STANDARD & POOR'S
RATINGS SERVICES

Research

Scania (publ.) AB

Primary Credit Analyst:
Michael Andersson, Stockholm (46) 8-440-5930; michael_andersson@standardandpoors.com

Secondary Contact:
Werner Staeblein, Frankfurt (49) 69-33-999-130; werner_staeblein@standardandpoors.com

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Scania (publ.) AB

Major Rating Factors

Strengths:

- Leading market positions in Europe and South America in the manufacture of heavy trucks and buses.
- Up-to-date product range and the highest degree of component commonality in the global truck industry.
- A conservative financial policy and a modest financial risk profile.
- Very strong profitability relative to peers', and good financial flexibility.

Corporate Credit Rating
A-/Positive/A-2
South African National Scale zaAA+/--/zaA-1

Weaknesses:

- Operations within industries characterized by high volatility and high capital intensity.
- Sizable operations in regions that might be susceptible to economic and political instability, such as Brazil.

Rationale

The ratings on Sweden-based truck and bus manufacturer Scania (publ.) AB reflect the group's "satisfactory" business profile and "modest" financial risk, according to Standard & Poor's Ratings Services' criteria. The ratings are supported by Scania's very strong profitability in the global truck industry. However, they also reflect the strong cyclicality of the group's operating earnings. 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.

Volkswagen AG (VW; A-/Positive/A-2) owns a controlling stake in Scania. We therefore apply a top-down approach to rating Scania, in line with our parent-subsidiary criteria. We assess Scania's stand-alone credit profile at 'a-'. The corporate credit ratings are capped by that on the parent, VW.

S&P base-case operating scenario

Under our base case, we expect Scania to record declining sales in 2012, owing to a shrinking European heavy truck market that has been hampered by slowing economies. In addition, we anticipate a weaker market in Brazil this year because of a slowing economic environment and introduction of new emissions legislation. This will negatively affect Scania's sales volumes given that Europe and South America combined make up some 75% of Scania sales.

We also expect Scania's very strong operating profit margin (14% reported in 2011) to come under some pressure because of weaker demand and lower production. However, Scania has historically demonstrated strong production flexibility and solid aftermarket and service revenues. We therefore expect the EBIT margin to remain in the range of 10%-12%, which still exceeds the industry average.

S&P base-case cash flow and capital structure scenario

According to our base-case scenario, Scania should be able to produce funds from operations (FFO) of Swedish krona (SEK) 8 billion-SEK10 billion in 2012 (€930 millions-€1.2 billion), which is lower than the SEK13 billion reported for 2011. However, given that Scania's industrial operations are in a solid net cash position with cash and cash equivalents

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of more than SEK9 billion, we expect Scania's balance sheet to remain very strong in 2012. Consequently, we anticipate Scania's reported credit measures will far exceed those we regard as commensurate with a modest financial risk profile. We consider the indicative ratios for a modest financial profile to be adjusted FFO to debt of more than 45% and adjusted debt to EBITDA of 1.5x-2.0x.

Liquidity

The short-term rating is 'A-2'. We consider Scania's liquidity and financial flexibility to be "strong" as defined in our criteria. As of Sept. 30, 2012, the company's industrial unit reported liquidity sources consisting of:

- Cash and liquid assets of SEK9.3 billion (about €1,080 million), of which we consider SEK8.5 billion to be excess cash;
- Two committed revolving credit facilities of €1 billion each, one due 2016, the other extended to 2017 as of April 2012. To our knowledge, the bank lines are not subject to financial covenants or rating triggers;
- Two additional committed lines totaling SEK10.0 billion, both due in 2017; and
- Our expectation of FFO of more than SEK8 billion annually from 2012.

These sources compare with expected near-term liquidity uses totaling SEK16.7 billion, comprising debt maturing in the coming 12 months, the majority of which are tied to the financial service operations. In its financial services unit, Scania pursues a policy of having dedicated financing that covers estimated funding needs during the subsequent year.

Outlook

The positive outlook on Scania reflects that on VW in line with our parent-subsidiary criteria. Accordingly, we could revise the outlook on Scania if we were to revise that on VW. A negative rating action on VW could trigger a similar action on Scania. Furthermore, VW's strategic business decisions, such as those leading to potentially closer cooperation between German subsidiary MAN SE (A-/Positive/A-2), Scania, and VW's own truck division could affect Scania's stand-alone credit profile.

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 operations dominate Scania's business. Despite strong growth in South America in recent years, Europe remains the group's major market.

Business Risk Profile: A Track Record Of Strong Profitability And Efficient Manufacturing Processes

The major supports for Scania's "satisfactory" business risk profile are:

- Leading market positions in Europe and Latin America in the manufacture of heavy trucks and buses. Scania ranks as on of the largest heavy-truck producers globally, behind Daimler AG (A-/Stable/A-2), AB Volvo (BBB/Stable/A-2; Nordic national scale --/--/K-2), and PACCAR Inc. (A+/Stable/A-1). It has a market-leading

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position in South America, notably Brazil. Scania's largest market is Western Europe, where it contributed about 44% of total heavy-truck deliveries in 2011 and has had a relatively stable market share of about 13%-14% over the past six years. Latin America is the second-largest market with 24% of the truck deliveries, while Asia, Eurasia, Africa, and Oceania make up the remaining 32%.

- Strong profitability. We don't expect the operating margin to fall to less than 4%-5% at the bottom of the cycle, reflecting Scania's focus on the owner-operator market (which has a lower need for discounting) and the efficiency resulting from the modular concept. Over the past 10 years, Scania's EBIT margin has been the highest in the global truck industry. Heavy-duty trucks dominate Scania's production and contribute to the group's superior margins because they are generally more profitable than light trucks, although they also increase the cyclicality of revenues. Industry-wide profitability in bus production remains generally low, reflected in EBIT margins of 2%-4%.
- The most advanced modular production system in the truck industry. This means Scania uses the lowest number of individual parts for different vehicle specifications. This allows Scania to tailor vehicles to individual customers' needs, but still benefit from economies of scale.
- Production flexibility. 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 in which it operates, providing additional production flexibility.
- A strong position in the heavy bus segment, although this is a low-profit industry. Scania is No. 4 in this market, behind Daimler, Volvo, and MAN. Scania offers a wide range of bus and coach products from chassis to fully built buses. However, the bus segment mainly produces bus chassis, and Scania subsequently outsources final assembly through independent bus body builders. The group leads the market in extending its modular concept to buses and has achieved high integration of the truck and bus segments.

These supports, however, may be challenged by:

- High volatility of operations and operating profits. Sales and earnings in the heavy truck industry are volatile and follow swings in demand that are linked to the macroeconomic climate.
- Sizable operations in regions that might be susceptible to economic and political instability (notably in Brazil).
- A structurally problematic bus industry, which has 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. However, all the industry players have taken steps to cope with these difficulties, notably by relocating labor-intensive assembly work to low-cost countries.

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

The main strengths of Scania's "modest" financial risk profile are, in our view:

- A conservative financial policy, as shown by an organic growth strategy, conservative reserve policy, and prudent liquidity goals.
- Good financial flexibility. Scania has set sufficiently prudent liquidity goals for its industrial operations. As we understand, it intends to hold a liquidity reserve (cash and unutilized credit facilities) that exceeds its funding needs for the next two years (excluding the financial services businesses). For its financial services unit, Scania intends to have dedicated financing to cover the estimated funding demand for the subsequent 12 months.
- A historically organic growth strategy, with some minor bolt-on acquisitions mainly to complement the distribution network. We expect the group to continue its prudent, predominantly organic, growth policy in the future.
- Lower write-off rates than the industry average. This is helped by the group's absence from the North American

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market, which has much higher write-offs than is usual in Western Europe. Scania's average write-off ratio of in 2011 was 0.76%, clearly lower than 1.9% in the crisis year of 2009.
- Mature portfolios, higher initial deposits, and better value on security. This is because the majority of the group's financial services assets are concentrated in Western Europe.
- Conservative reserving to cover potential future losses on the existing financial services portfolio.
- Ability to generate positive free operating cash flow (FOCF) through the cycle. Scania's operating cash flow stream has been steady for a number of years. Positive FOCF generation through the cycle enabled the company to report low debt in 2004-2007, and, following a very strong 2010 and 2011, Scania is now in a net cash position. Also, in the trough year 2009, Scania managed to generate significantly positive FOCF, with the help of strong management of working capital.

These strengths are moderated by:

- The group's exposure to the generally highly cyclical and capital-intensive commercial vehicle industry, with strong variations in cash flows.
- A high dividend payout ratio. Scania's dividend policy is based on the group's long-term performance. Payouts were between 30%-50% of net earnings over the past few years, except in 2006 when Scania paid 64% and 2009when the payout ratio was a high 71%.

Financial Statistics/Adjustments

Scania has prepared financial statements under International Financial Reporting Standards since 2005. When assessing Scania's credit profile, we make a number of adjustments to the reported financial information (see table 1).

We make the following debt-related adjustments:

- 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.
- 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 that on the parent's debt because we view the captive finance company and its operating company parent as a single business enterprise. Although the ratings on the captive and the parent are equalized, we don't analyze the two 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 that a financial services debt leverage factor of seven-to-one is appropriate for the rating category, based on the quality of the captive's receivables and lease assets. This implies that captive-finance assets of SEK42.2 billion at year-end 2011 are covered by SEK36.9 billion of financial debt and SEK5.3 billion of equity. Furthermore, when calculating the cash flow figures used to calculate key ratios, we do not include cash generated by the captive finance unit (SEK675 million). For an overview of our methodology for captive finance adjustments, see "Captive Finance Operations," published on April 17, 2007, on RatingsDirect on the Global Credit Portal.

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Table 1

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

--Fiscal year ended Dec. 31, 2011--

Scania (publ.) AB reported amounts

	Debt	Shareholders' equity	Revenues	EBITDA	Operating income	Interest expense	Cash flow from operations	Cash flow from operations	Dividends paid	Capital expenditures
Reported	38,793.0	34,511.0	92,058.0	16,777.0	12,398.0	95.0	11,377.0	11,377.0	4,000.0	30,072.0
Standard & Poor's adjustments										
Operating leases	1,742.3	--	--	78.4	78.4	78.4	320.1	320.1	--	668.9
Postretirement benefit obligations	4,479.0	17.0	--	(37.0)	(37.0)	217.0	(101.7)	(101.7)	--	--
Surplus cash and near cash investments	(10,848.0)	--	--	--	--	--	--	--	--	--
Capitalized development costs	--	--	--	(387.0)	(218.0)	--	(387.0)	(387.0)	--	(387.0)
Captive finance activity	(36,955.6)	(5,279.4)	(4,372.0)	(2,287.0)	(428.6)	--	(675.0)	(675.0)	--	(25,764.0)
Reclassification of nonoperating income (expenses)	--	--	--	--	572.0	--	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	2,376.0	--	--
Minority interests	--	1.0	--	--	--	--	--	--	--	--
EBITDA - Income (expense) of unconsolidated companies	--	--	--	(16.0)	(16.0)	--	--	--	--	--
EBIT - Income (expense) of unconsolidated companies	--	--	--	--	16.0	--	--	--	--	--
Total adjustments	(41,582.3)	(5,261.4)	(4,372.0)	(2,648.6)	(33.2)	295.4	(843.6)	1,532.4	0.0	(25,482.1)

Standard & Poor's adjusted amounts

	Debt¶	Equity	Revenues	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Dividends paid	Capital expenditures
Adjusted	0.0	29,249.6	87,686.0	14,128.4	12,364.8	390.4	10,533.4	12,909.4	4,000.0	4,589.9

SEK--Swedish krona.

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Table 2

Scania (publ.) AB -- Peer Comparison

Industry Sector: Automotive - OEM'S

	Scania (publ.) AB	AB Volvo	MAN SE	Daimler AG	PACCAR Inc.
Rating as of Oct. 29, 2012	A-/Positive/A-2	BBB/Stable/A-2	A-/Positive/A-2	A-/Stable/A-2	A+/Stable/A-1
(Mil. €)	**--Fiscal year ended Dec. 31, 2011--**				
Revenues	9,853.5	33,878.4	16,472.0	94,460.0	11,805.3
EBITDA	1,587.6	3,853.4	1,458.6	9,473.4	1,294.4
Net income from cont. oper.	1,058.8	1,994.7	679.0	5,667.0	802.9
Funds from operations (FFO)	1,450.4	3,224.6	1,311.8	9,433.0	1,077.3
Capital expenditures	517.6	1,162.2	580.7	4,673.5	279.4
Free operating cash flow	665.8	1,921.4	260.1	2,442.5	541.9
Discretionary cash flow	216.3	1,351.6	(36.9)	193.5	374.5
Cash and short-term investments	106.5	860.0	320.0	2,997.0	2,323.8
Debt	0.0	4,266.4	1,329.6	6,074.9	169.6
Equity	3,286.8	7,555.0	5,287.3	31,128.6	2,431.7
Adjusted ratios					
EBITDA margin (%)	16.1	11.4	8.9	10.0	11.0
EBITDA interest coverage (x)	36.2	10.1	6.3	13.8	60.9
EBIT interest coverage (x)	31.7	7.7	4.9	11.6	53.7
Return on capital (%)	43.8	24.5	14.9	22.5	45.5
FFO/debt (%)	N.M.	75.6	98.7	155.3	635.2
Free operating cash flow/debt (%)	N.M.	45.0	19.6	40.2	319.5
Debt/EBITDA (x)	0.0	1.1	0.9	0.6	0.1
Total debt/debt plus equity (%)	0.0	36.1	20.1	16.3	6.5
Adjusted ratios	**--Average of past three fiscal years--**				
EBITDA margin (%)	15.2	7.8	8.0	8.1	10.2
EBITDA interest coverage (x)	17.1	5.3	5.2	6.9	38.4
EBIT interest coverage (x)	13.8	2.8	3.6	4.7	25.5
Return on capital (%)	33.6	10.1	10.6	12.8	22.2
FFO/debt (%)	322.0	35.5	56.2	92.5	735.6
Free operating cash flow/debt (%)	228.2	20.9	44.4	56.3	715.6
Debt/EBITDA (x)	0.3	2.2	1.4	1.0	0.1
Total debt/debt plus equity (%)	11.4	42.5	23.1	18.8	3.9

N.M.--Not meaningful.

Table 3

Scania (publ.) AB -- Financial Summary

Industry Sector: Automotive - OEM'S

	--Fiscal year ended Dec. 31--				
(Mil.SEK)	**2011**	**2010**	**2009**	**2008**	**2007**
Rating history	A-/Stable/A-2	A-/Negative/A-2	A-/Negative/A-2	A-/Stable/A-2	A-/Stable/A-2
Revenues	87,686.0	78,168.0	62,074.0	88,977.0	84,486.0

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Table 3

Scania (publ.) AB -- Financial Summary (cont.)					
EBITDA	14,128.4	14,776.4	5,164.4	15,207.0	14,518.9
Net income from continuing operations	9,422.0	9,103.0	1,129.0	8,890.0	8,554.0
Funds from operations (FFO)	12,909.4	14,196.3	2,674.8	11,165.2	12,783.7
Capital expenditures	4,589.9	3,094.9	4,067.9	6,367.4	5,146.7
Free operating cash flow	5,943.5	11,369.4	4,385.9	697.7	7,459.9
Discretionary cash flow	1,943.5	10,569.4	2,385.9	(3,302.3)	4,459.9
Cash and short-term investments	948.0	800.0	800.0	800.0	800.0
Debt	0.0	0.0	10,445.7	13,582.9	2,937.7
Equity	29,249.6	25,572.7	18,278.3	16,073.7	20,125.0
Adjusted ratios					
EBITDA margin (%)	16.1	18.9	8.3	17.1	17.2
EBITDA interest coverage (x)	36.2	24.7	4.7	19.0	24.4
EBIT interest coverage (x)	31.7	20.9	2.1	15.9	20.7
Return on capital (%)	43.6	44.2	7.8	45.9	49.5
FFO/debt (%)	N.M.	N.M.	25.6	82.2	435.2
Free operating cash flow/debt (%)	N.M.	N.M.	42.0	5.1	253.9
Debt/EBITDA (x)	0.0	0.0	2.0	0.9	0.2
Debt/debt and equity (%)	0.0	0.0	36.4	45.8	12.7

SEK--Swedish krona. N.M. - Not Meaningful.

Related Criteria And Research

- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- Key Credit Factors: Business and Financial Risks In The Automaker Industry, Sept. 25, 2008
- Principles Of Corporate And Government Ratings, June 26, 2007
- Captive Finance Operations, April 17, 2007

Ratings Detail (As Of October 29, 2012)		
Scania (publ.) AB		
Corporate Credit Rating		A-/Positive/A-2
South African National Scale		zaAA+/--/zaA-1
Senior Unsecured		A-
Corporate Credit Ratings History		
10-Sep-2012		A-/Positive/A-2
04-Aug-2011		A-/Stable/A-2
31-Aug-2009		A-/Negative/A-2
08-May-2009		A-/Watch Neg/A-2
31-Aug-2009	*South African National Scale*	zaAA+/--/zaA-1
23-Jul-2009		zaAA+/Watch Neg/zaA-1
03-Jun-2009		--/--/zaA-1
Business Risk Profile		Satisfactory
Financial Risk Profile		Modest

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Ratings Detail (As Of October 29, 2012) (cont.)

Debt Maturities

As of Sept. 30, 2012
2012: SEK7.5 bil.
2013: SEK10.0 bil.
2014: SEK4.7 bil.
2015 and thereafter: SEK16.6 bil.

Related Entities

LeasePlan Corporation N.V.	
Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Foreign Currency	A-2
Senior Unsecured	A-2
Senior Unsecured	BBB+
Short-Term Debt	A-2
Subordinated	BB+
MAN SE	
Issuer Credit Rating	A-/Positive/A-2
Senior Unsecured	A-
Volkswagen AG	
Issuer Credit Rating	A-/Positive/A-2
Commercial Paper	A-2
Canadian CP Rating Scale	A-1(LOW)
Senior Unsecured	A-
Short-Term Debt	A-2
Volkswagen Bank GmbH	
Issuer Credit Rating	A-/Positive/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured	A-
Short-Term Debt	A-2
Subordinated	BBB
Volkswagen Financial Services AG	
Issuer Credit Rating	A-/Positive/A-2
Commercial Paper	A-2
Caval - Mexican Rating Scale	mxA-1+
Caval - Mexican Rating Scale	mxA-1+
Senior Secured *Caval - Mexican Rating Scale*	mxAAA
Senior Unsecured *Caval - Mexican Rating Scale*	mxAAA
Senior Unsecured	A-
Short-Term Debt	A-2
Volkswagen Financial Services N.V.	
Senior Unsecured	A-

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Ratings Detail (As Of October 29, 2012) (cont.)	
Volkswagen Finans Sverige AB	
Issuer Credit Rating	
Nordic Rating Scale	--/--/K-1
Volkswagen Group Services S.A.	
Issuer Credit Rating	A-/Positive/A-2
Commercial Paper	
Local Currency	A-2
Volkswagen Insurance Co. Ltd.	
Financial Strength Rating	
Local Currency	A-/Positive/--
Issuer Credit Rating	
Local Currency	A-/Positive/--
Volkswagen Leasing GmbH	
Senior Unsecured	A-
Volkswagen Leasing, S.A. de C.V	
Senior Secured	
Caval - Mexican Rating Scale	mxAAA

*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

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