STANDARD & POOR'S

RatingsDirect®

July 16, 2009

Scania (publ.) AB

Primary Credit Analyst:
Werner Staeblein, Frankfurt (49) 69-33-999-130; werner_staeblein@standardandpoors.com

Secondary Credit Analyst:
Andreas Zsiga, Stockholm (46) 8-440-5936; andreas_zsiga@standardandpoors.com

Table Of Contents

Scania (publ.) AB

Major Rating Factors

Corporate Credit Rating
A-/Watch Neg/A-2
South African National Scale
--/--/zaA-1

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, Argentina)

Rationale

The ratings on Sweden-based truck and bus manufacturer Scania (publ.) AB (Scania) reflect the group's strong business profile and modest financial risk, according to Standard & Poor's Ratings Services criteria. 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.

Key business and profitability developments

Scania's results for the first quarter of 2009 showed a sharp decline in profitability due to a considerable drop in unit sales. The EBIT margin in industrial operations was down drastically to 3.2% compared with the peak-of-the-cycle margins in the years 2006-2008 (EBIT margins in industrial operations were 13.6% in 2008, 13.8% in 2007, and 11.7% in 2006). The mildly positive margin in the first quarter of 2009 was mostly supported by Scania's service business. The outlook for Scania's markets is bleak and we continue to expect that its operating profit will contract sharply in 2009 compared with 2008. We do, however, believe that Scania can achieve a positive low-single digit EBIT margin in its industrial business in 2009, reflecting the company's cost flexibility and solid share of less cyclical earnings from its service unit.

Key cash flow and capital-structure developments

Free operating cash flow (FOCF) in industrial operations was positive at Swedish krona (SEK) 0.8 billion due to a reduction of working capital, notably inventory. For 2009, we expect Scania to report positive FOCF at about the level of this year's dividend payment (SEK2 billion). In 2008, Scania's credit protection measures, such as funds from operations (FFO) to debt of 46% and debt to EBITDA of 0.9x were commensurate with the rating. However, rapidly weakening business conditions have made Scania vulnerable to the downturn. Hence, financial ratios should deteriorate in 2009, although we estimate that credit protection measures are still commensurate with the current rating.

Short-term credit factors

The short-term rating is 'A-2'. Standard & Poor's considers Scania's liquidity and financial flexibility to be adequate. It is enhanced by two committed revolving credit facilities (RCF) of €1 billion each. In early 2008, Scania upsized its old €500 RCF to €1 billion. This new facility is due in January 2013 with a two-year renewal option. The second RCF is due in May 2012. As of March 2009, Scania had access to unutilized committed credit facilities of SEK36.5 billion. Committed facilities were received from a broad variety of banks. For its financial services unit, Scania pursues the policy to have dedicated financing that covers the estimated demand for funding during the subsequent year. The bank lines are not subject to financial covenants or rating triggers. The company's liquidity position is underpinned by access to medium-term note and commercial paper programs. In addition, in its industrial unit the company reported cash and short-term investments of SEK5.9 billion as of March 31, 2009. Short-term maturities in the industrial unit are covered with existing financial flexibility. We expect Scania to report a positive FOCF in 2009.

CreditWatch

On May 8, 2009, Standard & Poor's placed its 'A-' long-term and the 'K-1' short-term Nordic national scale rating on Scania on CreditWatch with negative implications, reflecting our concern about the potential impact on Scania's credit quality as a result of the restructuring at Volkswagen AG (VW; A-/Watch Neg/A-2).

Our CreditWatch listing on Scania, of which VW owns 46% of the capital and 71% of the voting shares, is based on Standard & Poor's parent-subsidiary rating criteria and reflects the possibility that we could lower our opinion of Scania's credit quality as a result of the VW group's restructuring. This could result from a change in Scania's financial or business profile if it becomes directly involved in the VW group's restructuring. We could also downgrade Scania if we perceive, under our parent-subsidiary rating criteria, that Scania will remain subject to group risk through VW's exercise of its voting power or through other means of influence, in the absence of offsetting protective measures and incentives. At this stage, we expect that in such a case our rating on Scania will unlikely be higher than that on VW.

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, Scania is dominated by its truck operations (see chart 1). Europe is the group's major market (see chart 2).

Chart 1

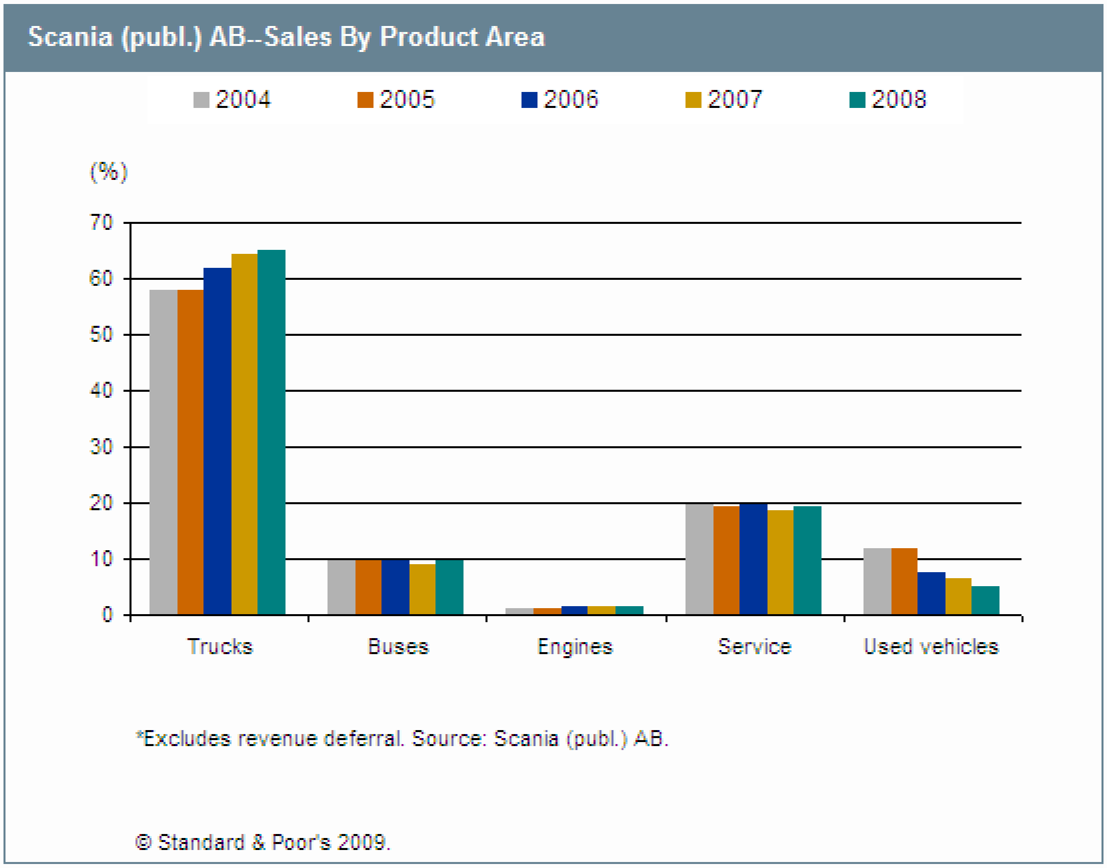
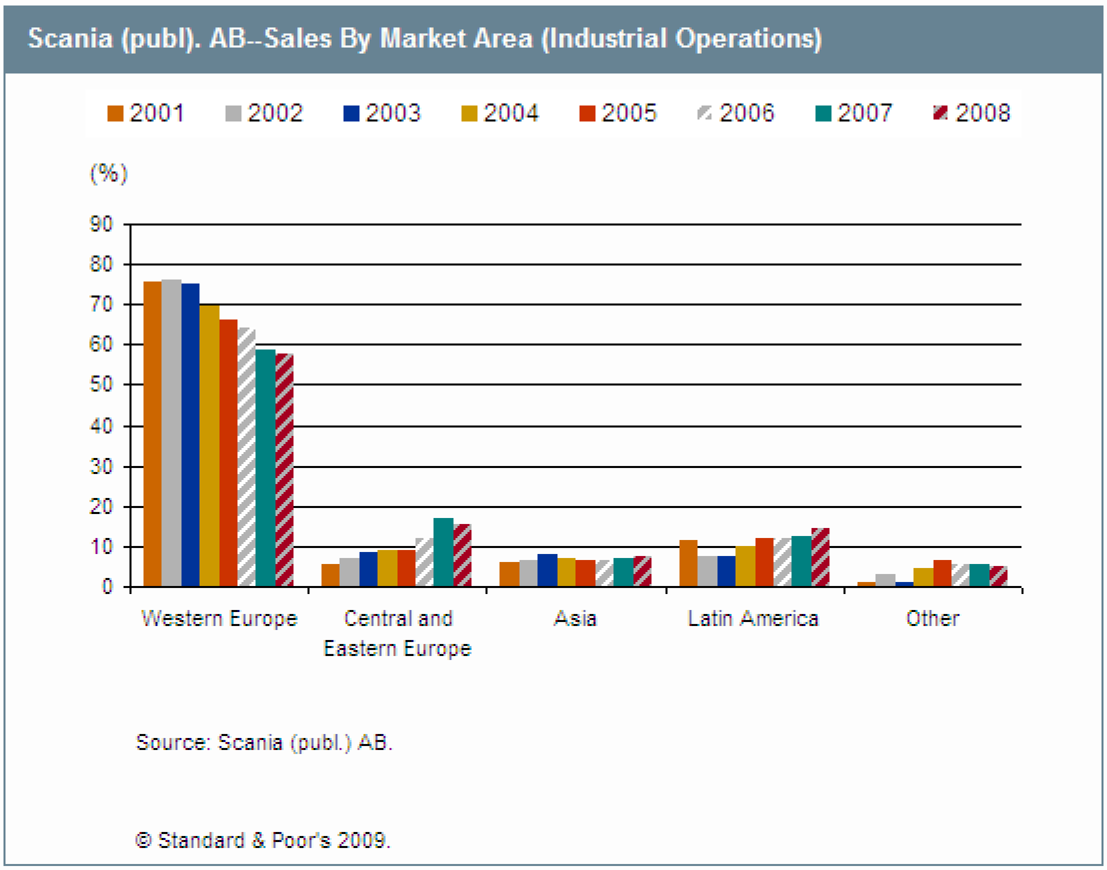

Scania (publ.) AB--Sales By Product Area
2004
2005
2006
2007
2008
(%)
70
60
50
40
30
20
10
0
Trucks
Buses
Engines
Service
Used vehicles
*Excludes revenue deferral. Source: Scania (publ.) AB.
© Standard & Poor's 2009.

Chart 2



Business Profile: Strong Profitability Track Record And Good Resilience Against Cyclical Industry Swings

Trucks: Exclusive focus on heavy-duty trucks supports profitability

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

Scania is Europe's only pure producer of heavy-duty trucks (HDTs), that is, 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 more 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.

Scania has the most advanced modular product system in the truck industry. As a result, the group has established the lowest number of individual parts that can be used for different vehicle specifications. This allows vehicles to be tailored to an individual customer's needs while still benefiting from economies of scale in development, production, and maintenance. In early 2008, Scania started to assemble its P-, G-, and R-series trucks in Latin America. As a result, the company now offers the same truck range in the 100 or so markets where it operates, which provides an additional increase in production flexibility.

Scania's largest market is Western Europe, with about 51% of total HDT deliveries in 2008 (after 52% in 2007, 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 its presence in Central and Eastern European countries. The volume sold in this region (19% of deliveries in 2008 versus 21% in 2007, 15% in 2006, and 11% in 2005) is larger than the volume delivered in South America, where the company continues to hold leading market shares, notably in Brazil. Total deliveries of HDTs in 2008 were down about 3% to 66,516 units, notably due to a sudden decline of unit volume in the fourth quarter.

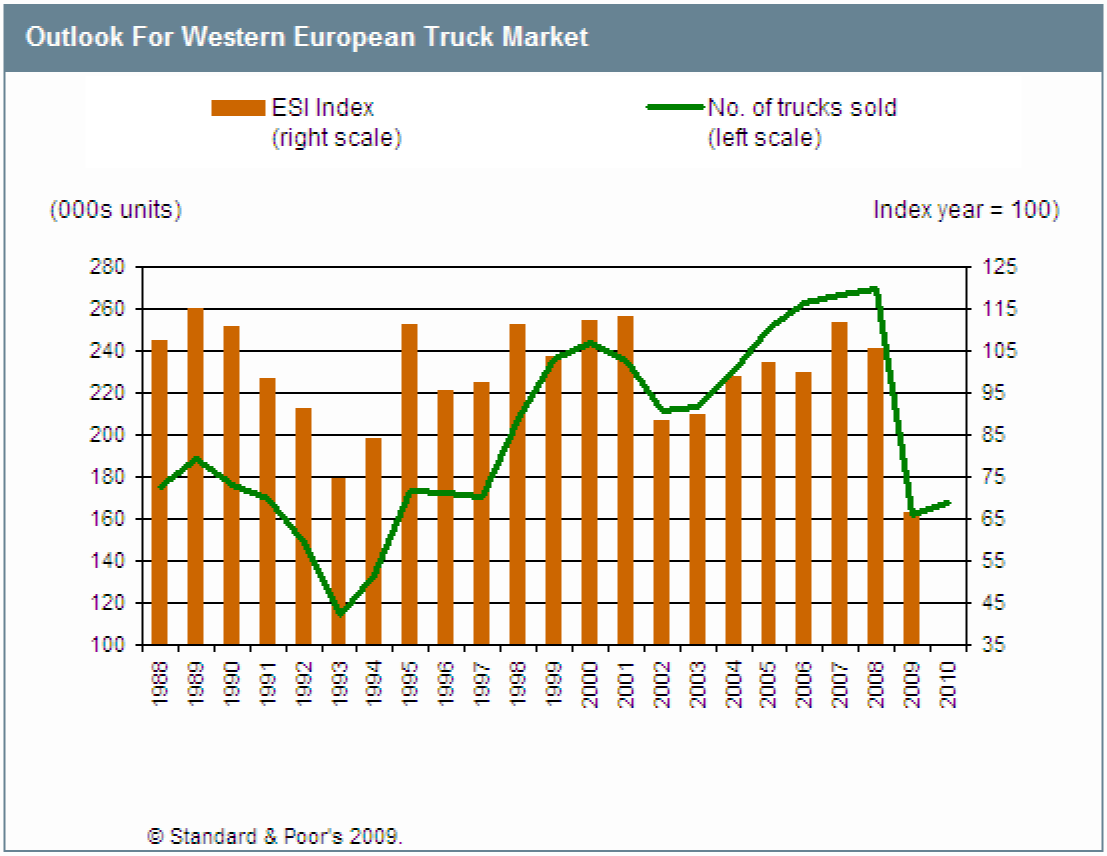
Scania's growth has been organic in the past, with some minor bolt-on acquisitions mostly to complement the distribution network. We expect the group to continue its organic growth strategy in the future.

As a result of precipitously declining order intake, Scania has lowered its truck production rate for 2009, mainly by reducing temporary staff in the manufacturing organization. Delivery times for trucks have returned to usual levels of about three to four months, following a strong cyclical upswing in the industry from 2006 to late 2008. Scania's order intake in the first quarter of 2008 was down 74% year on year and we expect the company's total number of deliveries to decline sharply in 2009.

Outlook for European HDT market

Registrations of HDTs in Europe declined 42% year on year in the first quarter of 2009. This is in line with the considerable declines in order intake that truck makers had reported in the last months of 2008. Order levels for HDT continue to be affected by cancellations and transport companies' problems obtaining financing for new vehicles. Low utilization of truck customers' fleets continues to lead to investment deferrals.

Chart 3



The unfavorable outlook for the European HDT market is backed by statistical evidence. Chart 3 compares the EU Economic Sentiment Indicator (ESI) one-year forward with the truck volume of the respective year. The ESI reading from December 1992 is plotted against the market size of 1993. Over the past 18 years, there has been a strong correlation between the ESI and the market development for HDTs. The most recent ESI readings support the view that the HDT market in Western Europe will likely decline considerably in 2009. At this juncture, Standard & Poor's expects the market to fall by about 40%-45% year on year in 2008. This includes the assumption of a gradual economic recovery in late 2009. As a reference, Volvo expects the European HDT market (including CEE) to decline by about 50% in 2009.

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 competitive pressures, and industry-wide overcapacity. All industry players have taken steps to cope with these difficulties, notably by relocating labor-intensive assembly work to low-cost countries. Scania offers a wide range of buses and coaches from chassis to fully built buses, although the majority of bus production is chassis production with a subsequent outsourcing of final assembly through independent bus body-builders. The group is the world's fourth-largest bus manufacturer in the heavy bus segment behind Daimler, Volvo, and Germany-based MAN AG (A-/Stable/A-2).

Industry participants such as MAN and Volvo are struggling to improve their profitability in buses, and industry-wide profitability remains generally fairly low with profit margins (EBIT) of about 2%-4%. This is, in part, attributable to lower component commonality in the bus industry than in the truck or even passenger-car industry. Scania leads the market in terms of 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 bodybuilding operations have contributed to Scania's successful turnaround of its bus operations.

Other business areas

Service products:

In 2008, these made up about 18% of Scania's net sales (versus 18% in 2007 and 19% in 2006) and consisted mainly of parts, repairs, and maintenance. Scania has about 1,500 service points globally, of which about one-third are owned. The installed base that can be served through the sales and service network is about 600,000 vehicles. In 2008, higher volumes and prices supported services revenues. However, we expect the service-related business (parts, workshop hours, maintenance) likewise to decline in 2009, albeit to a considerably lesser extent than deliveries of new trucks.

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 SEK47.2 billion in 2008 from SEK38.3 billion in 2008, and SEK32.9 billion in 2007.

The vast majority of the group's financial assets are concentrated in Western Europe. Bad debt expenses, including provisions for bad debts, increased considerably in 2008 to SEK227 million after SEK90 million in 2007, SEK63 million 2006, SEK80 million in 2005, and SEK89 million in 2004. The increase is mostly related to a higher level of overdue payments with related provisioning for potential credit losses. The write-off ratio on the average portfolio size of 0.53% in 2008 is considerably higher than the 0.26% from 2007 and about in line with levels observed prior to 2004 (0.4%-0.6%) when economic conditions were likewise weak.

Scania's write-off rates are better than the industry average. This is helped by the group's absence from the North American market, which has much higher write-offs than is usual in Western Europe. Western Europe also benefits from a mature portfolio, higher initial deposits, and better value on security. Furthermore, Scania engages in a conservative reserve policy to cover potential future losses on the existing portfolio.

Profitability: EBIT margin expected to decline considerably in 2009 due to lower vehicle volume and lower services business

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, resulting in a variation in reported operating margins after depreciation (EBITDA) to a high of 18% in 2007 from a low of 5% in 1993. In the years 2004 to 2008, Scania recovered steadily from the last cyclical trough in 2002, reaching an operating margin (EBIT) of 14.1% in 2008 after 14.4% in 2007, 12.4% in 2006, and 10.8% in 2005 (including captive finance operations).

In 2008, Scania benefited from positive mix effects and the effect of price increases implemented over the course of 2007 and 2008. Scania's leading profitability margins reflect both a focus on the owner-operator market (lower need for discounting) and efficient production processes that result from the modular concept. The group concentrated its axle and gearbox production in one plant in 2007, with cost savings of about SEK300 million by 2009.

For 2009, we expect a very considerable decline in profitability. An expected sharp decline in unit volume and very low capacity utilization should lead to considerable cost under-absorption. This, combined with lower volumes in the services business will, in our view, drag down the EBIT margin to levels observed in 1993 and 1994. In the first quarter of 2009, the reported EBIT margin in the industrial unit was 3% and we expect Scania to achieve a low single-digit EBIT margin in 2009. Scania has not provided an earnings outlook for 2009. Prior to the onset of the financial downturn, the medium-term goal of the company was an EBIT margin of 12%-15%, which in view of the drastically changed demand situation, is now unlikely to be achieved.

Financial Risk Profile: Conservative Financial Policies And Positive Free Cash Flow Through The Cycle

Despite the expected marked decline in business activity in 2009, we believe that Scania is able to maintain a modest financial risk profile thanks to its financial policies and ability to generate very modest free operating cash flow in the current downturn.

Accounting

Since 2005, Scania has prepared financial statements under International Financial Reporting Standards. When assessing Scania's credit profile, Standard & Poor's makes a number of adjustments to reported financial information (see table 1).

We make the following debt-related adjustments:

- Operating leases/postretirement benefit obligations: Operating lease obligations are capitalized and treated as debt. Postretirement liabilities are added as a debt-like liability in adjusted financial ratio calculations;
- Surplus cash: Our total adjusted debt figure for the group includes our estimate of surplus cash, which is netted from the total debt figure. Our calculation of surplus cash factors in the level of cash we consider appropriate to remain available to meet the group's business needs, and includes analysis of other consolidated cash balances that might not be immediately accessible by the group. The cash amount that was not credited against debt is SEK800 million.
- Deconsolidation (Captive Finance Adjustments): We use our captive finance methodology as a tool to facilitate the analysis of 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 parent debt because captive finance companies and their operating company parents are viewed as a single business enterprise. Although the ratings on the captive and the parent are equalized, the two are not analyzed on a consolidated basis. Rather, the analysis separates financing activities from manufacturing activities and analyzes each separately, reflecting the different types of assets they possess. 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 as appropriate for the rating category, based on the quality of the captive's receivables and lease assets. This implies that captive-finance assets of SEK47.2 billion at year-end 2008 are covered by SEK41.3 billion of financial debt and SEK5.9 billion of equity. Furthermore, when calculating the cash flow figures used for key ratio purposes, we do not include cash generated by the captive finance unit (SEK701 million). For an overview of Standard & Poor's methodology for captive finance adjustments, see "Captive Finance Operations," published on Sept. 5, 2006, on RatingsDirect.

We make the following earnings and cash flow-related adjustments:

- Capitalized development costs: The adjustment eliminates the effects of capitalization and adjusts EBIT, EBITDA, and cash-flow numbers. This adjustment treats capitalized development costs as an ongoing expense. At the same time, the capitalization is reversed by a negative adjustment for capital expenditures.

Table 1

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

	--Fiscal year ended Dec. 31, 2008--					
Scania (publ.) AB reported amounts						
	Debt	**Shareholders' equity**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**
Reported	53,646	21,937	17,594	12,512	579	7,861
Standard & Poor's adjustments						
Operating leases	1,114	--	54	54	54	207
Postretirement benefit obligations	4,009	38	31	31	169	-99
Surplus cash and near cash investments	-3,869	--	--	--	--	--
Capitalized development costs	--	--	-202	272	--	-202
Deconsolidation / Consolidation	-41,318	-5,903	-2,253	-468	--	-701
Reclassification of nonoperating income (expenses)	--	--	--	372	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	4,100
Minority interests	--	1	--	--	--	--
Share of income in associates	--	--	-9	--	--	--
Total adjustments	-40,063	-5,863	-2,379	261	223	3,304
Standard & Poor's adjusted amounts						
	Debt	**Equity**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**
Adjusted	13,583	16,074	15,215	12,773	802	11,165

*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 ope

Corporate governance/Risk tolerance/Financial policies

The group is committed to continuing its prudent, predominantly organic, growth policy, and is planning to maintain low industrial indebtedness, as evidenced by a 50% reduction of dividend payouts for 2008. The dividend policy is based on the long-term performance of the group's business, and payouts were in a range of 30%-50% of net earnings over the past few years (except for 2006 with 64%). For 2008, the payout ratio is 22%. The reduced payout ratio is in line with our previous expectation that Scania would cut back on dividend payments and return to its historical payout rate of net earnings if cash flow generation slowed down to a cyclical downturn.

In 2007, the group paid a special dividend of SEK7 billion. For 2008, the group likewise paid out an extraordinary dividend of SEK6 billion. Even though these payouts are more aggressive than the shareholder remuneration policy prior to 2006, Standard & Poor's does not view the extraordinary dividends as a sharp change of the overall financial policy since Scania has not materially changed its leverage as a result of these payouts.

For its industrial operations, Scania has formulated sufficiently prudent liquidity goals. For these operations, the company wants to keep a liquidity reserve (cash and unutilized credit facilities) that exceeds the funding needs for the next two years (excluding funding needs of financial services). For its financial services unit, Scania formulated the goal that there should be dedicated financing available covering the estimated demand in funding for the coming 12 months. As of the first quarter of 2009, these financial goals were met.

Cash flow adequacy: Positive FOCF generation through the cycle

Scania's operating cash flow stream has been very steady for a number of years. Positive FOCF generation through the cycle enabled the company to achieve a low level of indebtedness in the years 2004-2007. Nevertheless, debt increased in 2008, primarily due to the special dividend payout (SEK6 billion).

Reported FOCF (excluding financial services) was SEK1.8 billion in 2008, down from SEK8.2 billion in 2007, SEK6.9 billion in 2006, and SEK3.9 billion in 2005. The FOCF figures for 2005 to 2007 reflect the favorable market cycle for HDTs, which began an upswing after the last cyclical trough in 2002/2003. The marked decline in 2008 followed a considerable build-up of working capital and slightly higher capital expenditures (about 6% of sales) compared with previous years.

In the first quarter of 2009, Scania achieved FOCF of about SEK800 million. However, we expect FOCF for 2009 to be considerably below the peak-of-the-cycle amounts reported in 2005-2007.

Capital structure/Asset protection: Heading into industry downturn with moderate financial leverage

Scania's capital structure improved in the period 2005 to 2007, supported by the cyclical upswing in the industry. Industrial indebtedness in 2008 increased primarily due to the one-time dividend. Consequently, total industrial debt (including leases and pensions) accounted for 46% of total capital, having been below 20% in the more prosperous years preceding 2008. Gross financial debt on a group level increased to SEK53.6 billion as at Dec. 31, 2008, after SEK35.4 billion for 2007, and SEK34.3 billion for 2006. To a certain extent, the marked increase in financial indebtedness in 2008 is attributable to the deterioration of the Swedish krona against the euro and the dollar. Most of the reported financial debt is allocated to Scania's captive finance unit.

Underfunded benefit liabilities are significant relative to the group's industrial indebtedness (including leases), at about SEK4 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 adhering to its financial structure through the cycle.

Table 2

Scania (publ.) AB -- Peer Comparison*

	Scania (publ.) AB	Volvo (publ), AB	MAN AG	SKF, AB
Corporate credit rating¶	A-/Watch Neg/A-2	BBB+/Negative/A-2	A-/Stable/A-2	A-/Stable/--
(Mil. €)	**--Fiscal year ended Dec. 31, 2008--**			
Revenues	8,089	26,835	14,945	5,760
Net income from cont. oper.	808	904	1,141	420
Funds from operations (FFO)	1,016	1,936	1,939	567
Capital expenditures	633	1,467	806	264
Debt	1,235	4,620	633	1,590
Equity	1,461	5,781	4,925	1,786

Table 2

Scania (publ.) AB -- Peer Comparison* (cont.)				
Adjusted ratios				
Oper. income (bef. D&A)/revenues (%)	17.3	9.2	13.9	15.3
EBIT interest coverage (x)	15.9	7.5	22.0	8.3
EBITDA interest coverage (x)	19.0	11.5	23.5	8.7
Return on capital (%)	45.9	16.0	31.1	26.5
FFO/debt (%)	82.2	41.8	306.2	35.5
Debt/EBITDA (x)	0.9	1.9	0.3	1.9
Total debt/debt plus equity (%)	45.8	44.4	11.4	47.1

*Fully adjusted (including postretirement obligations). Excess cash and investments netted against debt. ¶As of July 16, 2009.

Table 3

Scania (publ.) AB -- Financial Summary*					
Industry Sector: Automotive - OEM'S					
	--Fiscal year ended Dec. 31--				
(Mil. SEK)	**2008**	**2007**	**2006**	**2005**	**2004**
Rating history	A-/Stable/A-2	A-/Stable/A-2	A-/Watch Neg/A-2	A-/Stable/A-2	A-/Stable/A-2
Revenues	88,977	84,486	70,738	63,328	56,788
Net income from continuing operations	8,890	8,554	5,939	4,665	4,314
Funds from operations (FFO)	11,165	12,784	10,024	6,108	6,986
Capital expenditures	7,117	5,147	4,610	3,904	3,010
Debt	13,583	2,938	227	4,540	3,777
Equity	16,074	20,125	22,279	20,059	18,108
Adjusted ratios					
Oper. income (bef. D&A)/revenues (%)	17.3	17.4	16.0	14.1	14.4
EBIT interest coverage (x)	15.9	20.7	14.7	11.9	12.9
EBITDA interest coverage (x)	19.0	24.4	18.2	15.1	16.6
Return on capital (%)	45.9	49.5	34.9	27.1	26.6
FFO/debt (%)	82.2	435.2	4,407.8	134.5	184.9
Debt/EBITDA (x)	0.9	0.2	0.0	0.5	0.5
Debt/debt and equity (%)	45.8	12.7	1.0	18.5	17.3

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

Ratings Detail (As Of July 16, 2009)*	
Scania (publ.) AB	
Corporate Credit Rating	A-/Watch Neg/A-2
South African National Scale	--/--/zaA-1
Commercial Paper	
Nordic National Scale Rating	K-1/Watch Neg
Senior Unsecured (10 Issues)	A-/Watch Neg
Corporate Credit Ratings History	
08-May-2009	A-/Watch Neg/A-2
25-Jul-2007	A-/Stable/A-2

Ratings Detail (As Of July 16, 2009)***(cont.)**		
14-Sep-2006		A-/Watch Neg/A-2
03-Jun-2009	*South African National Scale*	--/--/zaA-1
Business Risk Profile		Strong
Financial Risk Profile		Modest
Debt Maturities		
At Dec. 31, 2008 2009: SEK27.4 bil. 2010: SEK 9.2 bil. 2011: SEK8.8 bil. 2012: SEK3.8 bil. 2013 and thereafter: SEK 3.8 bil.		
Related Entities		
Scania CV AB		
Senior Unsecured (1 Issue)		A-/Watch Neg

*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.

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

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