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**Summary:**  
**Scania (publ.) AB**

**Primary Credit Analyst:**

Werner Staebelin, New York (1) 212-438-5031; werner\_staebelin@standardandpoors.com

**Secondary Credit Analysts:**

Maria Bissinger, Frankfurt (49) 69-33-999-120; maria\_bissinger@standardandpoors.com  
Andreas Zsiga, Stockholm (46) 8-440-5936; andreas\_zsiga@standardandpoors.com

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## Summary:

# Scania (publ.) AB

**Credit Rating:** A-/Stable/A-2

## 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. 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 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 volatility and difficult, although somewhat improving, environment of the global bus industry.

Results for the first six months of 2007 showed a continuation of Scania's strong earnings performance. The group's EBIT was 14.7% compared with 11.8% in the comparable period, reflecting a higher capacity utilization as a result of increased production volume. EBIT in industrial operations was 14% versus 11% in the comparable period. Free cash flow in the industrial operations was Swedish krona (SEK)2.9 billion versus SEK1.8 billion in the first half of 2006 and SEK6.9 billion in full-year 2006. Gross financial debt in industrial operations was SEK6.5 billion as of June 30, 2007.

Truck order bookings remain strong, notably with order intake from Eastern Europe. Given the favorable demand situation, we expect Scania to be able to maintain its overall high levels of profitability in 2007. Scania announced price increases effective April 2007 with further price hikes expected for September. High capacity utilization and strong market demand should continue to allow for a favorable pricing environment over the medium term.

## Liquidity

Standard & Poor's considers Scania's liquidity and financial flexibility to be strong. It is enhanced by two committed revolving credit facilities of €1 billion and €500 million due May 2012 and July 2009, 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 SEK3.9 billion at June 30, 2007. Positive free cash flows through the cycle and 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 ability to generate free cash flows through the cycle, which limits downside risk. In line with Scania's historical practice, we expect that it will continue its predominantly organic growth strategy. Major acquisitions are not factored into the ratings. The industry's tough competitive environment and cyclical demand restrict upside ratings potential.

**Additional Contact:**

Industrial Ratings Europe; CorporateFinanceEurope@standardandpoors.com

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