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Scania (publ.) AB

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Table Of Contents

Major Rating Factors

Rationale

Outlook

Business Description

Business Risk Profile: Most Profitable Truck Maker Worldwide

Financial Risk Profile

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Scania (publ.) AB

Major Rating Factors

Corporate Credit Rating
A-/Stable/A-2

Strengths:

- Leading market positions in Europe and Latin America in heavy trucks and buses
- Up-to-date product range and highest degree of component commonality in the global truck industry
- Conservative financial policy and modest financial risk profile, outstanding profitability, and good financial flexibility

Weaknesses:

- Operations within industries characterized by high volatility and high capital intensity
- Sizable operations in economically and politically unstable regions (Brazil and Argentina)

Rationale

The ratings on Sweden-based truck and bus manufacturer Scania (publ.) AB 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. Standard & Poor's Ratings Services expects the company to maintain an operating margin of at least 4% to 5% at the bottom of the business 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.

In March 2008, Volkswagen AG (VW; A-/Stable/A-2) acquired an additional 30.62% of voting power in Scania, increasing its holding to 68.60% of voting power and 37.8% of share capital. Subject to expected changes in the board composition to reflect the new shareholding structure, VW has now effectively taken control of Scania. We factored in the relationship with VW into our ratings assessment of Scania, but the ratings on Scania will not automatically match those on VW.

The ratings continue to benefit from Scania's strong cash flow generation and stable capital structure, together with its adequate financial flexibility. The ratings are constrained by the high capital intensity and severe cyclicality of the commercial vehicle industry, as well as the volatile and difficult global bus industry, although conditions have been improving.

Scania's results for the first quarter of 2008 showed a continuation of the strong earnings performance seen over the past two years. The group's EBIT margin in the first quarter was 16.4%, compared with 15.9% in the first quarter of 2007, 14.4% for full-year 2007, and 12.4% in 2006. The company continues to benefit from high capacity utilization as a result of increased production volumes, a favorable pricing environment, and increasing high-margin service revenues. EBIT in industrial operations was 15.6% in first-quarter 2008 compared with 15.2% for the same period of 2007, 13.8% for full-year 2007, and 11.7% in 2006. The company has affirmed its medium-term goal of a 12%-15% EBIT margin between 2007 and 2009, while at same time achieving average sales growth of about 10%.

Given the favorable demand situation, we expect Scania to maintain its overall high profitability in 2008. Capacity

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bottlenecks and strong market demand should allow for a favorable pricing environment and the recovery of higher raw material costs through price increases.

Liquidity

Standard & Poor's considers Scania's liquidity and financial flexibility to be strong, enhanced by two committed revolving credit facilities (RCF) totaling €2 billion. In early 2008, Scania negotiated an increase of its old €500 million RCF to €1.0 billion. This new facility is due in January 2013 and has a two-year renewal option. The second €1 billion RCF is due in May 2012.

The company's bank lines are not subject to financial covenants or rating triggers. Access to medium-term note and commercial paper programs supports the company's liquidity position. In addition, Scania reported cash and short-term investments of Swedish krona (SEK) 4.1 billion on March 31, 2008. Positive free cash flows throughout the cycle, supported by credit lines, should provide ample leeway for Scania to cover short-term debt maturities.

Outlook

The stable outlook reflects Scania's industry-leading profitability and its ability to generate free cash flows throughout the cycle, which limits downside risk. In line with the company's historical practice, we expect it to continue its predominantly organic growth strategy. We have therefore not factored major acquisitions into the ratings. The industry's tough competitive environment and cyclical demand restrict upside ratings potential, however.

Business Description

Scania, based in Södertälje, Sweden, is one of the world's leading heavy-truck and bus manufacturers. Although the group's divisions encompass buses, industrial and marine engines, and services, the truck division dominates its operations (see chart 1). Europe is the group's major market (see chart 2).

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Chart 1

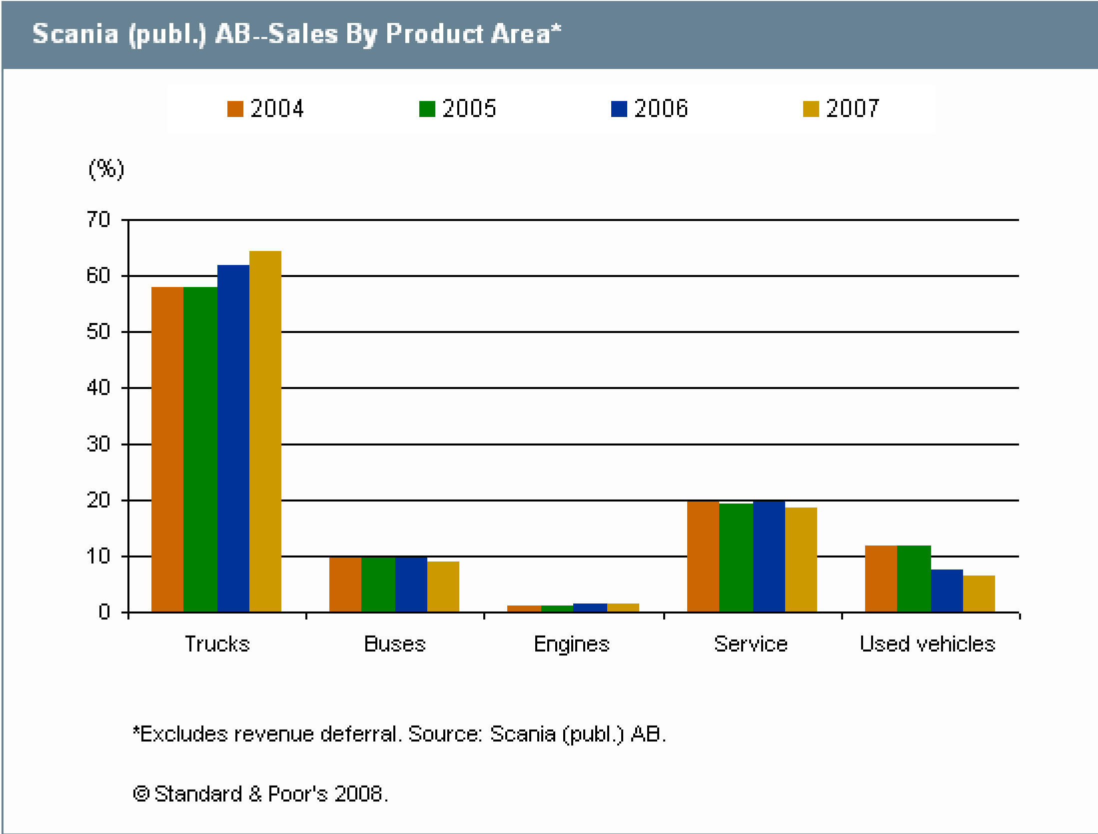

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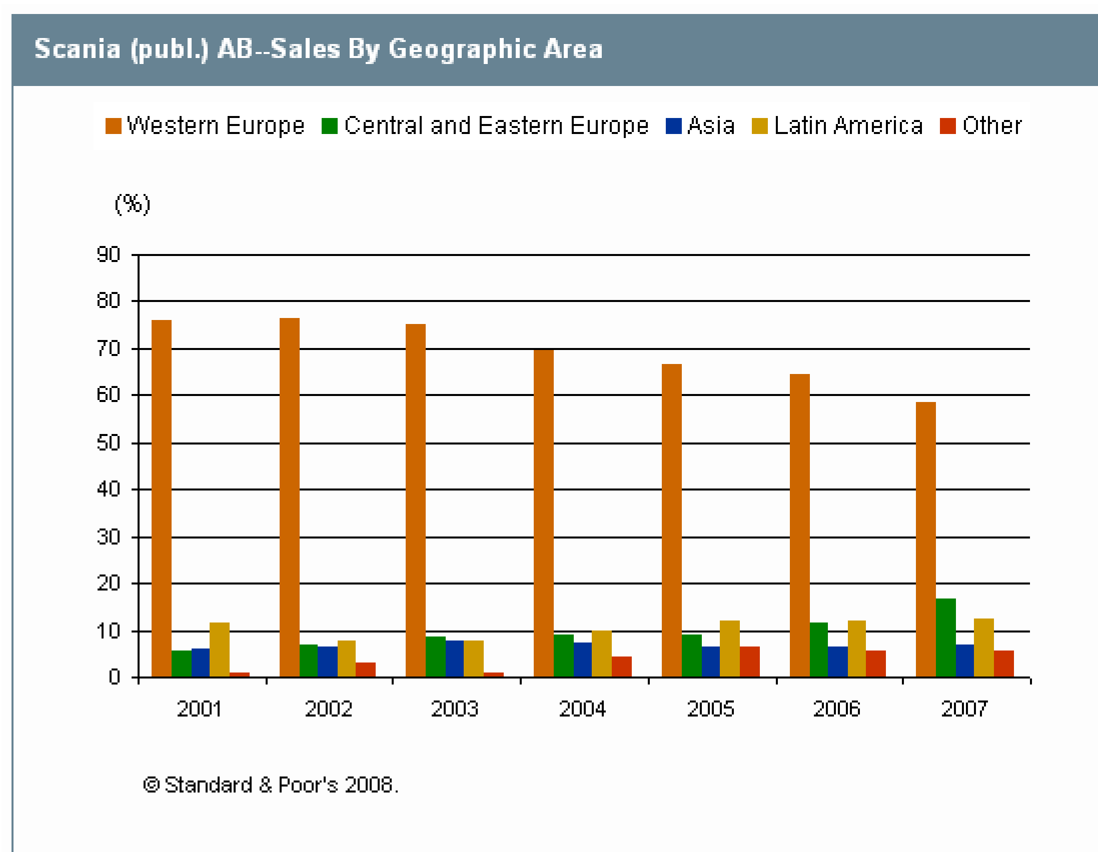
Chart 2



Business Risk Profile: Most Profitable Truck Maker Worldwide

Exclusive focus on heavy-duty trucks supports strong profitability

Scania ranks as the fourth-largest heavy-truck producer globally, behind Daimler AG (A-/Positive/A-2), Volvo (publ), AB (--/--/A-2), and PACCAR Inc. (AA-/Stable/A-1+), and is the market leader in Latin America.

Scania is Europe's only pure producer of heavy-duty trucks (HDT): trucks with a gross vehicle weight of more than 16 tons. This contributes to the group's superior margins because heavy trucks are generally more profitable than light trucks, although this comes at the expense of increased cyclicality. Scania is dominant in the more cyclical, but also more profitable, segment of long-distance haulage trucks. The group is less active in the less cyclical, but also less profitable, truck segments of distribution and construction vehicles.

Because Scania has the most advanced modular product system in the truck industry, it has been able to set a benchmark with the lowest number of individual parts used for different vehicle specifications. This allows the company to tailor vehicles to individual customers' needs while still achieving economies of scale in development, production, and maintenance.

Scania's largest market is Western Europe, with about 52% of total HDT deliveries in 2007 (after 57% in 2006 and 60% in 2005) and a relatively stable market share of about 13% over the past six years. The company has expanded

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its presence in Central and Eastern Europe (CEE). The volume sold in this region (21% of deliveries in 2007 compared with 15% in 2006 and 11% in 2005) is larger than that delivered in South America, where the company continues to hold leading market shares, notably in Brazil. Total deliveries of HDT in 2007 were up about 16% to 68,654 units.

So far, Scania has grown organically, with some minor bolt-on acquisitions mainly to complement its distribution network. We expect the group to continue its organic growth strategy in the future.

In December 2006, the company announced its long-term goal of selling about 100,000 units by 2010. Most of the growth is likely to come from Eastern Europe, notably Russia, and from the Asian region. Scania increased its production capacity by about 15% in 2007 to roughly 82,000 units. By the end of 2008, it should have raised capacity to 90,000 units per year.

The truck industry experienced frequent operating bottlenecks and restricted manufacturing capacity in 2007. Despite increases in production rates and capacity, delivery times for trucks remain long. Currently, Scania's delivery times average from about nine to 12 months, compared with about three to four months before the industry upswing started. Order bookings were again strong in 2007. Order intake from Western Europe was up 25% compared with 2006 and orders from Eastern Europe continued to be significant, with 49% order growth compared with 2006.

Order bookings slowed in the first quarter of 2008, mainly due to a weaker economic environment in Spain, Great Britain, and France, while the weakening of the construction market in Southern Europe has led to decreased demand for construction vehicles.

Table 1

Scania (publ.) AB--Sales Volume Trend

	--Year ended Dec. 31--								
(Units)	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**
Trucks sold by market area									
Western Europe	35,409	34,396	31,392	30,312	29,322	28,229	30,272	38,347	36,106
Central and Eastern Europe	14,789	8,830	5,693	5,272	4,148	3,205	2,723	2,416	1,551
Latin America	9,790	7,957	7,776	7,604	4,739	3,633	6,181	6,777	6,253
Asia	6,061	5,546	5,415	5,464	5,317	3,486	2,994	3,438	1,481
Other markets	2,605	2,615	2,291	1,911	1,519	1,342	1,489	1,340	1,260
Total	68,654	59,344	52,567	50,563	45,045	39,895	43,659	52,318	46,651
Buses and coaches sold by market area									
Western Europe	1,987	2,282	2,271	2,157	2,224	1,612	1,696	1,617	1,935
Central and Eastern Europe	460	428	394	424	349	132	132	85	67
Latin America	2,344	1,679	1,727	1,472	1,072	958	1,595	1,843	1,237
Asia	1495	879	616	947	631	440	666	278	160
Other markets	938	669	808	519	634	632	583	351	364
Total	7,224	5,937	5,816	5,519	4,910	3,774	4,672	4,174	3,763
Total market for heavy trucks and buses in Western Europe									
Trucks	270,300	262,800	251,000	231,000	213,000	211,700	235,000	243,700	235,900
Buses	22,000	22,000	23,300	22,400	21,700	22,500	23,500	23,500	22,400

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Table 1

Scania (publ.) AB--Sales Volume Trend(cont.)									
Scania market share (%)									
Western Europe--trucks	13.4	12.9	13.2	13.0	13.8	13.5	13.5	15.6	15.3
Western Europe--buses	9.8	10.4	10.7	9.4	11.1	N/A	7.2	7.0	8.9

Sources: Scania (publ.) AB and ACEA (European Automobile Manufacturers' Association). N/A--Not applicable.

Outlook for European heavy-duty truck market

Contrary to the expectations of mid-2006, the European HDT market developed favorably in 2007. All of the major European truck manufacturers, for example, MAN AG (A-/Stable/A-2), IVECO, and Daimler AG, reported good or unexpectedly strong (Volvo and Scania) order figures after new emission standards--Euro 4--came into force on Oct. 1, 2006. Strong order intake continued throughout 2007. To accommodate existing orders, industry players increased production capacity by about 15%-25% over the past year.

The outlook for 2008 is also favorable. Although the economic environment is weakening somewhat--except for replacement demand, which fuels sales of commercial vehicles--truck makers should continue to benefit from continuing sizable infrastructure investments and increasing production in CEE. Moreover, truck makers' order books are so full that almost all of the production slots for 2008 were sold out at the beginning of year. Given the impending introduction of another emission standard in October 2009 (Euro 5), it appears likely that some prebuy activity ahead of the effective date of the new regulation will take place. However, we suspect that any prebuying of vehicles will most likely be spread over several quarters, owing to the widespread availability of trucks that meet Euro 5 emission norms.

Statistical evidence supports the favorable outlook for the European HDT market. Chart 3 compares the truck market volume with the EU Economic Sentiment Indicator (ESI) of the previous year. For example, the ESI reading from December 1992 is plotted against the market size of the year 1993. Over the past 18 years there has been a strong correlation between the ESI and the market development for HDTs.

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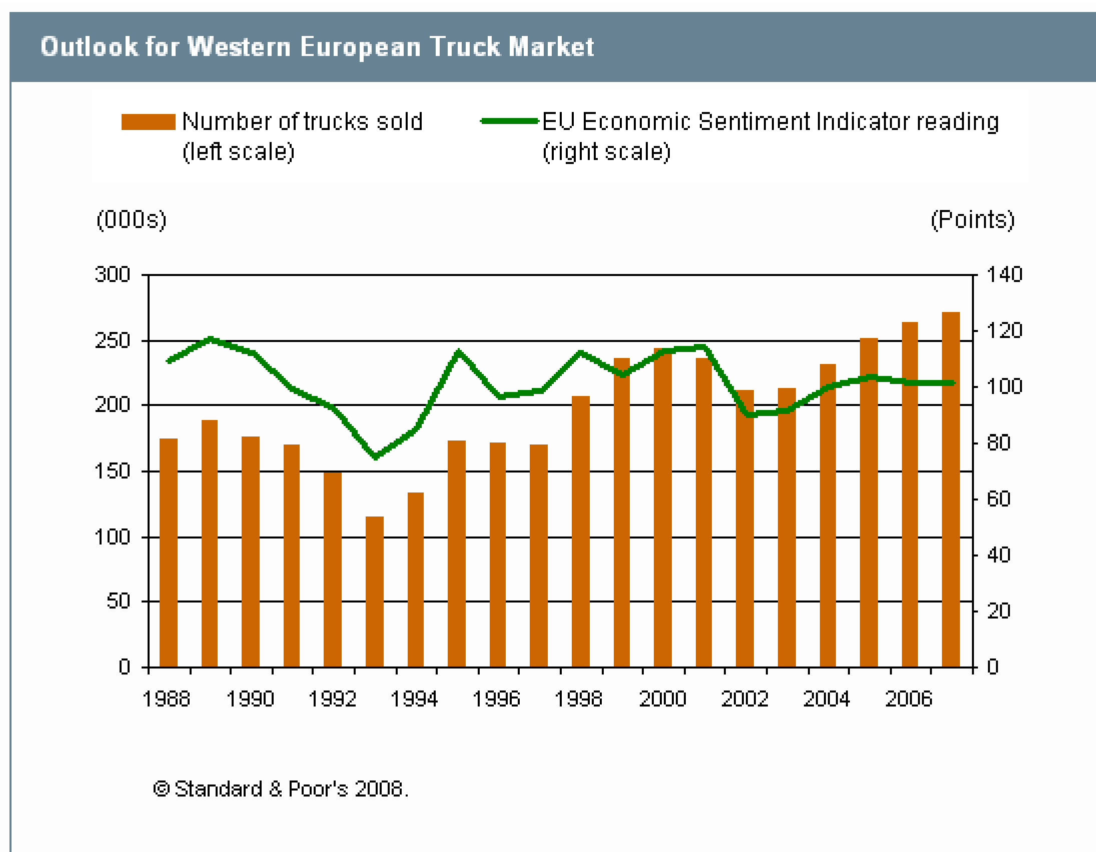
Chart 3



The most recent ESI readings (January 2007 and December 2006) support the view that the HDT market in Western Europe is likely to expand minimally in 2008. At this juncture, we expect the market to expand by about 2%-4% year-on-year in 2008. As a reference point, Volvo expects unit volume growth of 5%-10% in 2008, although this includes countries in CEE, where growth rates will continue to be stronger than in Western Europe.

Buses: Structurally problematic industry with low profitability

The global bus industry has been confronted with a number of challenges, including prolonged market downturns in Europe and America, price and competition pressure, and industrywide overcapacities.

All industry players have taken steps to cope with these difficulties, notably, by relocating labor-intensive assembly work to low-cost countries. Following this trend, Scania moved its bus-body production to Poland in 2004. The group offers a full range of buses and coaches from chassis to fully built buses, but it mainly produces chassis and outsources final assembly through independent bus-body manufacturers. Scania is the world's fourth-largest bus manufacturer in the heavy bus segment (that is, buses accommodating more than 30 passengers) behind Daimler, Volvo, and Germany-based MAN.

Industry participants like MAN and Volvo have improved their profitability in buses. However, industrywide profitability remains generally low, with profit margins (EBIT) of about 2%-4%. This is, in part, attributable to lower component commonality in the bus industry compared with the truck or passenger car industry. Scania leads

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the market in extending its modular concept to buses and has achieved up to 85% integration between trucks and buses. The integration of bus chassis production into the truck operations and the restructuring of bus-body building operations have contributed to the successful turnaround of Scania's bus operations. The profitability of the bus division is now reported to be comparable with the rest of the Scania group and is therefore considerably above the industry average.

Other business areas

Industrial and marine engines:

Scania's modular concept also extends to engines. Divisional results are closely linked to GDP development and the group's engines are used in trucks, buses, container handling equipment, and boats. Scania was able to increase the number of engines sold from 3,165 in 2001 to about 7,228 in 2006.

Service products:

In 2007, service products accounted for about 18% of Scania's net sales (compared with 19% in 2006). Service products consist mainly of parts, repairs, and maintenance. Scania has roughly 1,500 service points globally, of which it owns about one third. High economic activity and high delivery volumes in recent years are likely to bring about a gradual expansion of the service business (parts, workshop hours, and maintenance) in the future. The sales and service network will be able to service the installed base of about 600,000 vehicles.

Financial services:

Scania's customer finance operations provide sales support to the truck and bus business by extending financing to retail customers. Financial asset growth has been steady over the past few years, rising to SEK38.3 billion in 2007, from SEK32.9 billion in 2006 and SEK30.5 billion in 2005.

The majority of the group's financial assets are concentrated in Western Europe. Credit losses in 2007 rose to SEK90 million in 2007 from SEK63 million in 2006 (SEK80 million in 2005 and SEK89 million in 2004). However, the write-off ratio of 0.26% in 2007 has not deteriorated and continues to be below the levels observed before 2004 (0.4%-0.6%). The group's absence from the North American market, which has far higher write-offs than are usual in Western Europe, helps its below-industry-average write-off rate. Western Europe also benefits from a mature loan portfolio, higher initial deposits, and better value on collateral. Furthermore, Scania applies a conservative reserve policy to cover potential losses on its existing loan portfolio.

Emission standards and new product launches

Over the past decade, the need for commercial vehicle engines to comply with emission regulations has put increasing pressure on original equipment manufacturers of trucks. Like many of its European peers, Scania introduced engines that comply with the Euro 4 standard far ahead of the effective date of this most recent emission rule (Oct. 1, 2006). Emission reduction regulations are set to become more rigorous over the next few years with the introduction of Euro 5 on Oct. 1, 2009.

In Europe, two competing technologies help manufacturers comply with the required emission reduction rate (notably, to achieve lower particulate matter and nitrogen oxide): selective catalytic reduction (SCR) and exhaust-gas recirculation (EGR). SCR is an aftertreatment technology that cleans exhaust gases by injecting an additive (urea) into the exhaust fumes. EGR does not require an additive or aftertreatment of exhaust fumes. Many European truck manufacturers (including Scania) launched the first Euro-5-compliant engines in 2005, based on the SCR technology. In 2007, Scania was the first truck maker to introduce a heavy-duty engine that meets Euro 5 emission standards using EGR technology. This engine type is expected to meet Euro 6 standards with further

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modifications. We consider it unlikely that Scania's engine portfolio will fail to meet emission standards.

Profitability: Strong sales and pricing power fuel higher EBIT margin in 2007

Sales and earnings are volatile in the heavy truck industry and follow swings in demand linked to the macroeconomic climate. Scania's profitability ranks among the highest in the global truck industry. However, like other players, the group is affected by strong cyclicality, which results in fluctuating EBITDA margins from a low of 5.0% in 1993 to a high of 19.2% in 2007.

In recent years, Scania has recovered steadily from the latest cyclical trough in 2002, reaching an operating margin of 14.4% in 2007, up from 12.4% in 2006 and 10.8% in 2005 (including its captive finance operations). Scania's leading profitability margins reflect its focus on the owner-operator market, which reduces the need for discounting, as well as efficient production processes, thanks to its modular concept.

Like many of its European peers, Scania enjoys high market demand which translates into high capacity utilization and helps it offset rising raw material costs. In 2007, Scania initiated two efficiency improvement projects. First, the company targeted a cost reduction of SEK500 million in its captive sales and service network by 2009, mainly through process improvements. Second, the group concentrated its axle and gearbox production into one plant, with cost savings of about SEK300 million expected by 2009.

We expect profitability to remain high in 2008. We also expect Scania to be able to pass on higher raw material costs, owing to the high capacity utilization in the industry. Scania expects sales to increase by more than 10% annually and has restated its operating margin goal of 12%-15% in the years 2007 to 2009.

Impact of Volkswagen stake on rating assessment

In March 2008, VW acquired an additional 30.62% of voting power in Scania, increasing its holding to 68.60% of voting power and 37.8% of share capital. Subject to expected changes in the board composition that would reflect the new shareholding structure, VW has now effectively taken control of Scania.

Under our ratings criteria, there is now a close link between the ratings on Scania and those on its ultimate parent VW. This is because the degree of affiliation between the two entities is high. Although VW's economic shareholding in Scania is low, it has enough voting power to influence Scania's business risk profile and, more importantly, its financial risk profile. Our view that Scania has effectively become a subsidiary under VW's control is supported by VW's statements about the long-term nature of its investment and its long history as an investor in the company. What's more, other investors are less able to wield control over Scania, given the low proportion of voting shares in the hands of minorities.

Scania complements VW's existing products and brands. Therefore, VW's statements that Scania will operate independently, with no changes at the helm of the company, do not sufficiently convince us of Scania's complete autonomy. As a consequence, we factored in the relationship with VW into the ratings assessment of Scania, although we did not place the ratings on VW and Scania at the same level.

Financial Risk Profile

Accounting

Since 2005, Scania has prepared financial statements under International Financial Reporting Standards (IFRS). When assessing Scania's credit profile, we made a number of adjustments to reported financial information. The

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most significant of which relate to adjustments to reported debt to include an appropriate capitalization of operating leases and any pension deficit.

Table 2

Reconciliation Of Scania (publ.) AB Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. SEK)*

	--Fiscal year ended Dec. 31, 2007--						
	Debt	**Shareholders' equity**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**
Reported amounts	35,358	24,808	16,988	12,164	404	13,303	13,303
Standard & Poor's adjustments							
Operating leases	1,044	--	47	47	47	170	170
Postretirement benefit obligations	3,394	102	8	8	143	(44)	(44)
Surplus cash and near cash investments	(3,334)	--	--	--	--	--	--
Capitalized development costs	--	--	(293)	125	--	(293)	(293)
Deconsolidation/consolidation	(33,525)	(4,789)	(2,235)	(384)	--	(529)	(529)
Reclassification of nonoperating income (expenses)	--	--	--	333	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	177
Minority interests	--	4	--	--	--	--	--
Other	--	--	4	--	--	--	--
Total adjustments	(32,420)	(4,683)	(2,469)	129	190	(696)	(519)
Standard & Poor's adjusted amounts							
	Debt	**Equity**	**EBITDA**	**EBIT**	**Interest expense**	**Cash flow from operations**	**Funds from operations**
Adjusted	2,938	20,125	14,519	12,293	594	12,607	12,784

*Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts. SEK--Swedish krona.

Operating leases:

We capitalized the company's operating lease commitments with a discount rate of 5%, resulting in an adjustment to interest-bearing liabilities of about SEK1 billion. Adjustments for the reclassification of operating expenses to interest expenses totaled SEK47 million and for depreciation, SEK170 million.

Postretirement obligations:

Scania operates a number of defined-benefit and defined-contribution schemes. In 2007, contributions to defined-contribution plans were low. To debt, we added the surplus of defined-benefit pension obligations and other provisions for employee-related benefits (notably health care) of SEK5.2 billion over the fair value of plan assets (SEK1.3 billion).

Surplus cash and near-cash investments:

On Dec. 31, 2007, the company reported a balance of cash and marketable securities of SEK4.1 billion. The total adjusted debt figure includes our estimate of surplus cash, which was netted from the total debt figure. In calculating surplus cash, we considered the amount of available cash the group would need to meet its business needs. We also

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analyzed other consolidated cash balances, which might not be readily accessible to the group. Overall, we deducted SEK800 million from the year-end cash balance to arrive at the level of surplus cash netted from total gross debt.

Capitalized development costs:
In accordance with International Accounting Standard No. 38, the company classifies all research costs as expenses and capitalizes its development costs. To enable a better comparison with companies reporting under U.S. generally accepted accounting principles, under which research and development (R&D) expenditures are not capitalized but fully expensed, we adjusted EBIT, EBITDA, and cash flow numbers. These adjustments expensed all of the development costs and eliminated the effects of capitalization. In 2007, Scania capitalized SEK293 million, representing a capitalization rate of about 11%, which is fairly low compared with that of peers that report under IFRS.

Deconsolidation (captive finance adjustments):
We use our captive finance methodology to analyze industrial companies with captive financial service operations, such as truck makers, automakers, or capital goods companies. The debt of the captive finance company is usually assigned the same rating as that on parent debt because we consider captive finance companies and their operating-company parent to be a single business enterprise. Although the ratings on the captive and the parent are the same, we do not analyze them on a consolidated basis. Instead, we analyze financing activities separately from manufacturing activities to reflect the different types of assets each company possesses. Debt, equity, and earnings (EBIT) are allocated to the parent and captive so that both entities reflect a similar credit quality.

For Scania, we determined a financial services debt leverage factor of 7 to 1 to be appropriate for the rating category, based on the quality of the captive's receivables and lease assets. This implies that SEK33.5 billion of financial debt and SEK4.8 billion of equity covered captive finance assets of SEK38.3 billion at year-end 2007. After deducting captive debt from the consolidated group debt of SEK35.4 billion, an industrial debt of SEK2.1 billion remained, to which we added pension obligations and operating leases.

Furthermore, when calculating the cash flow figures used to determine key ratios, we excluded SEK529 million in cash generated by the captive finance unit.

For an overview of Standard & Poor's methodology for captive finance adjustments see the article "Criteria: Captive Finance Operations," published on Sept. 5, 2006, on RatingsDirect.

Corporate governance/Risk tolerance/Financial policies

Scania maintains a modest financial risk profile. The group is committed to continuing its prudent, predominantly organic growth policy, and is planning to maintain its low industrial indebtedness.

The group's dividend policy is based on the long-term performance of its business, and payouts have ranged from 30% to 50% of net earnings over the past few years, except for 2006, when it paid 64%.

However, we expect Scania to cut back on dividend payouts and return to its historical payout rate of 30%-50% of net earnings if cash flow generation slows due to a cyclical downturn. In 2007, the group paid a special dividend of SEK7 billion. Similarly, the group intends to pay an extraordinary dividend of SEK6 billion in 2008. Although these payouts are higher than those under the company's pre-2006 shareholder remuneration policy, Standard & Poor's does not view the extraordinary dividends as a sharp change of overall financial policy. This is because Scania's leverage has not altered materially as a result of these payouts.

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Cash flow adequacy

Scania has had a very steady operating cash flow stream for a number of years. Positive free operating cash flow generation through the cycle has enabled the company to achieve a low level of indebtedness.

Reported free operating cash flows (excluding financial services) were SEK8.2 billion in 2007 after SEK6.9 billion in 2006 and SEK3.9 billion in 2005. This improvement reflects the favorable market cycle for heavy-duty trucks, which experienced an upswing after the last trough in 2002 and 2003. The group's planned expansion of production capacity to accommodate the long-term plan of producing 100,000 units entails limited capital expenditures of SEK2.0 billion spread over the years 2007-2010. The company expects capital expenditures of 4%-5% of sales in each of the years 2008 and 2009. We expect a slight reduction in cash generation from the high levels seen in 2007. Nevertheless, we expect Scania's debt-protection measures to remain adequate for the rating.

Capital structure/Asset protection

Scania's capital structure has improved in recent years in line with the cyclical upswing in the industry. Total industrial debt (including leases and pensions) accounted for less than 20% of total capital over the past four years. The strong cash flow generation achieved during the cyclical upturn has led to a reduction of industrial indebtedness, despite extra payouts to shareholders. In addition, debt-to-capital ratios are strong for the rating category.

The group's consolidated gross financial indebtedness increased slightly to SEK35.4 billion on Dec. 31, 2007, from SEK34.3 billion in 2006 and SEK28.7 billion in 2005. Most of the reported financial debt stems from Scania's captive finance unit. This means that free cash flow generation comfortably covers fully-adjusted debt in the industrial unit. Underfunded benefit liabilities are significant relative to the group's industrial indebtedness (including leases), at about SEK3.4 billion after tax, and add to overall debt leverage. Cash payments to retirees are manageable.

The ratings factor in Scania's moderate level of net debt. To maintain the ratings at their current level, Standard & Poor's expects the group to continue to preserve its financial structure through the cycle.

Table 3

Scania (publ.) AB--Peer Comparison*

	Scania (publ.) AB	Volvo (publ), AB	MAN AG	SKF, AB
Corporate credit rating¶	A-/Stable/A-2	--/--/A-2	A-/Stable/A-2	A-/Stable/--
(Mil. €)	**--Average of past three fiscal years--**			
Revenues	7,843	27,143	13,312	5,778
Net income from continuing operations	687	1,591	787	447
Funds from operations (FFO)	1,038	2,504	967	649
Capital expenditures	489	885	411	226
Debt	273	600	534	731
Equity	2,245	7,896	3,863	2,049
Adjusted ratios				
Operating income (before D&A)/revenues (%)	16.0	10.1	9.9	15.1
EBIT interest coverage (x)	15.8	14.5	8.5	11.9
EBITDA interest coverage (x)	19.3	19.2	9.8	14.1
Return on capital (%)	37.1	23.8	23.5	25.9

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Table 3

Scania (publ.) AB--Peer Comparison* (cont.)				
FFO/debt (%)	375.3	410.0	181.3	88.8
Debt/EBITDA (x)	0.2	0.2	0.4	0.9
Total debt/debt plus equity (%)	11.0	7.2	12.1	26.3

*Fully adjusted (including postretirement obligations). Excess cash and investments netted against debt. ¶As of June 19, 2008.

Table 4

Scania (publ.) AB--Financial Summary*			
	--Fiscal year ended Dec. 31--		
(Mil. $)	**2007**	**2006**	**2005**
Total revenues	84,486	70,738	63,328
Net income from continuing operations	8,554	5,939	4,665
Funds from operations (FFO)	12,784	10,024	6,108
Capital expenditures	5,147	4,610	3,904
Total debt	2,938	227	4,540
Common equity	20,125	22,279	20,059
Adjusted ratios			
Operating income/sales (before D&A) (%)	17.4	16.0	14.1
EBIT interest coverage (x)	20.7	14.7	11.9
EBITDA interest coverage (x)	24.4	18.2	15.1
Return on capital (%)	49.5	34.9	27.1
FFO/total debt (%)	435.2	4,407.8	134.5
Total debt/EBITDA (x)	0.2	0.0	0.5

*Fully adjusted (including postretirement obligations). Excess cash and investments netted against debt. Excess cash and investments netted against debt.

Ratings Detail (As Of June 19, 2008)*	
Scania (publ.) AB	
Corporate Credit Rating	A-/Stable/A-2
Commercial Paper	
Nordic National Scale Rating	K-1
Senior Unsecured	A-
Corporate Credit Ratings History	
25-Jul-2007	A-/Stable/A-2
14-Sep-2006	A-/Watch Neg/A-2
01-Jun-2004	A-/Stable/A-2
Business Risk Profile	Strong
Financial Risk Profile	Modest

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Ratings Detail (As Of June 19, 2008)***(cont.)**

Debt Maturities

(As of Dec. 31, 2007)
2008: SEK15.1 bil.
2009: SEK7.7 bil.
2010: SEK3.2 bil.
2011: SEK6.6 bil.
2012 and thereafter: SEK2.5 bil.

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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