FINAL TRANSCRIPT

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TRW - Q4 2008 TRW Auto Earnings Conference Call

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CORPORATE PARTICIPANTS

Mark Oswald
TRW Auto - Director of IR

John Plant
TRW Auto - President, CEO

Joe Cantie
TRW Auto - EVP, CFO

CONFERENCE CALL PARTICIPANTS

Chris Ceraso
Credit Suisse - Analyst

Unidentified Participant
JPMorgan - Analyst

Rod Lache
Deutsche Bank - Analyst

Patrick Archambault
Goldman Sachs - Analyst

Doug Carson
Banc of America Securities - Analyst

PRESENTATION

Operator

Good morning and well come to the TRW conference call. All lines have been placed on listen only mode and as a reminder this conference call is being recorded. Presentation material for today's call was posted to the companies website this morning at trw.com/results. Please download the material now if you have not already done so. After the speakers remarks, there will be a question and answer period. Due to today's limitation on time, the Company requests that participants limit follow-up questions to one per caller. (Operator Instructions)

I would now like to introduce your host for today's conference call, Mark Oswald, Director of Investor Relations. Sir, you may begin.

Mark Oswald - *TRW Auto - Director of IR*

Thank you. I'd like to welcome everyone to our fourth quarter and full year 2008 financial results conference call. Joining me today as usual are John Plant, our President and Chief Executive Officer; and Joe Cantie, our Chief Financial Officer. On today's call, John will provide an overview of the current automotive environment, its impact on TRW and what's being done to mitigate the challenges in front of us. John will also provide a brief summary of the financial results and discuss other related business matters. After John's comments, Joe will provide an expanded review of financial information and then we'll open the call to your questions.

There are a few items I'd like to cover before getting started. First today's conference call will include forward-looking statements. These statements are based on the environment as we see it today and therefore involve risks and uncertainties. I would caution you that our actual results could differ materially from the forward-looking statements made on this call. Please refer to slide three of the presentation for our complete Safe Harbor Statement.

The risk factors section of our 2007 Form 10-K in our second and third quarter 2008 Form 10-Q contain additional information about risks and uncertainties that could impact our business. You can access a copy of our 2007 10-K and 2008 quarterly SEC filings by visiting the investors section on our website at trw.com or through the SEC's website at SEC.gov. On a related matter we expect to file our 2008 Form 10-K within the next day or so. Once filed the 10-K can also be accessed through either website.

In addition to financial results presented on a GAAP basis, we will be discussing non-GAAP information that we believe is useful in evaluating the Company's operating performance. Reconciliations to these non-GAAP measures to the closest GAAP equivalent can be found in the conference call materials which are posted to the investor information section on our website a trw.com. And finally a replay of this call can be access via dial-in or through a webcast on our website. Replay instructions were included in our release this morning. We have not given permission for any other recording of this call and do not approve or sanction any transcribing of the call. This concludes my comments. I'll now turn the call over to John Plant.

John Plant - *TRW Auto - President, CEO*

Thank you, Mark, and good morning to everyone. In the December pre-earnings announcement we indicated that the second half of 2008 was an extremely stressed period for the automotive industry. In addition to the sudden and dramatic drop in vehicle production levels in all regions, most notably in North America and Western Europe the fallout surrounding the financial markets continues to loom over the industry. Consumers ability to obtain financing to purchase new cars is limited. Certain customers have effectively run through or exceeded their financing ability. Certain suppliers have very stressed balance sheets.

The North American industry did receive some good news in December when the U.S. government agreed to provide a $17.4 billion temporary bridge loan to General Motors and Chrysler; however based upon submissions to the U.S. Treasury this week, more money is needed. The government in many other countries have or are in the process of providing support to the industry in the form of either direct loans, scrappage schemes, tax reductions or other plans aimed at stimulating car sales and the economy. This good news will take some time to translate into vehicle production and is being overshadowed by the wide economic malaise in the fourth quarter and continuing into 2009. As you can see from TRW's results posted this morning, the challenges facing the global economy and the automotive industry impacting TRW's fourth quarter performance.

While we took quick and decisive steps to reduce costs, the magnitude of the impact relating to the sales reduction while mitigated did result in a modest operating loss, despite the flexing of all plans, divisional and corporate overhead. Since our last teleconference call three months ago, the environment has deteriorated faster than our original forecasts. New vehicle sales have fallen to levels not seen in decades. Every manufacturer in every part of the world has been impacted by the steep sales decline. Certain customers are in a very fragile condition and require government support to survive. In order to align supply with a significantly low demand, both the actual and forecasted levels of vehicle production in the global automotive markets have been reduced beyond previously forecasted levels. Production declines in Western Europe and in North America have changed rapidly in the fourth quarter, especially the speed and short notice of production cuts. Every forecast was superceded by further cuts and production reductions.

Inventory levels remain overstocked at at year-end primarily cars which is contributing to lower production levels in the first half of 2009. And finally, concerns have increased over the health of an already fragile supply base, as certain suppliers struggle to maintain an adequate level of liquidity and working capital during this prolonged period of low production.

As we stated during our last conference call, we have and will continue to take aggressive actions that you would expect in this environment to mitigate these events. Significant restructuring actions were implemented in the fourth quarter, with more expected in the first quarter of 2009. In addition, significant non-cash impairment expenses, like the write-off of goodwill were taken in the fourth quarter. I'll discuss those in more detail in just a minute. Despite the difficult environment and the fourth quarter losses, most of which were non-cash we ended the year with positive cash flow and a reduced level of net debt, of course we're quite pleased about that. In an environment where cash is king I'm pleased with these accomplishments.

Having this foundation to build from will serve us well as we navigate through 2009. In addition to the cash flow and capital structure accomplishments just mentioned I want to point out that we made significant progress on advancing our strategic priorities during the last year. Quality improved again year-over-year and remains world class. We continue to strengthen our leading product and customer diversification. We introduced several new products highlighting innovative technology and as I just mentioned the cost base has been reduced significantly.

Before discussing specifics, on advancing our priorities and the challenges facing the industry let me provide you with a brief financial overview of where we finished the quarter and 2008. fourth quarter sales of $2.8 billion were down 27.6% compared with the prior year period. Adjusting for currency and reduction in sales is less than a decline in '08 production schedules and is demonstrated the safety products are still increasing their penetration in vehicles. Excluding special items, which included restructuring charges and impairments of intangible and fixed assets, the Company reported a fourth quarter loss of $74 million or $0.73 per diluted share. The results primarily reflect a decline in core sales attributed to the low vehicle production levels and the negative effects of currency movements during the quarter.

In the past we have excluded restructuring charges and fixed asset impairments in our results, given the extraordinary environment and the magnitude of mostly non-cash charges, we thought it appropriate to call out these as special items. The results are clearly disappointing and reflect the extraordinary challenges faced during the quarter and from the broader and global economy. TRW remains determined to continue with the business strategies that will improve the long term competitiveness of the Company.

In the fourth quarter, compared to the prior year, vehicle production was down significantly in North America and Western Europe. In North America, overall vehicle production was down some 26% with the Detroit Three down 28%. One other important production statistic was that light truck production declined by some 38% while cars declined 10%. As you can imagine, the magnitude of the vehicle production decline and mix shift has had a significant impact on TRW.

Europe sales and production have dropped faster and deeper than our original expectation. In Western Europe, production was down a staggering 29% in the quarter compared to the same period a year ago. As mentioned on our third quarter call, Europe continues to experience a shift of sales from large and midsized passenger cars to smaller cars. Also during the quarter, sharp production declines were experienced in the growth markets of the world, such as China which was down 13%, India down 11%, Russia 11% and South America down over 27%. Clearly production in the fourth quarter was the worst the industry has experienced for some time. Unfortunately, we see this continuing and even worsening during the first quarter of 2009.

With respect to the full year results we finished the year with a record sales of $15 billion, an increase of 2% compared to the prior year. The increase was primarily driven by the positive effects of foreign currency movement during the first nine months of the year and increased sales of our lower margin module business. Excluding these factors, underlying manufactured sales volume was reduced by some $1.2 billion from 2007. Excluding special items, full year net earnings were $1.50 per share compared to $2.68 per share in the prior year. Full year North American production at 12.6 million units was the lowest level of production in 16 years. The Detroit Three experienced a decline in excess of 21% compared to 2007. Production fared slightly better in Western Europe thanks to the relatively strong start in the first half of the year. In the second half, significant production declines resulted in full year production being down some 9%.

Turning now to the progress we made on advancing our strategic priorities, I won't spend a lot of time talking about them but I think it's important to point out these priorities as they help us navigate through the challenging times. First of all, providing world class quality is critical in this environment, improving quality and reduced warranty expenses is an important factor that impacts the bottom line. Even as we increased the level of restructuring actions during the year, including facility closures, significant reductions to our global staff, we continue to make year-over-year improvements in our quality. TRW's quality is world class.

During the year, or during the quarter in fact, we had a high level of product launches on new vehicles which continue to strengthen the leading product and customer diversification. A few examples include the value SE60 in Europe, the Audi A4 in

Asia Pacific and Ford Fusion enhancement in North America. The diversification in product launches throughout the year enable us to increase sales mix to markets outside of Europe and North America.

The Ford Fusion, now equipped with electronically powered steering also demonstrates our innovative technology and our committment to offering customers the products they demand. This was the first Ford platform in North America to use this technology which offers fuel savings of up to 3.5% compared with the standard hydraulic power steering as well as increased functionality when compared with advanced break and driver assist systems. Our innovative technologies are being recognized around the world.

During the fourth quarter, Italy's automotive technical association presented TRW the Best Automotive Innovation Award for 2008 and this is for the integration of our intelligent safety systems which combine lane departure warning, electrically powered steering and electronic stability control. These technologies were launched on the Lancia Delta in June. We are proud to have received this award and realize technology is critical to our product leadership and long term growth.

With regard to the cost structure, this is one area that has received considerable attention as a result of the significant production declines. Building on the actions initiated earlier in the year, detailed plans were developed to further restructure the business to ensure TRW's competitiveness. Beginning with facility closures, we announced plans to close our Warrenton casting center in Georgia. Closure is expected to take place by the end of the first quarter in 2009. We also announced plans to close our brake actuation engineering center in Spain by the end of the first quarter in 2009. Excluding the facilities planned for closure during Q1, we consolidated or closed four manufacturing and engineering centers during 2008. In addition to facility closures, we also expanded the number of headcount reduction programs across several locations in both North America and Europe. In total, by December 31, we had reduced our global workforce by approximately 10,000 employees or 13%. Our salaried positions were reduced by some 13.5% and further reductions are being made in the first quarter of 2009.

In addition to employee separations, our sites in Europe are taking advantage of government assistance programs in a significant manner that allow us to implement short week working programs whereby we partially reduce our labor costs and avoid costly terminations. At this point we have now burned through our temporary layer of employment and have used short time work where possible in addition to the permanent layoffs. Other personnel actions include freezing salaries and hiring of new employees, as well as several benefit program changes including the suspension of the Company's 401K match. Clearly, these are extraordinary actions and they are being taken during an unprecedented period. We continue to look at other potential programs that may be necessary as we advance our work on addressing the cost base, and to better understand our customers future vehicle plans.

As I've mentioned in previous calls, we continue to focus on Six Sigma and business excellence programs to ensure that efficiency is part of our day-to-day operations and cost management is ingrained in the actions of all of our employees. In addition to the extraordinary actions we are also focused on the basics. We take monthly reviews focused on reducing working capital. We have processes and procedures in place to reduce or eliminate discretionary spending and we have extremely tight controls over capital spending and indeed all capital projects now require executive level approval.

The improvements we have made with our cost structure in 2008 will help us partially mitigate the difficult industry conditions that have continued into 2009. In 2009, unfortunately, the environment has not improved as of the start of the year. Actual and forecasted production volumes are worse than the dismal levels the industry experienced in the fourth quarter of 2008. In North America, we expect first quarter production to be 1.8 million units, a decline of some 50% compared to the prior year. Within this estimate Detroit Three production is expected to be about 1 million units, a 52% reduction compared to 2007. Truck production is expected to decline with a 51% level. For the full year, our best estimate at this time is for North American production to be at about 9.3 million units, a decline of some 27% compared to 2008. You'd have to go back to 1982 to find a period where production was less than 10 million units, and if this production was population adjusted, then this industry recession is clearly far worse than that.

As you're aware, full year forecasts have been difficult to predict. We plan to monitor the production plans of our customers and make necessary adjustments to our operations sooner rather than later. Vehicle production in Europe is also forecasted to significantly decline in 2009 compared with 2008, especially in Western Europe. During the first quarter, vehicle production in Western Europe is forecasted to decline to 2.5 million units or some 40% compared to the same period a year ago. Total European production is forecasted to be at 3.6 million units. For the full year, our forecast for production is 16.5 million units for the total Europe and within this estimate Western European production is at 11.4 million units, a decline of about 21% compared to the prior year. This forecast assumes low level productions at the start of the year and a moderate improvement in the latter half of the year.

Beyond North America and Western Europe, sales and production levels in the high growth countries of the world such as Russia, China, India, and South America have also slowed. In fact, every major region within the automotive industry is forecasted to have lower vehicle production in 2009 compared to 2008.

Reflecting on the poor production outlook I just described, the impact on TRW for 2009 will only be partially mitigated by our restructuring and other efforts to reduce our cost base. The decreases in vehicle production in all regions and our uncertainty surrounding the global financial markets are reflected in our 2009 planning assumptions. Based on the forecasted production levels we expect our sales to be between approximately 10.9 billion to $11.3 billion.

Sales in the first quarter are expected to be approximately $2.4 billion or 40% lower than the previous year. Our management will remain focused on improving working capital, protecting cash flow, and further reducing our cost base. As you can see we are not providing earnings guidance for 2009 at this point. There remains too much uncertainty surrounding future forecasts, financial markets and other variables.

In Summary I wish I had a better near term outlook to discuss with you today but as I said at the beginning of my comments, it is truly an extraordinary period in the world and the automotive industry. It is important for our current and prospective stakeholders to be recognized that TRW is a strong global franchise that is well diversified with strong technology and leading market positions. We benefit from having adequate liquidity and are highly focused on our cash preservation during this time period. We will prevail to the short-term challenges and remain a leading supplier to the world's car manufacturers. And with that I'll now hand it to Joe to discuss our financial results in further detail.

Joe Cantie - *TRW Auto - EVP, CFO*

Thank you, John, and good morning, everyone. As John stated, our results for the quarter and full year reflect the broad challenges facing the global economy and the automotive industry. Several factors contributed to the weak quarter, the most significant of course was the steep decline in the global production numbers. I wish I could say that this year will be better, unfortunately 2009 production is forecasted to be lower in the major markets compared with the 2008 levels. Fortunately for TRW, we have a solid capital structure with good liquidity and no material near term debt maturity which places us in a good position to weather this downturn. I'll expand on our capital structure and planning assumptions for 2009 in a few minutes. First, let me review with you in more detail our fourth quarter and full year financials.

Our fourth quarter results contain a number of one off non-cash expenses. These charges primarily relate to the unwinding of intangible assets that were established at the time of the Blackstone acquisition in 2003. It's important for you to understand that these are non-cash and do not affect our capital structure or operations of the Company in any way. For the fourth quarter, we reported sales of $2.8 billion, a decrease of about $1.1 billion or 28% when compared to the same period a year ago.

The sales decline resulted directly from the lower production volumes discussed earlier. In addition, unlike every quarter for the last few years, currency translation also reduced sales by $276 million. The euro to dollar exchange rate averaged 1.32 this year, about 9% lower than last year. The negative sales factors were only partially offset by an increase in module sales of about

$116 million compared to last year. On a GAAP basis, operating income in the quarter was a loss of $892 million which compares to income of $149 million in 2007

As I mentioned a few minutes ago, the Company recorded significant asset impairments and separately restructuring charges for the quarter. In terms of the asset impairments, the Accounting Standards require the Company to periodically perform a detailed analysis to determine if the carrying value of certain long lived assets is appropriate. Our fourth quarter analysis concluded that as a result of the negative economic and automotive industry conditions, demand for the Company's products has declined substantially which required the impairment of certain of the companies long lived assets. The assets impaired were goodwill, customer relationships, and certain fixed assets totaling $854 million.

Separate from the impairments, restructuring charges, primarily related to employee separations, totaled 14 million. Excluding these special items, operating income in the quarter was a loss of $24 million which compares to income excluding restructuring charges of $168 million in 2007. There were a number of factors that contributed to this decline. By far, the most significant driver was the reduction in sales and our currency losses were also negative in the quarter. The positive effects of higher module sales as well as the benefits of cost reductions and restructuring programs could not offset profits lost on the decline in core revenues; however, if you look at a typical contribution margin for us of say 25% plus, our operating income was better than you would expect as a result of the downturn management actions discussed by John earlier. The low operating income, net interest expense was $48 million which was below last years level of $56 million due to the lower interest rate environment. Tax expense for the fourth quarter was 0 which compares to a $39 million expense in 2007. The 2008 period included a one off net tax expense of $4 million while 2007 included a benefit of $14 million also pertaining to a one off tax matter. At the bottom line, we posted a GAAP net loss of $9.35 per share compared with earnings of $0.55 per diluted share in the 2007 period.

Excluding the special items, we recorded a net loss of $0.73 per share compared with earnings of $0.59 per share in the prior year. And finally, in terms of EBITDA, we had $101 million for the quarter, excluding the special items compared with $319 million in the prior year measured on the same basis.

Quickly, for full year 2008, we reported sales of $15 billion which is an increase of about $293 million or 2% compared with 2007. Currency translation accounted for $730 million of the increase and the higher levels of modules sold totaled $858 million. Excluding these two items, sales were lower by about 9% reflecting steep decline in our customers production of vehicles in the second half of the year. For the full year, the Company incurred asset impairments and restructuring charges totaling 932 million, again, most of which were non-cash compared to $51 million in 2007. Excluding these special items, our operating income for 2008 was $464 million which compares to $675 million in 2007.

A number of factors led to this decline, the most significant of which was the decrease in core sales during the second half of the year and the full year impact of higher commodity costs. Below operating income, interest related expense was $184 million compared to $233 million last year. The debt restructuring that took place in 2007 and lower interest rates between the two periods drove the decline. Tax expense was $126 million compared to $155 million in the prior year. Excluding one off tax items recorded in both years, tax was $126 million in 2008 compared to $175 million in 2007 and at the bottom line, we reported GAAP net loss of $7.71 per share which compares to net earnings of $0.88 per share in the previous year. Excluding special items, we recorded net earnings of $1.50 per share this year which compares to net earnings of $2.68 per share in the previous year and finally in terms of EBITDA, we had $1.039 billion this year excluding the special items compared to $1.241 billion, in the prior year measured on the same basis.

As difficult as the fall off in sales, impairment charges, and operating losses were in the fourth quarter, we're very pleased to report an outstanding cash flow outcome for both the quarter and the year. First for the quarter, our operating cash flow was $769 million which compares to $826 million in 2007. Cash flow after capital expenditures was $625 million in the 2008 fourth quarter compared to $652 million last year. Although lower compared to last year, there were a number of timing issues and ultimately the ability to generate positive cash flow in this environment where profits are lower was clearly an accomplishment. For the year, net cash flow from operating activities after CapEx was $291 million. This compares to $224 million in 2007. Generating $291 million of free cash flow in 2008 allowed us to reduce our net debt position by $189 million at year-end.

We've now reduced our net debt for three consecutive years and five of the last six years. For all of 2008, capital expenditures were $482 million which is lower than the $513 million invested last year. On a like-for-like currency basis, CapEx declined 10% between the two years. Obviously, with a steep decline in volumes, we're constraining our capital expenditures wherever possible. Our planning assumption for 2009 calls for CapEx to be about $350 million.

Regarding our capital structure, overall we continue to be in good shape. At December 31, our total debt and net debt outstanding were both below the levels of the previous year by $322 million and $189 million respectively. We have no significant maturities until 2012 and have liquidity available to us in excess of $1.5 billion. One of our main sources of liquidity continues to be our revolver under our credit facilities which has a broad underwriting bank group. It's important to note that at December 31, 2008, we were in compliance with our key financial covenants and expect that we will continue to be in compliance in the near term; however based on our current forecasts, our ability to remain in compliance throughout all of 2009 is not assured. At the appropriate time and if necessary, we will work with our banking group to amend our facilities in a fair manner. As usual, we'll continue to monitor the economic, credit, and automotive production environments and adjust our capital structure accordingly.

Switching subjects now to our expectations for 2009, as John indicated, we are not providing earnings guidance today, with changes to production schedules and other economic assumptions happening on a daily basis, providing an accurate and meaningful forecast is difficult in this environment. John discussed our expectations for production in North America and Western Europe for 2008 down 27 and 21% respectively which should translate to full year sales for us in the range of 10.9 billion to $11.3 billion. At the mid point of that range, our sales will be down 26% from 2008 or $3.9 billion. About $0.5 billion of that decline is expected to come from currency movements. As you can imagine, the contribution margin lost on the $3 billion plus of sales decline is significant. We expect the sales declines to be more significant for us in the first half of 2009 than the second. At this point, we're expecting first quarter sales of about $2.4 billion which is actually 42% below last year's level and 15% lower than the record low fourth quarter 2008 sales which we reported today. By the way, the positive variances relating to our module sales that occurred throughout all of 2008 will no longer occur in 2009.

With the forecasted levels of sales, you can be assured that every cost and cash flow item is being challenged and managed to optimize our cost structure and cash flow in this environment. As I mentioned before, capital spending will be about $350 million in 2009 as we align our spending with product plans of our customers. Also as John referred to in his comments, of course working capital, labor, and discretionary spending are all being contained. Despite these efforts at the sales volumes currently forecast, at this point, we expect to have a free cash outflow in 2009.

With regards to restructuring charges, we are continuing to look at other actions that will be necessary in reaction to the current environment. Again at this point we would expect to have a level closer to approximately $50 million for the year with about half of that occurring in the first quarter. As you can tell from our comments today, the challenges that intensified over the second half of 2008 are expected to continue into 2009. We continue to work hard to mitigate those challenges as we navigate through this unprecedented time period in the automotive industry. I'm confident we are executing the right strategy to ensure long term success for the Company. We'll now move to the question and answer portion of the call.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take our first question from Chris Ceraso with Credit Suisse.

Chris Ceraso - *Credit Suisse - Analyst*

Hi, thanks, good morning.

John Plant - *TRW Auto - President, CEO*

Good morning.

Chris Ceraso - *Credit Suisse - Analyst*

Just a few items here. On the restructuring that you're expecting for 2009, are you going to go back to the old policy of absorbing that or is that going to be called out?

Joe Cantie - *TRW Auto - EVP, CFO*

Yes, I think, Chris, in this time period we're going to call it out just because it's getting so difficult. Normally we included it because it was normal times but now these are not normal times and it's very difficult to focus on what is normal versus the unusual related to these times so we'll be calling it out on a go forward basis until, from this point forward until things get back to normal we'll reassess that.

Chris Ceraso - *Credit Suisse - Analyst*

Okay. You mentioned that the contribution margin on the lost revenue was probably better than we would have expected. I would agree with that. As you look forward, does that get worse because you've kind of burned through the temps and you've done some of the cost reductions and you start to run out of things to cut?

John Plant - *TRW Auto - President, CEO*

I don't see why it gets worse, because the profile that the savings that we've done are the same, basically our view is it's our responsibility to flex in line with volume and so when we use contribution, it assumes we're going to flex all of our cost structure, clearly materials, labor, and then we're seeking to actually flex fixed costs as much if not more than the changes because that's what we have to do, and I think we've done it so far and I don't really see why it should get worse. I'm hoping that with the effects of all of the cost reduction actions which have been taken and of course those which are yet to come, then that should be a good condition for us.

Chris Ceraso - *Credit Suisse - Analyst*

Okay, so just to clarify, I think Joe mentioned in his comments that 25% was sort of typical for TRW. Are you saying that you'll outperform relative to that 25% or you should be able to achieve the 25%?

Joe Cantie - *TRW Auto - EVP, CFO*

Tough to call but I would say that as the sales go down, the approximately 25% is a good rule of thumb to use and hopefully we can hit that and possibly better.

Chris Ceraso - *Credit Suisse - Analyst*

Okay. Can you give us an update on the pension, Joe, what's the expectation for the change in expense from '08 to '09 and any funding requirements that you anticipate on a cash basis?

Joe Cantie - *TRW Auto - EVP, CFO*

Sure. I think overall pension we continue to be in reasonable and good shape more so because of the actions that we have taken and when we talk pensions, I'll include pension and OPEB, and we've taken a lot of actions to minimize that. I think that our funding for 2009 on a pure cash basis will be lower than what it was in 2008 so 2008, we're somewhere around $180 million on the cash funding and that should be lower in 2009. In terms of the P&L, I would expect our net expense to go down between 2008 and 2009 as well. Actually, we're in the net income position because of the overfunded UK pension plan so the net income will increase slightly in 2009 versus 2008.

Chris Ceraso - *Credit Suisse - Analyst*

Even despite what had to have been bad asset performance in '08?

Joe Cantie - *TRW Auto - EVP, CFO*

Yes. No question about it but the way FAS 87 works it's the smoothing effect that gets triggered into that, Chris, so what goes through the P&L is buffered. I will say that our UK plan which is the big plan, I think is decent performance in 2008. The investment returns were down about 10% which pretty good in this environment.

Chris Ceraso - *Credit Suisse - Analyst*

Okay, thank you very much.

Operator

Our next question comes from Himanshu Patel with JPMorgan.

Unidentified Participant - *JPMorgan - Analyst*

Hi. This is (inaudible) for Himanshu Patel. So, I had a couple of questions. First of all, on the federal aid, what's your sense, in what form is it likely to come through and how confident are you to be a beneficiary of that?

John Plant - *TRW Auto - President, CEO*

You talking about the federal aid to GM and Chrysler?

Unidentified Participant - *JPMorgan - Analyst*

No, no, the supply of the $18.5 billion talked about.

John Plant - *TRW Auto - President, CEO*

Oh, okay. At this point, we're not clear on whether there will be any federal aid to the supplier industry. I look at the three strands which were suggested by NEMA OSEA to the Treasury. The first one was surrounding the U.S. government providing a guarantee on the payable of the Detroit Three. I mean, I think that would be a good thing because I think a lot of the supply bases lost the securitized on those and we at TRW had never taken advantage of our receivable securitization, so in one sense, we sort of understand it, we think that it would be a good thing but mainly because a lot of the supply base lost that securitized and the general agility of the overall supply base, and therefore the knock on effect because of the interconnectiveness. We would think it's a a good thing to have that done and also some of our sub suppliers are probably securitized on previous numbers on those receivables. And so I think that is necessary but I don't think it provides a real solution because it just gets the supply industry back to where it was in the Summer of 2008 really.

And the second item was one of quick pay or reducing the terms of somewhere between 60 days plus or minus in terms of payment from some of the Detroit Three manufacturers and I think that's a more sensible program and should look at seriously, but again I have no input to whether it's going to happen or not. And finally, I mean, I've seen it the direct support for some of the supply base and quite frankly, I just don't see that at all. I think that it's too difficult for the government to manage and indeed I just don't see it being done.

So I think if there's anything at all that's going to be done, it would surround the securitization of the receivable or of the payable, the guarantee around the payable, and I think the thing which really under the circumstances is the best route through this is for as the supply base has shrunk because it has to be shrunk and as the Detroit three seek to have some of that part tooled to provide guarantees for them of continuity of supply because clearly some suppliers won't be making it then for the tooling and the capital that needs to be deployed to enable that to be done is I just don't see many suppliers willing to step up and say yes, we'll do it until they know a certainty of outcome regarding the government support, and secondly, clearly some guarantees around it. So I think under the circumstances is that the Detroit Three also have to consider stepping up to do some, to help facilitate some of those things, to get ourselves to the other side and the continuity of supply because clearly, the supply base is distressed and we have our sub supplies which are distressed at TRW. So the good news is we had never previously securitized on anything and so we don't see that as the solution to get us back into the way it works because we never use it anyway.

Unidentified Participant - *JPMorgan - Analyst*

Okay. My second question would be it seems like there will be some sort of a production snap back in the second half, so working capital which seems to be a trend right now, do you expect any significant train from that in the second half and I know you took down CapEx. Is there any other lever you guys could pull to sort of help cash flows in the second half if production snaps back?

John Plant - *TRW Auto - President, CEO*

Well, let me deal with capital spending first. Clearly that's going to be much lower in 2009 than previously envisaged and that will provide a source of funds to us. Regarding working capital, I mean that is more difficult to call at this point in time. Even despite the fact that we, I would say managed our working capital well, I think we do that generally well. I was still disappointed in our inventory levels that we had at the end of 2008 and essentially because we had a stream of incoming parts towards us that we had scheduled during, let's say October and November and December and those parts were coming in and vehicle manufacturers both in North America and Europe were cutting their schedules and taking down weeks in quite a violent manner at very short notice which left us in an overstock position. And so some of that inventory I think is going to be unwound during 2009 and so it's very difficult to really estimate until we know the real pull on production in the second half but given the fact that I see that we were overstocked at inventory at the end of 2008, I'm not willing yet to say that we will require any form of additional inventory to cope with the upswing as we exit 2009. And so, I mean I think there's too many variables to be able to call it at this point in time.

Joe Cantie - *TRW Auto - EVP, CFO*

Although I'll just add that we look forward to when that production snaps back and having the problem of worrying about working capital, I think all of us would feel a lot better when that actually does occur.

Unidentified Participant - *JPMorgan - Analyst*

Yes, and just a short one in the end. Did you guys have any receivable exposure to Saab?

Joe Cantie - *TRW Auto - EVP, CFO*

De minimus, as you know Saab doesn't produce a lot of vehicles. Clearly immaterial to us.

Unidentified Participant - *JPMorgan - Analyst*

All right, thanks, guys.

John Plant - *TRW Auto - President, CEO*

Thank you.

Operator

Our next question is from Rod Lache with Deutsche Bank.

Rod Lache - *Deutsche Bank - Analyst*

Good morning, everyone.

John Plant - *TRW Auto - President, CEO*

Good morning Rod.

Rod Lache - *Deutsche Bank - Analyst*

Can you just help us drill into this detrimental margin again which looks like around 20% in the quarter, just on the core sales changes? What happened in terms of raw materials, restructuring savings, and were things like goodwill amortization down significantly? It's a pretty impressive number on its own. Well, thank you for the compliment there, Rod.

John Plant - *TRW Auto - President, CEO*

I mean I think the most important thing is to recognize is that we did flex everything in the Company and probably more than that is that we actually started moving I think really early. As you know, I think we've always been fairly conscious on cost anyway but we actually were executing headcount reductions of major significance back in the early October time frame and so we didn't tell people what we were going to do. We just did it. And we have taken through successive waves since then, so I think the flexing that we've done is very speedy and you can see from the results at a very healthy level. Beyond that in terms of really getting into goodwill amortization I'll leave that to Joe to cover because I'm not clear that was a big thing at all.

Joe Cantie - *TRW Auto - EVP, CFO*

Yes, Rod, it wasn't. In the quarter our amortization just given all of the write-offs was down about $5 million, so yes, there was a lower amount of amortization in there but it was de minimus, $5 million was the number, and when I look at being able to hold that margin, again John mentioned flexing everything when we file our 10-K, you'll see that the exact number of heads that we literally reduced by 12/31/08 was about 10,000 for the year and most of that obviously in the second half. Within that number, something like 2600 was the salaried, so we are looking at every cost, trying to drive it down as much as we can.

Rod Lache - *Deutsche Bank - Analyst*

What would you use as an average cost per person roughly when you look at that? Do you have an estimate for 2009?

John Plant - *TRW Auto - President, CEO*

At exit costs?

Rod Lache - *Deutsche Bank - Analyst*

No. Cost savings. So do you have just based on what you've accomplished, looks like towards the end of the year, what would your restructuring cost savings be just based on personnel reduction '09 versus '08.

John Plant - *TRW Auto - President, CEO*

Do we want to give that number, Joe?

Joe Cantie - *TRW Auto - EVP, CFO*

Well, first of all I don't have it off the top of my head, Rod, but typically when we get people out it's clearly less than a year payback and some of them are real quick. Obviously as we watch cash here as we take our headcount down we're trying to do the ones that are most economical for us, meaning lowest cost as quickly as possible, but again, I don't have a number to give you off the top of my head.

John Plant - *TRW Auto - President, CEO*

So I think the thing to look for, Rod, is if you look at the headcount reduction compared to the cash restructuring taken, and if you think about also 2009, the cash restructuring that we've contemplated, then I think the scale of the restructuring compared to the cost thereof, and again you can see that we're managing in a very lean way and also the cash effects thereof, and that's done, we're not going voluntary or anything like this. We've been very targeted, very quick and really to provide the maximum protection to the Company.

Rod Lache - *Deutsche Bank - Analyst*

Just looking at some other suppliers of used numbers like $50,000 a person or something like that on average, it would be $0.5 billion, so it would be helpful to get some color on that.

John Plant - *TRW Auto - President, CEO*

Well maybe in a follow-up call but I mean we'll be moving to the staff areas on average then the number must be higher than that.

Rod Lache - *Deutsche Bank - Analyst*

Yes. Okay. And just lastly, did you have anything on raw materials or your expectations for 2009 versus 2008 and can you also clarify, it looks like your North America sales performance obviously far exceeding what production is doing and there's a bigger spread between those numbers, so is that something that you think, is there something large or lumpy in those numbers and is that something you expect would continue?

John Plant - *TRW Auto - President, CEO*

First of all let me deal with the production and I'll go in reverse order. I mean, the difference in the delta between the production declines and our sales decline was a function of the increase for modules so that won't be repeated as we go into 2009. So it will be more in line with production. On the first question, which was surrounding I'll say commodities, we haven't called out a number for 2009 in our guidance. The thing I would point you towards is the fact that in the fourth quarter of last year, commodities were declining. As always there's a lag effect but we are very focused on returning any payments that we've made for increased metals as an example or resins or chemicals across a whole part of a supply base to move back to where development indices might be at that time. Some of it of course, will be on index and some of it won't be but that's something which we are extremely focused on and therefore, I expect to see benefits of that and hopefully significant benefits of that as we go into 2009 but again we aren't calling that out at this point in time. I'm not providing profit guidance either.

Rod Lache - *Deutsche Bank - Analyst*

Okay, thank you.

Operator

Our next question is from Patrick Archambault with Goldman Sachs.

Patrick Archambault - *Goldman Sachs - Analyst*

Hi, good morning.

Joe Cantie - *TRW Auto - EVP, CFO*

Hi Pat.

Patrick Archambault - *Goldman Sachs - Analyst*

Yes, actually just on the raw materials, I'm sorry if I missed it, did you give the delta for 2008 for the full year and I guess the fourth quarter if you got it?

Joe Cantie - *TRW Auto - EVP, CFO*

Yes, for the full year, and again that will be detailed in our 10-K but I can give it to you now. We had a hit of about $140 million in 2008 versus 2007. Of course, most of that came in the first half, when we looked at the fourth quarter, we still had commodity in place hit of somewhere around $30 million for us and again, a lot of that occurs because of the deals we would have locked into as we were maneuvering through the increasing commodity inflation zone, so we would expect with commodity inflation coming down dramatically that that position will improve itself as we go into '09.

Patrick Archambault - *Goldman Sachs - Analyst*

Okay, and that's net of customer recoveries; right?

John Plant - *TRW Auto - President, CEO*

No, that's just calling commodity inflation out. As you know, we have never called any numbers out for recovery from our customers.

Patrick Archambault - *Goldman Sachs - Analyst*

Okay. All right, thank you. I just wanted to ask a little bit more about the supply base. Could you give us a sense maybe how the headwinds in terms of distress have kind of impacted you in '08, help us kind of understand what kind of quantifiable cost headwind that might have been and help us gauge what we might be in the store, what might be in store for you in 2009?

John Plant - *TRW Auto - President, CEO*

In 2008, if you looked throughout the year and if you compared 2008 to 2007 and the previous years, I think the overall cost of managing the distressed supplier base were of a similar order and I'll call those numbers out and Joe may have the numbers but I've not got a fix on those because they have not been a material item to us. I mean, they've been an item but not a material item.

In 2009, it is really difficult to call. I mean, when you don't know finally, the production, when you don't know the government support to the Detroit Three, when you don't no one of the earlier questions whether the Treasury does respond to the first of the NEMA request which is the guarantees of the payables from the Detroit Three, when there's so many things that you don't know, it is truly difficult to call the stress that will be there on the supply base and then the impact upon you. I mean, it's like whatever I said to you, it will be a pure guess and I don't think I'm willing to do that. What I'll say to you is we are very clearly focused on it and we have a list of our subsuppliers that are there and whether they either are or may become distressed, and we are watching it very closely and we are trying to move preemptively to manage that situation and so I mean even this week, tools are being moved to more secure sources of supply just to ensure that we try to minimize the effect of this should the wave of bankruptcies occur, but I just couldn't call it. I mean it's an impossible thing to quantify for you.

Patrick Archambault - *Goldman Sachs - Analyst*

I mean one of the things that we've heard is that it's actually somewhat more difficult to monitor things this time around because some of these failures are financially driven so they are harder to predict but what I mean is based on their financial relationships rather, rather than necessarily fundamentals and would you characterize that as correctly? Is that somebody who has a good banking group may actually have much better luck than a comparable Company with one that--?

John Plant - *TRW Auto - President, CEO*

I'm sure the structure of some of the smaller suppliers cap, their financing structure on their debt side will matter, and but I suspect ultimately comes down to does that supplier have the ability to withstand and prosper when things pick up? I mean but clearly there will be circumstances where if their finances are not in any form of secure order and part of that banking group is in banks that may fail, and clearly, there are banking failures going on, so it again, I don't really know.

Patrick Archambault - *Goldman Sachs - Analyst*

Okay, thanks, and one clarification. On slide 13, can you just explain what the customer relationships related charges? That would be helpful.

Joe Cantie - *TRW Auto - EVP, CFO*

Sure. I think when we went through the acquisition with Blackstone back in 2003 and whenever we go through an acquisition, you mark your balance sheet to fair market value. During that process, the accounting rules stated that we had to place a value, an intangible value on what our customer relationships were and basically, I always think of it as another form of goodwill because had we placed a value of 0 on that your goodwill would have been a much bigger number so it's, as I say, I always consider it a form of goodwill but literally, it was placing a value on our relationships with our customers back then.

Patrick Archambault - *Goldman Sachs - Analyst*

Okay, great.

John Plant - *TRW Auto - President, CEO*

So that's clearly different to many of the other supply companies, they hadn't gone through the M&A activity in forming as we did but I suppose the silver lining in writing that off is that that has been an amortized charge and different to goodwill, and that amortization for the amount written off won't be there in the future so again it's cleaning up something which would otherwise have been called out as goodwill.

Patrick Archambault - *Goldman Sachs - Analyst*

Okay, great. Thanks a lot.

John Plant - *TRW Auto - President, CEO*

Thank you.

Mark Oswald - *TRW Auto - Director of IR*

I think we have time for one more.

Operator

Our next question comes from Doug Carson with Banc of America Securities.

Doug Carson - *Banc of America Securities - Analyst*

Great, guys, thanks, good morning.

Joe Cantie - *TRW Auto - EVP, CFO*

Hi, Doug.

Doug Carson - *Banc of America Securities - Analyst*

I had a question about the revolver draw to the extent you can give us some more color on it. What was the decision to not draw the entire line? It looks like it was almost entirely drawn, and the covenants you said are in compliance right now but I think most people feel that they will be in Jeopardy pretty early on over the next quarter or so. Have you had any preliminary conversations with the banks or kind of how do you feel that you're heading into those conversations, because many of the suppliers are having similar conversations and it's really affecting their bond prices and their equity of course?

John Plant - *TRW Auto - President, CEO*

Well, let me deal with the revolver draw in the first instance and then I'll pass it across to Joe to comment more specifically. I mean, the draw essentially was around providing ourselves with I'll say some protection during the period we're in right now which is when we saw General Motors and Chrysler going back to the government and of course we did not know what they were going to go back with because we aren't privy to their plans and the uncertainty around those plans and clearly, the plans that have been submitted require additional funding, and I think that once we know the response of the government to those requests and should we see a positive outcome and we're clearly hoping for a positive outcome, then our current plan would be to pay those drawn funds back, so because we did not need them in the sense of to manage the Company's cash flows except in the extreme circumstance of something undue happening as we were very conscious of the February 17, which was this week in terms of the submission of those plans, so we are looking forward to a rapid response from the Obama Government. We think a rapid response would be helpful because uncertainty itself is corrosive. It's corrosive to the sales of those vehicle manufacturers and to the general industry and to the general economy, so I think swift action by the government will be helpful and if the responses are positive as we hope and expect they will be, then the current plan would be to return those funds, but I mean, in terms of anything else I'll pass it across to Joe.

Joe Cantie - *TRW Auto - EVP, CFO*

And some of your more technical questions, we drew down, we're up to about $1.1 billion, we have a $1.4 billion revolver. We have some letters of credits out 50 million, $60 million that work against that Doug but other than that, the remaining is just by the structure of it is ancillary lines out in Europe where we have instant access to, so just for whatever reason we chose not to draw that because we think we can get at it really quickly if we needed to.

As far as covenants, as I mentioned I think we're in good shape in the near term, so no, we haven't had any discussions yet with our banking group but you know what? If we need to during the course of 2009, we don't have a liquidity issue or cash issue here in any form. You see that we generated cash in the fourth quarter in 2008 and I think that we will engage with our banks and come up with a fair solution between them and the Company and I don't see it as being a big issue based on all of the work and discussions and watching what's happening with the rest of the supply base.

Doug Carson - *Banc of America Securities - Analyst*

Okay, great. Thanks a lot, guys.

John Plant - *TRW Auto - President, CEO*

Thank you.

Mark Oswald - *TRW Auto - Director of IR*

Okay. That's all the time we have today so again, I want to thank everybody for calling in and if there's any questions, feel free to reach out and thank you.

Operator

This does conclude today's conference call. We appreciate your participation. You may disconnect at this time.
