ford.

The negative outlook on Volvofinans's ratings reflects Moody's concerns that it is still possible for the credit deterioration at Ford to have a negative impact on Volvofinans' revenues. Moody's cautions that a deterioration in Volvo dealers' operations and sales in Sweden (whether or not caused or triggered by Ford) could have negative rating implications in the future. The rating upside is likely to remain limited due to the firm's limited franchise as a vehicle finance company and its focus on supporting the sales of Volvo dealers in Sweden.

Domiciled in Gothenburg, Sweden, Volvofinans reported total assets of SEK24.58 billion (EUR2.67 billion), and equity of SEK2.18 billion (EUR237 million) as of 30 June 2006.

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