Husqvarna Brazil - Financing Strategy Study Case

Summary

- Husqvarna brief presentation and history
- Risk Management and Financial Policies
- Financing Strategy
- Cross Border Funding
- Pricing

Husqvarna brief presentation

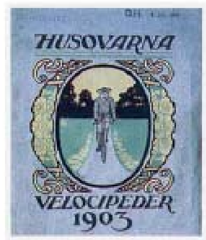
Net Sales 2009: SEK 34 billion (USD 5 billion)
Nº of employees: 15.700
World wide presence: +100 countries

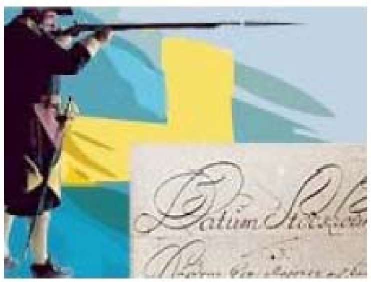
Major brands:

Husqvarna

Consumer	Professional
GARDENA, Flymo	Jonsered, ZENOAH
Jonsered, Partner, McCULLOCH	KLIPPO, RedMax
Poulan PRO, Poulan, WEED EATER	DIAMANT BOART

Timeline





1689
Weapons foundry

1872
Sewing machines
Kitchen equipment

1903
Motorcycles

1959
Chainsaws and lawn mowers

1735
Flint lock rifle

1915
Husqvarna 4,5 hk

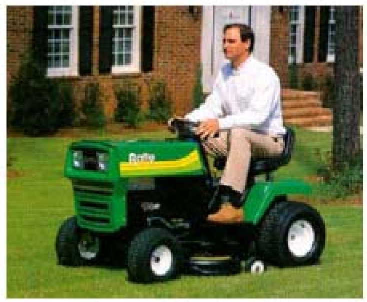
Timeline



Spin Off

1978
Part of Electrolux

1986
Acquisition of Poulan / Weed Eater



1988
Acquisition of Roper's garden operation

1989

2002
Acquisition of Diamant Boart

2006 (June)
Listing on Stockholm Stock Exchange

2007
Acquisition of Gardena and Komatsu Zenoah

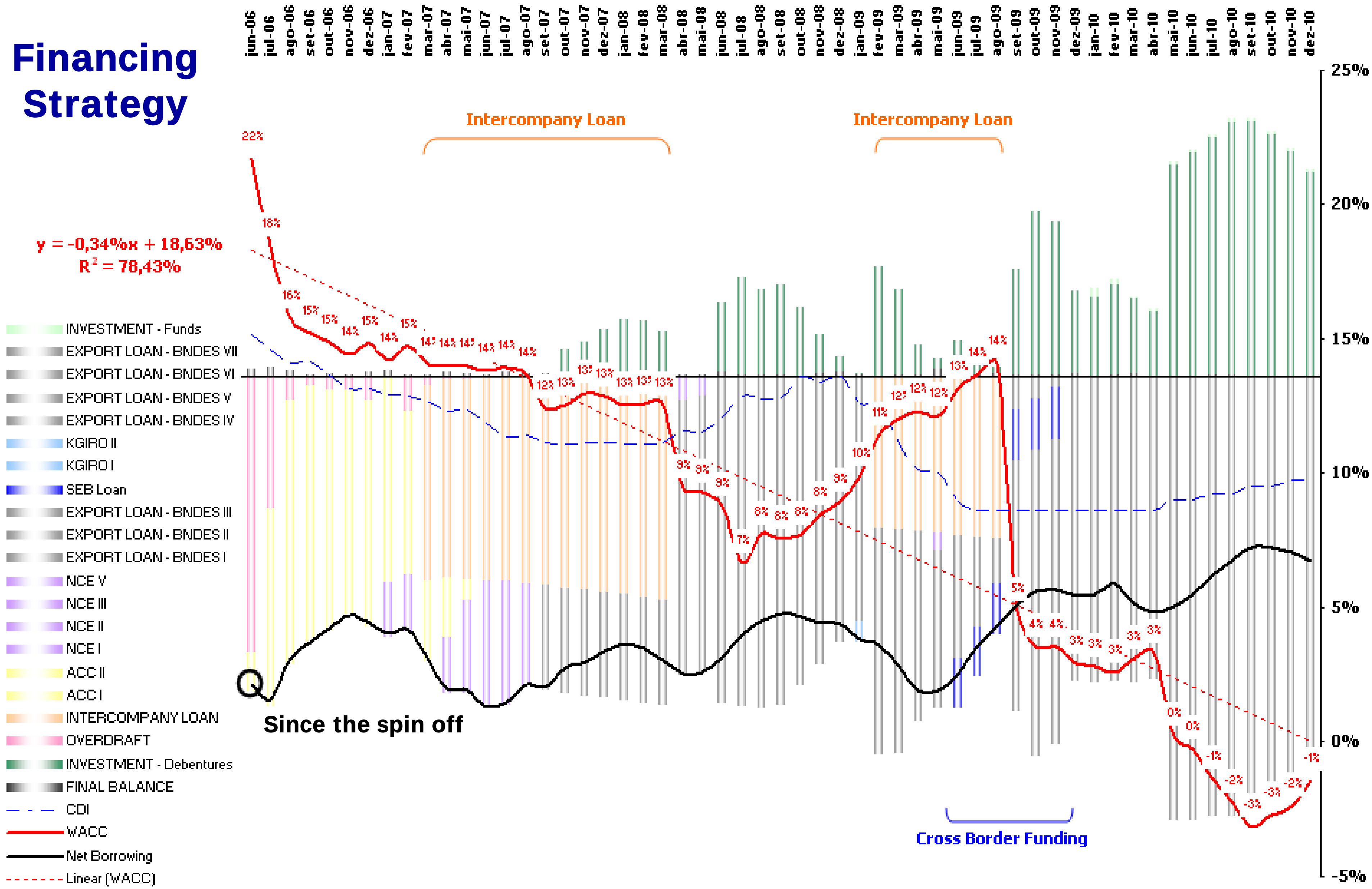
Risk Management and Financial Policies

- Liquidity
  - 2,5% of last 12 months rolling Net Sales
  - Excess liquidity in interest bearing instruments with high liquidity and with long term rating not below A- (S&P)
- Borrowings
  - Long-term borrowings average maturity >2 years
  - Net Debt/EBITDA < 2,5 on a four quaterly rolling basis
- Currency risk
  - Borrowing in foreign currency should be hedged to local currency
  - Transactional currency risk should be hedged as follow:
    - 75-100% of forecasted flows up 6 months
    - 50-75% of forecasted flows between 6-12 months
- Interest rate risk
  - % of CDI, or another index in acordance with sales
- Balance sheet risk
  - Benchmark equity for each company and currency is calculated on the basis of its total assets less financial assets

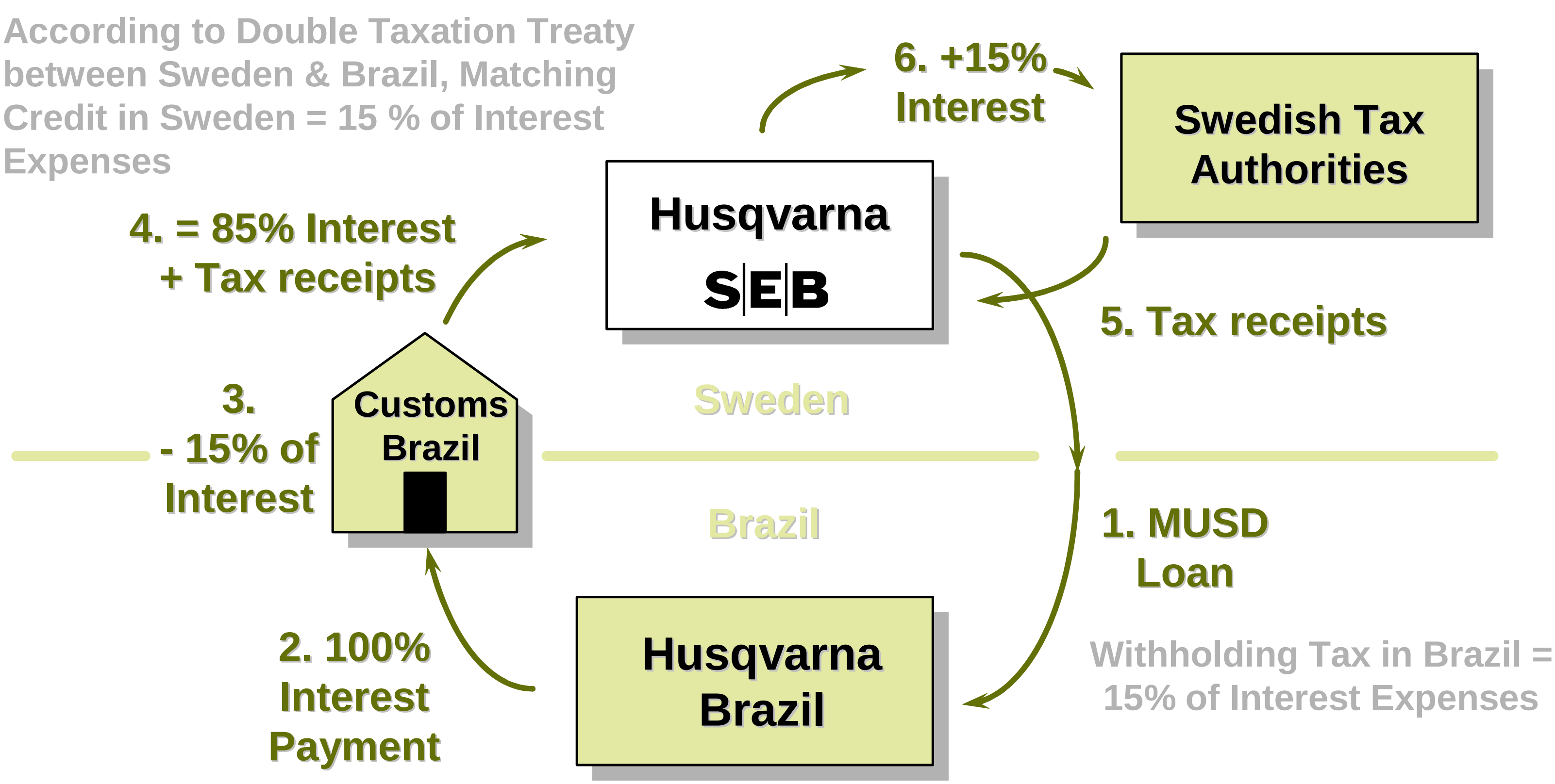
Risk Management and Financial Policies

- Financial counterparty risk
  - Long term rating not below A- (S&P)
- Credit risk and Bank relations
  - Meet all the different requirements
- Operational risk
  - Treasury shall stipulate routines and regulations to minimize financial related operational risks within respective areas

Financing Strategy



Intercompany Loan in USD or Cross Border Funding



* Definition of Withholding Tax: Income tax withheld and accounted for by a borrower on interest payments to a non-resident lender.

Pricing of intercompany loan / cross border funding

One important point of the cross border funding is the hedge cost:

$$\text{USD Forward} = \frac{\text{USD spot} \times \boxed{(1+i_{dom})^{(n/252)}}}{\boxed{(1+i_{int} \times n/360)}}$$

$$\frac{\text{Pre-fixed interest rate Curve}}{\text{LIBOR Curve}}$$

- Intercompany loan in USD:

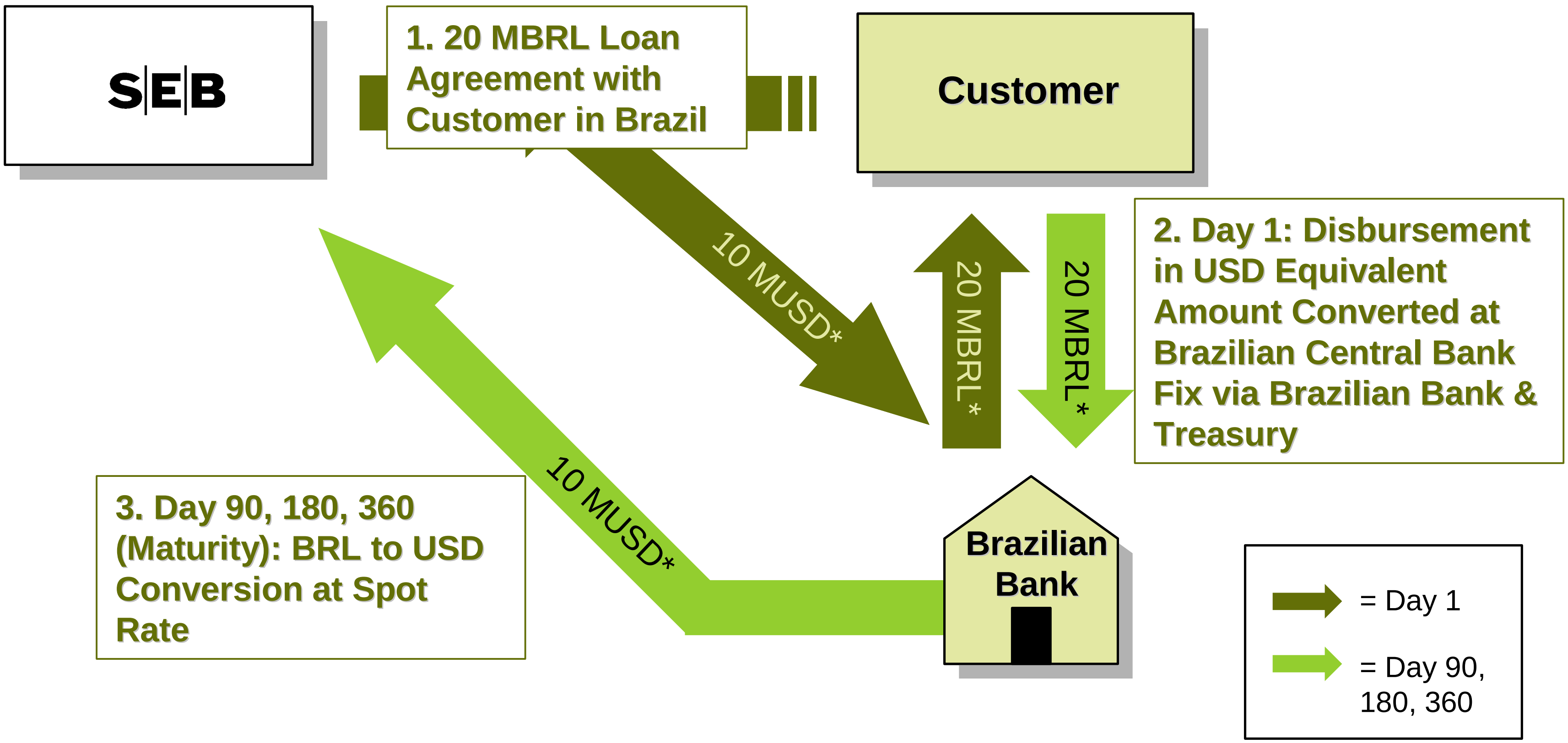
  Interest rate in USD = $WACC_{pc}$ + Parent Company Margin

- Cross Border funding in USD:

  Interest rate in USD= LIBOR + Bank Margin

- Interest rate in BRL = interest rate in USD + hedge cost locally

Non-convertible Currency Loans



* 20 MBRL = 10 MUSD example based on USD:BRL = 1:2 conversion rate

Thank you !

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