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Scania (publ.) AB Outlook Revised to Stable On Abating Ownership Concerns; Ratings Affirmed

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FRANKFURT (Standard & Poor's) June 1, 2004--Standard & Poor's Ratings Services said today it revised its outlook on Sweden-based truck and bus manufacturer Scania (publ.) AB (Scania) to stable from developing, based on the reduced uncertainty about Scania's future ownership structure. At the same time, the 'A-/A-2' corporate credit ratings on Scania were affirmed.

"The outlook revision reflects the fact that the uncertainty surrounding Scania's ownership structure has abated," said Standard & Poor's credit analyst Maria Bissinger.

In 2000, an attempt by Volvo (publ), AB (Volvo; --/--/A-2) to take over 100% of Scania failed after the move was rejected by the European Commission (EC). At the time, the EC had required Volvo to sell off its stake in Scania by April 24, 2004. In February 2004, Volvo sold its Scania "B shares" (5.8% of voting rights and 31.9% of capital) in the markets in increments and transferred its Scania "A shares" (24.8% of voting rights and 13.7% of capital) into a new holding company, Ainax AB, a wholly owned subsidiary of Volvo. Volvo shareholders are entitled to receive a cash dividend plus two shares in Ainax for every 31 shares held in Volvo. The deadline to take up this offer was June 1, 2004. The distribution of shares in Ainax is scheduled to occur on June 8, 2004. Apart from this, there have been no significant changes in Scania's ownership: Volkswagen AG (A/Watch Neg/A-1) continues to hold 34.0% of voting rights and 18.7% of share capital while Investor AB (AA-/Stable/A-1+) holds 15.3% of voting rights and 9.1% of share capital.

The ratings on Scania continue to reflect the group's above-average business profile and conservative financial profile. 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 4.5% 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.

First-quarter 2004 results showed a continuation of Scania's positive earnings trend, with an improvement in the group's operating margin to 10.8% from 10.7% one year earlier. Truck order bookings rose by 17% in the first quarter of 2004, compared with the previous year's first quarter, reflecting the rising replacement demand in Germany, Italy, Spain, and Scandinavia, as well as increasing exports to Central and Eastern Europe. Order bookings in Scania's other markets--Latin America and Asia--also rose.

The ratings continue to benefit from Scania's stable capital structure, coupled with adequate financial flexibility through free operating cash flow and its access to committed and unutilized credit facilities. Cash flow generation remains adequate, despite increased working capital levels, owing to higher inventories as a consequence of the production ramp-up of the group's new R-series trucks.

The ratings are constrained, however, by the high capital intensity and severe cyclicality of the commercial vehicle industry. The ratings are also constrained by the difficult environment of the global bus industry, which is confronted with a number of challenges including market downturns in Europe and America and a lack of standardization (especially in municipality buses).

"The stable outlook reflects Standard & Poor's expectation that Scania will be able to sustain its industry-leading profitability and generate positive cash flows through the cycle," said Ms. Bissinger. In line with Scania's previous practice, Standard & Poor's expects that it will continue pursuing its predominantly organic growth strategy. Major acquisitions are not factored into the ratings.

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