

**Rating Action: Svenska Cellulosa Aktiebolaget SCA****Moody's changes outlook on SCA to negative, Baa1 rating unchanged**

Frankfurt, October 30, 2008 -- Moody's Investors Service has today changed the outlook to negative from stable for the Baa1 senior unsecured rating and Prime-2 short-term issuer rating of Svenska Cellulosa Aktiebolaget SCA ("SCA" or "the company") and its unconditionally and irrevocably guaranteed subsidiary, AB SCA Finans. At the same time, Moody's affirmed the ratings at Baa1 and Prime-2.

"Moody's decision to change the outlook to negative was triggered by SCA's declining consolidated profitability and cash generation trend over the last quarters, particularly driven by a weakening performance of the company's packaging and forest products divisions, which was not fully mitigated by the relatively stable performance of the personal care and consumer tissue divisions" says Christian Hendker, a Moody's Assistant Vice President and lead analyst for SCA. "While the pressure from rising input costs is likely to moderate and profitability could benefit from intended price increases over the next quarters, the negative outlook reflects the likelihood that a more challenging macroeconomic environment may burden the cyclical packaging and forest products divisions for an extended period, preventing SCA to restore its credit metrics over the next quarters back in line with the requirements for the Baa1 rating category."

Today's rating action takes into account that SCA's rating was weakly positioned within the Baa1 rating category. In Moody's recent last rating action on 9 November 2007, when the rating outlook was changed from negative back to stable, Moody's had incorporated the expectation of a gradually improving financial profile. Notably Moody's expected an improvement of the RCF-to-Net-Debt ratio towards the mid-20s (%) which actually fell towards the mid to high teens in the last twelve months ending September 2008. In addition, SCA has not managed to generate positive free cash flows, as the company generated negative free cash flows of around SEK 2.2 billion in the same period, a result of weaker free funds from operations burdened by lower group profitability and higher interest costs, rising working capital needs, and higher expansion capital expenditures. While pressure on operating profitability could burden SCA's operating cash flows going forward, Moody's recognises additional sources for free cash flow improvements from discretionary capital spending decisions.

Profitability could remain pressured by the packaging business area, which is likely to be impacted by lower demand from customers in manufacturing industries, whereas a continued severe reduction in building activity in Europe could further burden the demand for solid-wood products. Compared to the more cyclical packaging and forest products business area, Moody's expects robust performances from the growing personal care and tissue businesses through the cycle. Despite the constant structural pressure on pricing in the very competitive consumer products market, Moody's expects continued solid performance in SCA's personal care business supported by growth from emerging markets and innovative products, and some upside potential in SCA's tissue segment due to synergies from the recent acquisition of Procter & Gamble's European consumer tissue assets.

Moody's comments that the liquidity of the company is good. SCA's funding strategy historically has been strongly reliant on commercial paper issuance, with SEK 15.7 billion commercial papers outstanding as at end of September 2008 with maturities over 5 months. At the same time Moody's notes that the company has currently sufficient alternative funding sources, including cash of around SEK 6.0 billion and availability under various credit facilities of around SEK 21.2 billion.

Moody's cautions that the rating could be downgraded if SCA's financial profile is not restored towards the requirements of the Baa1 rating category within the next 12 months. Drivers for a downgrade include a decline of EBIT margins below 7%, RCF/Net Debt remaining below 20%, a continued negative free cash flow generation beyond 2008 or an erosion of the company's solid liquidity profile.

Moody's believes the outlook could return to stable during 2009 if the EBIT margin is restored towards 10%, RCF/Net Debt increases above 20% and free cash flows reach break-even levels.

The affirmation of the Baa1 rating takes into account (i) SCA's absolute scale and solid segmental diversification into consumer products, packaging, paper and forest products with a high degree of vertical integration; (ii) its established market positions underpinned by a well diversified brand portfolio in its consumer products divisions; (iii) a track record of relatively stable profitability margins despite the volatility of its individual operations; (iv) ongoing implementation of cost structure improvement measures and

price/volume mix improvements which mostly offset rising input costs over the last years; (v) debt coverage potential from substantial forestland assets.

At the same time, the current rating also considers the following challenges: (i) SCA's concentrated geographic diversification in the European market, which is expected to be steadily improved over the medium term as a consequence of increasing penetration in emerging markets; (ii) ability to defend pricing power for its innovative growth products e.g. incontinence products; (iii) the company's debt protection metrics, which are relatively weak for the Baa1 rating category but which are expected to be restored over the next quarters; and (iv) preservation of an adequate liquidity cushion, given the current negative free cash flow generation trend which is expected to be turned around in 2009.

Outlook Actions:

..Issuer: SCA Finans AB

....Outlook, Changed To Negative From Stable

..Issuer: Svenska Cellulosa Aktiebolaget SCA

....Outlook, Changed To Negative From Stable

SCA is headquartered in Stockholm/Sweden and is among the largest global personal care and tissue manufacturers. In addition, the company produces packaging solutions, publication paper, pulp and solid wood products. SCA is the leading private forestland owner in Europe and sells its products in more than 90 countries. In fiscal year 2007, its average workforce of around 50,400 employees generated revenues of SEK105.9 billion.

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