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RESEARCH

Research Update:

Scania (publ.) AB 'A-/A-2' Ratings On CreditWatch Negative On Possible Takeover By MAN

Publication date: 14-Sep-2006**Primary Credit Analyst:** Maria Bissinger, Frankfurt (49) 69-33-999-120;
maria_bissinger@standardandpoors.com**Secondary Credit Analysts:** Werner Staeblein, Frankfurt (49) 69-33-999-130;
werner_staeblein@standardandpoors.com
Andreas Zsiga, Stockholm (46) 8-440-5936;
andreas_zsiga@standardandpoors.com**Rationale**

On Sept. 14, 2006, Standard & Poor's Ratings Services placed its 'A-' long-term and 'A-2' short-term corporate credit ratings on Sweden-based truck and bus manufacturer Scania (publ.) AB on CreditWatch with negative implications.

This reflects the risk of changes to Scania's ownership structure that could have negative credit implications, following the announcement by Germany-based truck maker MAN AG (not rated) that it is interested in a merger with Scania. MAN is expected to release further information about its intentions during the course of next week.

Based on the limited information publicly available, we consider there to be a significant chance that MAN will make a bid for Scania in the very near term. We consider that the business risk profile, and possibly also the financial risk profile, of such a combined entity would conceivably be weaker than Scania's existing business and financial risk characteristics.

Compared with its global peers, Scania has an outstanding profitability level and the highest degree of component commonality in the production process. Despite conceivable synergistic benefits that may result from a merger with MAN, we expect that the profitability of a combined entity would initially be weaker. The likely benefits of improved customer and geographic diversification may initially not outweigh the integration risks that would eventually result from a merger of this size.

Depending on the acquisition price and financial structuring of any conceivable transaction, the financial risk profile of the combined entity may also be weaker than Scania's modest financial risk profile.

We expect to resolve the CreditWatch when there is more clarity about the intentions of MAN and Scania's majority owners, and what implications this could have for Scania's credit quality. The ratings would be removed from CreditWatch should MAN not follow through on its stated intentions. Standard & Poor's will closely monitor developments.

The ratings on Scania reflect the group's strong business profile and modest financial risk. The ratings are supported by Scania's outstanding profitability in the global truck industry, which is not expected to fall below an operating margin of 4% to 5% at the bottom of the cycle. The group's truck and bus businesses benefit from leading market positions, up-to-date product lines, and the highest degree of component commonality in the global truck industry.

The ratings are constrained by the high capital intensity and severe cyclical nature of the commercial-vehicle industry, as well as the volatility and difficult, although somewhat improving, environment of the global bus industry.

Liquidity

Standard & Poor's considers Scania's liquidity and financial flexibility to be strong. It is enhanced by two committed revolving credit facilities amounting to €1 billion and €500 million, with a tenor of seven and five years, respectively. The bank lines are not subject to financial covenants or rating

triggers. The company's liquidity position is underpinned by access to MTN and CP programs. In addition, the company reported cash and short-term investments of Swedish krona (Skr) 6.4 billion (\$685 million) at March 31, 2006. Positive free cash flows through the cycle, cash holdings, and credit lines should provide ample leeway for Scania to cover short- and medium-term debt maturities.

Ratings List

To	From
Scania (publ.) AB Corporate credit rating	A-/Watch Neg/A-2 A-/Stable/A-2

N.B. This list does not include all ratings affected.

Additional Contact: Industrial Ratings Europe;
CorporateFinanceEurope@standardandpoors.com

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