

ANALYSIS

Svenska Cellulosa Aktiebolaget SCA

Stockholm, Sweden

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Company Profile

A global hygiene products and paper company

Svenska Cellulosa Aktiebolaget SCA (“SCA” or “the company”), headquartered in Stockholm, Sweden, is among the largest global personal care and tissue manufacturers. The company also produces packaging solutions, publication paper, pulp and solid wood products. SCA is a leading private forestland owner in Europe and sells its products in more than 90 countries. In fiscal year 2009, SCA generated revenues of SEK110.9 billion.

This Analysis provides an in-depth discussion of credit rating(s) for Svenska Cellulosa Aktiebolaget SCA and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on [Moody's website](#).

FIGURE 1

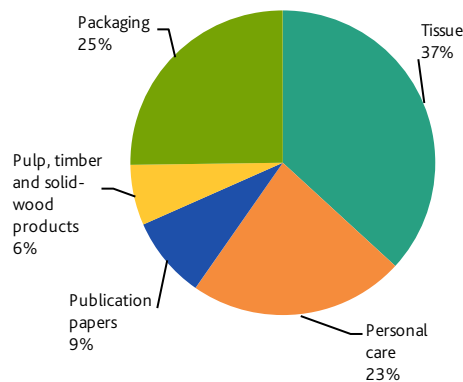
Operational Highlights

SEK m, FY 2009	Total revenues	Change	% of total	Operating profit 2009*	Change	% of total margin 2009	Op. profit margin 2009	Operating profit 2008	Op. profit margin 2008
Tissue	41,425	8%	37%	3,946	66%	48%	10%	2,375	6%
Personal care	25,716	10%	23%	3,235	11%	39%	13%	2,912	12%
<i>Subtotal packaged goods</i>	<i>67,141</i>	<i>9%</i>	<i>61%</i>	<i>7,181</i>	<i>36%</i>	<i>88%</i>	<i>11%</i>	<i>5,287</i>	<i>9%</i>
Publication papers	9,759	8%	9%	1,253	212%	15%	13%	402	4%
Pulp, timber and solid-wood products	7,224	-6%	7%	1,250	-31%	15%	17%	1,805	23%
<i>Subtotal forest products</i>	<i>16,983</i>	<i>2%</i>	<i>15%</i>	<i>2,503</i>	<i>13%</i>	<i>31%</i>	<i>15%</i>	<i>2,207</i>	<i>13%</i>
Packaging	28,359	-15%	26%	413	-72%	5%	1%	1,493	4%
Other operations	1,470	0%	1%	-449	n.m.	-5%	n.m.	-433	n.m.
Eliminations	-3,096	7%	-3%	-1,458		-18%		0	
Total Group	110,857	0%	100%	8,190	-4%	100%	7.4%	8,554	7.7%

Source: SCA, Moody's Financial Metrics

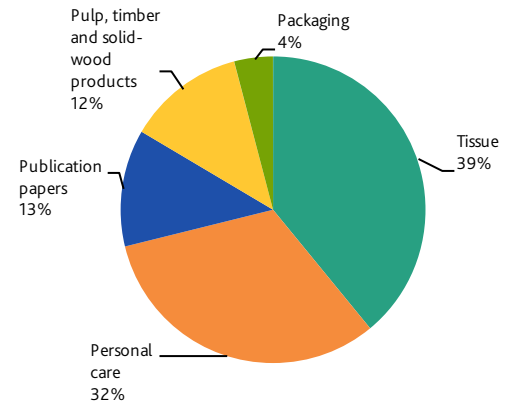
* as reported by SCA, excluding items affecting profitability related to packaging in 2009

FIGURE 2

Sales split by business area
(excl. other operations)

Source: SCA, Moody's Financial Metrics

FIGURE 3

Operating profit by business area
(excl. unusual items)

Source: SCA, Moody's Financial Metrics

Management Strategy

Return to growth after restructuring activities are on track

On the back of the recessionary environment since late 2008 which continued into 2009, SCA has refocused its strategic priorities to secure competitiveness, profitability and cash flow enhancement. Among the measures taken were a comprehensive restructuring and cost savings program in all divisions, with a particular focus on cash generation including tighter working capital management, lower capex spending and a cut in the dividend as well as a program aimed at improving capital efficiency across the group. After having achieved SEK1 billion cost savings and a significant turnaround of free cash flow generation in 2009, the focus in the medium term remains on continued

efficiency and productivity improvement, but is also shifting towards achieving growth through ongoing product innovations and further expansion into prioritised Emerging Markets.

Increasing share of value added products and services to improve pricing power

Since underlying demand and pricing for SCA's publication paper, pulp, timber, solid wood products and packaging are closely linked to the macroeconomic environment, one of the key elements of management's strategy is to strengthen and expand its product offerings in the rather stable Tissue and Personal Care business areas to reduce the impact from these cyclical segments. As part of this strategy, in April 2010 SCA announced the divestiture of its Asian packaging operation for a purchase price of USD200 million.

In Tissue and Personal Care SCA continues to aim to become a solution provider offering adjacent services to existing product lines, which should support improvements in the company's pricing power and differentiation versus competition. Examples include hygiene concepts in the away-from-home tissue markets encompassing dispensers and soap, or packaging solutions that comprise new designs or include the entire packaging solution for customers.

High volume and low price per unit requires efficient production

Moody's characterises the majority of SCA products as high volume by output and low production cost per unit, which we believe requires efficient production processes, supply chains and sufficient capacity utilization levels, considering the relatively low barriers to entry (apart from brand strengths, especially in the tissue and personal care segment). SCA addresses this issue by reaping economies of scale, implementing ongoing efficiency programmes and optimising its cost structure with regard to purchasing, production and transport. Compared to its peers in the packaged goods industry, such as Kimberly-Clark and Procter & Gamble, SCA has a relatively high self sufficiency rate for raw materials, which somewhat protects the company's operating margin in times of volatile input costs.

Regional presence

As transportation costs are too high to carry SCA's products, such as tissue, over long distances, SCA has an established network of production facilities anchored in various regions that are close to its customers, which also allows quick responses to customer preferences. The company has also recently established regional hubs for some of its main product lines. Moody's observes that there is a trade-off between being close to its customers and having large production facilities for economies of scale.

Rating Rationale

SCA's 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 business; (iii) a track record of relatively stable profitability margins despite the volatility of its individual operations, particularly evidenced in the recent downturn; (iv) ongoing implementation of cost structure improvement measures and price optimisation measures; and (v) debt coverage potential from substantial forestland assets.

The Baa1 rating also takes into account the following challenges: (i) SCA's concentrated geographic diversification in the mature European market, which, however, is expected to steadily improve over the medium terms as a consequence of increasing penetration in emerging markets; (ii) its ability to defend pricing power for its innovative growth products, such as incontinence products in light of constantly rising input costs; (iii) the turnaround of the packaging division's performance to more competitive levels; and (iv) the continuing challenge to preserve credit metrics in line with Moody's requirements for the higher end of the Baa rating category.

Rating Positioning vs. Methodology

SCA's Baa1 senior unsecured rating is one notch above the rating indicated by Moody's global Packaged Goods Rating Methodology based on SCA's fiscal 2009 results. The deviation can be traced back to the company's solid diversification beyond hygiene and tissue packaged goods (as the methodology only captures the diversification within the hygiene and tissue business areas), the partial vertical integration with a relatively high self sufficiency rate which supports margin stability relative to less integrated competitors but depresses asset efficiency ratios due to the capital intensity of the packaging and forest products business areas and the forestland ownership. The substantial debt coverage potential from the ownership of forestland is another factor which supports SCA's Baa1 rating.

Key Rating Considerations

Business Risk Factors

Factor 1 – Scale & Diversification: SCA's Baa1 rating benefits from its diversified business profile

SCA's rating reflects the company's solid absolute scale evidenced by total revenues of around SEK 110.9 billion in 2009, which provides bargaining power against strong retailers, but also offers a solid platform for leveraging costs. In light of SCA's strategy to increasingly penetrate emerging markets and develop product innovations, Moody's expects that SCA will continue to enhance its revenue base going forward.

SCA's rating also benefits from its solid segmental diversification and brand diversity, which provides profitability and cash flow stabilization potential, as the company operates in four segments, Tissue, Personal Care, Packaging and Forest Products.

FIGURE 4

SCA's Key Competitors

	Europe	North America	Latin America	Asia/ Australia/ Other	Worldwide	Sales split	Sales	Market share	Competitors
Personal Care									
Incontinence products	1	3	n.a.	n.a.	1	55%	14,144	24% (global)	Kimberly-Clark (9%), First quality products (7), others (60%)
Baby diapers	3	-	n.a.	n.a.	4	29%	7,458	12% (Europe)	Procter & Gamble, Kimberly-Clark
Feminine hygiene products	3	-	n.a.	n.a.	5	16%	4,115		Procter & Gamble, Johnson & Johnson, Kimberly-Clark
Sales	67%	11%	8%	14%		100%	25,716		
	17,230	2,829	2,057	3,600					

FIGURE 4

SCA's Key Competitors

	Europe	North America	Latin America	Asia/ Australia/ Other	Worldwide	Sales split	Sales	Market share	Competitors
Tissue									
Consumer tissue	1	-	-	n.a.	3	63%	26,098	25% (Europe)	Kimberly-Clark (13%), Georgia-Pacific (10%), Others (52%)
AFH tissue	1	3	n.a.	n.a.	3	37%	15,327	18% (Europe) 18% North America	Kimberly-Clark (15%), Georgia-Pacific (11%), Others (56%)
Sales	67%	17%	8%	8%		100%	41,425		
	27,755	7,042	3,314	3,314					
Packaging									
Corrugated packaging	2	-	n.a.	n.a.	n.a.			10% (Europe)	Smurfit-Kappa (20%), Mondi (5%), Saica (5%), Others (59%)
Containerboard	2	-	n.a.	n.a.	n.a.			8% (Europe)	Smurfit-Kappa (17%), SAICA (7%), Mondi (7%), Others (61%)
Sales	90%	0%	0%	10%		100%	28,359		
	25,523	0	0	2,836					
Forest Products									
Publication papers	6	-	n.a.	n.a.	n.a.	57%	9,759	6% (Europe)	UPM (22%), Stora Enso (19%), Norske Skog (10%), Mylykoski (8%), Holmen (6%), Others (29%)
Pulp	-	-	n.a.	n.a.	n.a.	43%	7,224		
Solid-wood products	6	-	n.a.	n.a.	n.a.				
Sales	88%	2%	n.a.	10%	n.a.	100%	16,983		
	14,945	340	0	1,698					

Source: SCA

In addition, the rating benefits from an improving level of regional diversification, as most recently evidenced by the bolt-on acquisition of the baby diapers business of Copamex in Mexico and Central America, completed in October 2010 for a purchase price of USD50 million.

Moody's notes that further improved geographic diversification could be a positive rating driver over the medium term, as the mature European market still accounts for around 75% of the group's total revenues and for the majority of operating profits. Moody's recognizes that revenue contributions from emerging markets such as Eastern Europe, Latin America and the Asia Pacific region has constantly increased over the past years and unlike Western Europe, emerging markets offer continuous growth potential given their low penetration and per capita consumption rates. This diversification of revenue streams is viewed as positive, as it could contribute to SCA being more resistant to economic fluctuations in one particular economic area and decreases the company's dependency on more mature

markets in Western Europe and North America. However, Moody's notes that SCA is challenged to translate these revenues into adequate profitability levels, which are still burdened by expansion costs.

Factor 2 – Franchise Strength: Product innovations support further organic growth of hygiene products

SCA is an international player in the consumer products markets, with leading positions and well established brands in some regions, particularly in incontinence care, where it is the global market leader with its Tena brand, as well as in away-from-home and consumer tissue, where the company holds the number three position on a global scale. In the paper and forest products business areas, SCA holds solid market positions in Europe in both paper production (mainly newsprint and magazine) and packaging, and the company is also a leading private forest holding investor in Europe.

Especially in the Tissue and Personal Care business areas, SCA holds a strong and diversified brand portfolio: In the consumer tissue segment, Tempo and Zewa are the leading brands in most European countries, while Edet holds solid positions in Scandinavia and the Netherlands as does Velvet in the UK. Tork, SCA's global brand in the AFH market, is the largest in Europe and one of the leading brands in North America.

Also in Personal Care, SCA owns a valuable brand portfolio. The global Tena brand is a world leader in incontinence care with availability in more than 90 countries. In baby diapers, Libero is the market leader in the Nordic region and shows good growth in Eastern Europe and Russia. Other brands include Drypers in Southeast Asia and Pequeñin in South America. Within feminine care, SCA is the market leader in Scandinavia and the expanding Latin American market with various brands including Libresse and Saba. Over the medium term, SCA intends to streamline the number of brand portfolio towards only a few brands in a process to increase brand awareness.

SCA has shown a history of organic growth of around 3-4% annually which was interrupted in 2009. Against the backdrop of the recessionary environment, packaging recorded double-digit declines in revenues which could not be mitigated by sales increases in packaged goods and forest products. SCA's performance of the rather cyclical divisions packaging has shown a solid recovery in the first nine months of 2010, while forest product's performance was flat compared to the same period in 2009.

Going forward, Moody's believes SCA will again be able to return to its solid organic growth path. Moody's notes that SCA needs to continue to innovate and create new products as well as increase penetration in certain markets in order to achieve this growth in sales and market share. SCA has a good track record of innovation and an ability to leverage its brand names through its premium priced brands and a portfolio of product extensions and new product categories, which should be beneficial in strengthening its market positions going forward. In emerging markets, usage of Tissue and Personal Care products is at only a fraction of utilisation levels in mature markets. As a result, SCA should be able to benefit as income, per capita consumption, healthcare standards and spending rise in the rest of the world. However, capacity build-ups and marketing expenditures will continue to burden SCA's profitability and cash generation ability.

Factor 3 – Distribution Environment & Pricing Flexibility: Ability to preserve pricing power is key performance driver over the next quarters

SCA's retailer exposure is moderate, as particularly in Europe, SCA supplies a broad variety of retailer chains under SCA's brands but also under retailer brands. The growing market penetration of private label products that compete directly with branded products, typically at lower prices, has pressured consumer products companies over the last years, albeit more recently the increasing penetration of private labels has somewhat levelled off. Innovation into higher value added products supported by

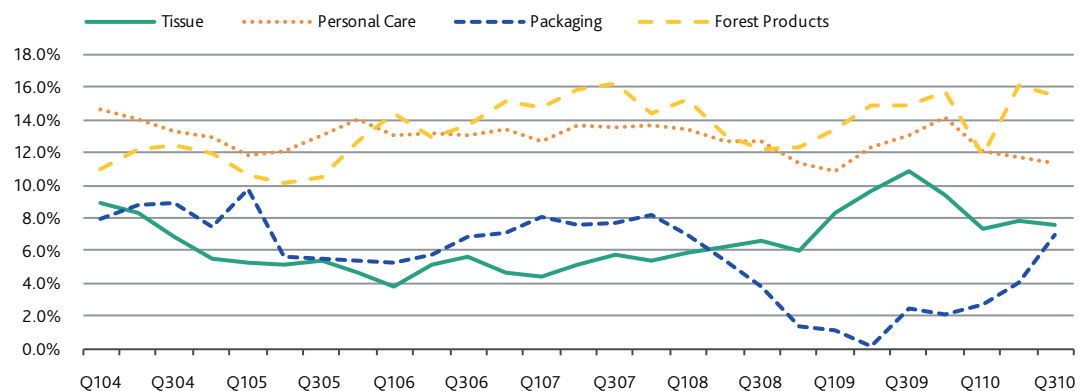
strong brands are important to improve SCA's market position and hedge against the threat of private label products. However, SCA does also continue to deliver products under private labels, to benefit volume-wise from the trend towards private labelled products.

Financial Risk Factors

Factor 4 – Cost Efficiency and Profitability: Margin stability supports Baa1 rating but a sustained turnaround of packaging is a key driver for group performance

SCA has a track record of relatively stable profit margins over the past years, with EBITA-margins of around 8%, which is however, somewhat below the Baa1 rating category requirements. Nevertheless, over the past years, diversification benefits between consumer goods and paper and forest products as well as packaging have helped to keep group operating margins relatively stable which Moody's anticipates to continue.

FIGURE 5
Operating margin development (quarterly)



Source: SCA, Moody's Financial Metrics

As reflected in Figure 5, profitability however, varies across the different business areas:

Personal Care continues to grow driven by favourably demand for Tena incontinence products globally, but also by strong growth in the baby diapers business driven by Emerging Markets as well as product expansion in the key Nordic region. Profitability levels have recently been burdened by the costs of rising marketing activities and continued raw material inflation.

Operating margins in the Tissue business area have shown a strong improvement in 2009, helped by pricing initiatives and tailwind from lower input costs as well as synergies from the acquisition of P&G's European tissue operations. During 2010, higher raw material costs and lower prices caused profitability in the Tissue segment to fall below the 10% watermark. Nevertheless, we note that profit generation is still in excess of historic levels reflecting improved production efficiencies and ongoing realisation of synergies from the Procter & Gamble acquisition. Going forward, upwards price adjustments should support margins to trend back towards 10% levels, however we note that the competitive environment is still intense.

Packaging has been the weak spot of the company's operations since early 2008 when input costs increased significantly followed by an unprecedented decline in demand and subsequent pricing declines in excess of 20% since mid 2008. After having recorded a 15% sales decline in 2009, revenues in packaging have picked up materially over the course of 2010. SCA was able to turn around profitability in this sector reflecting SCA's efforts to restructure its packaging operations which encompassed the closure of 11 corrugated board plants in Europe and staff reduction. While operating margin has trended back to a level of 4.5%, levels are still below some of SCA's competitor's earnings capability. Ongoing restructuring activities and price increases should support an ongoing recovery of the business area's performance going forward.

Forest product's margins in 2010 continue to be in the mid teen percentages, despite lower prices for some publication paper grades, due to higher volumes and prices for pulp and solid wood products.

FIGURE 6

Revenue and Profitability

LSEK m, IFRS	2004	2005	2006	2007*	2008	2009
Net sales	89,967	96,385	101,439	105,913	110,449	110,857
EBITDA	15,623	14,391	15,262	20,381	15,390	16,747
EBITDA margin	17.4%	14.9%	15.0%	19.2%	13.9%	15.1%
EBITA	9196	7678	8716	13880	8926	9,607
EBITA margin	10.2%	8.0%	8.6%	13.1%	8.1%	8.7%
EBIT	9,020	7,479	8,500	13,581	8,610	9,259
EBIT margin	10.0%	7.8%	8.4%	12.8%	7.8%	8.4%
Interest expense	1,758	1,850	2,003	2,346	3,007	2,168
Pretax income	7,262	5,629	6,497	10,417	5,604	7,091

Sources: SCA, Moody's Financial Metrics

*2007 profitability figures materially benefit from forestland revaluation of SEK 5.2bn. Adjusted for this gain, the ratio would have stood at just over 8%

SCA's rating remains constrained by its relatively weak asset efficiency, evidenced by a Return on Average Assets of around 6% as of 2009, which is well below the requirements for the current rating category. Moody's however, notes that ROAA is dragged down by the lower margin tissue business and the greater asset intensity of SCA's packaging and forest products operations. In addition, the company holds sizeable forestland assets that do not generate profit in the open market, but are largely used internally. This burdens asset efficiency ratios, but was a key element of margin protection in light of volatile raw material prices over 2007/2008. SCA has a self-sufficiency rate of about 44% in wood and 40% in pulp.

Factor 5 – Financial Policy & Credit Metrics: Turnaround of free cash flow generation during the course of 2009 materially improved credit metrics

During the course of 2009, SCA has reversed the increasing financial leverage evidenced in 2008, driven by positive impact from the improved operating profitability and a higher degree of cash preservation.

Following a positive free cash flow generation of around SEK 6.1 billion in 2009, Moody's notes that SCA continued to generate positive free cash flow of around SEK 2.6 billion in the last twelve months ending September 2010. The positive free cash flow was supported by the strengthening of underlying

funds from operations, which benefitted from lower interest payouts, and a disciplined capital expenditure programme.

FIGURE 7

Cash Flow

LSEK m, IFRS	2004	2005	2006	2007*	2008	2009
Funds from Operations (FFO)	11,577	10,388	11,365	12,366	10,905	12,655
- Dividends	2,471	2,478	2,625	2,939	3,128	2,498
Retained Cash Flow (RCF)	9,106	7,910	8,740	9,427	7,777	10,157
FFO	11,577	10,388	11,365	12,366	10,905	12,655
+/- changes in working capital (WC)	-355	-237	-1,050	-1,512	-459	3,836
+/- other	0	201	486	0	0	0
Cash flow from Operations (CFO)	11,222	10,352	10,801	10,854	10,446	16,491
- Dividends	2,471	2,478	2,625	2,939	3,128	2,498
- Capital expenditures	7,727	8,096	7,694	7,605	9,216	7,875
Free Cash Flow (FCF)	1,024	-222	482	310	-1,898	6,118
Acquisitions	-7,305	-391	-323	-4,371	-1,763	-45

Sources: SCA, Moody's Financial Metrics

As a result, RCF to net debt remained above 20% in the same time period, in line with Moody's requirements for a Baa1 rating. Strong cash generation was translated into improved leverage metrics, reflected in debt to EBITDA which improved from 3.8 times as of 12/2008 to 3.1x as of 12/2009 to 3.0x in the last twelve months ending September 2010.

FIGURE 8

Leverage, Liquidity and Coverage

LSEK m, IFRS	2004	2005	2006	2007*	2008	2009
Gross debt, as reported	34,931	38,828	38,389	42,190	52,029	44,104
Pension	3,003	3,233	756	735	2,689	3,160
Operating lease	4,735	4,605	4,600	4,605	4,355	4,950
Securitisation	1,884					
Other adjustments	-105	-634	-471	-447	-493	-359
Debt adjustments	9,517	7,204	4,885	4,893	6,551	7,751
Gross debt, as adjusted	44,448	46,032	43,274	47,083	58,580	51,855
Cash and cash equivalents	3,498	1,845	1,711	3,271	5,923	5,272
Net Debt	40,950	44,187	41,563	43,812	52,657	46,583
FFO/Net Debt	28.3%	23.5%	27.3%	28.2%	20.7%	27.2%
Debt/EBITDA*	2.8x	3.2x	2.8x	2.3x	3.8x	3.1x
RCF/Net Debt	22.2%	17.9%	21.0%	21.5%	14.8%	21.8%
Total Coverage*	5.1x	4.0x	4.2x	5.8x	3.0x	4.4x
FCF/Debt	2.3%	-0.5%	1.1%	0.7%	-3.2%	11.8%

Sources: SCA, Moody's Financial Metrics

*2007 profitability figures materially benefit from forestland revaluation of SEK 5.2bn.

Moody's views SCA's financial policy as predictable, with a track record of a balanced shareholder and creditor orientation, as well as relatively stable credit metrics over recent years. This approach has been underlined by the cut in the 2009 dividend payment following the severe economic conditions in SCA's core markets and an increased focus to protecting the company's cash generation.

Moody's takes further comfort from the company's forestland assets with a reported book value as of December 2009 of SEK 25.4bn which would be sufficient to cover more than 50% of SCA's reported financial debt. Moody's understands that the fair value might be above reported book-values.

Liquidity

Moody's considers SCA's liquidity profile to be adequate, also considering the expectation of continued positive free cash flow generation going forward

SCA's liquidity profile is backed by about SEK4.0 billion in cash as of 30 September 2010, and around SEK30.7 billion availability under various credit facilities.

SCA's liquidity profile consists of a number of revolving facilities without MAC clauses and other conditionality language, the core of which are two syndicated facilities of EUR1.2 billion (maturing in 2012) and EUR1.0 billion (maturing in 2014). These lines are currently undrawn and serve as a general liquidity reserve and as a backstop facility for the commercial paper program which is a central source of SCA's short term funding needs. Along with access to a SEK2.0 billion bilateral committed credit facility maturing in 2010, a SEK3.0 billion bilateral committed credit facility maturing 2011 and a committed SEK2.5 billion credit facility maturing in 2013 among other sources, these liquidity sources sufficiently cover daily operational uses, such as working cash, working capital and capex, as well as dividends and scheduled debt repayments of around SEK 15 billion over the next 12 months, of which SEK 6.9 billion are maturing commercial papers.

SCA's funding strategy focuses on minimizing funding costs, by arbitraging between issuing of commercial papers and drawings under medium term bank facilities. While the average amount of commercial paper outstanding has been markedly reduced since the peak level in late 2008, Moody's derives comfort from SCA's ability to continuously roll over maturing commercial papers through the financial crisis, reflecting the company's positioning as large and frequent Nordic issuer.

Rating Positioning and Peer Comparison

Moody's analyses SCA against the background of the consumer goods industry and compares it to peers largely of the packaged goods/consumer products industry. However, SCA's performance is also measured against other publication and packaging companies, as slightly less than 50% of its revenue base stems from packaging and forest products.

Compared to Kimberly-Clark (rated A2/Stable), a leading global manufacturer of tissue, personal care and health care products, SCA has weaker profitability and cash flow metrics. However, we note that Kimberly-Clark has pursued sizeable share repurchases over recent years that are not reflected in the company's free cash flow metrics. Kimberly-Clark's rating also benefits from the company's absolute size and global coverage as a provider of tissue and personal care products, whereas SCA's rating benefits from a relatively higher wood, pulp, and energy self-sufficiency rate and the potential debt coverage given SCA sizeable forestland assets.

In comparison to the Paper and Forest Products Peer Group, SCA has a much more balanced business profile with a higher level of stability through the cycle given its balanced exposure to consumer products and paper and forest products, which also provides SCA with a higher tolerance for leverage.

Compared to UPM-Kymmene (rated Ba1/Stable), Stora Enso (Ba2/Positive) or Mondi (Baa3, Stable), SCA's rating benefits from relatively better and more stable credit metrics and profitability levels, as well as from a much stronger business profile given the company's broad segmental diversification beyond forest products and the significant value of the company's forestlands.

FIGURE 9

Peer Comparison (Rated Entities)

Key Financial Indicators

	Rating	Revenues in USD million	RCF/ Debt	(RCF-Capex/ Debt)	Debt/ EBITDA	(EBITDA-Capex)/ Interest Expense	EBITDA/ Interest Expense	EBITDA Margin	EBITA/ Average Assets
Mondi	Baa3/Stable	7,328	19.7%	-7.4%	3.1X	0.6X	3.6X	12.9%	4.6%
M-real	B3/Positive	3,390	-3.0%	-8.2%	-224.3X	-0.7X	-0.1X	-0.3%	-6.4%
Norske Skog	B2/Negative	3,255	4.9%	0.8%	4.5X	2.6X	3.2X	17.2%	2.5%
SCA	Baa1/Stable	14,582	19.6%	4.4%	3.1X	4.1X	7.7X	15.1%	6.1%
Smurfit-Kappa	Ba3/Stable	8,444	9.2%	2.8%	6.2X	1.4X	2.3X	12.6%	4.2%
Stora Enso	Ba2/Positive	12,470	10.7%	1.1%	7.9X	0.9X	3.6X	7.0%	0.6%
UPM-Kymmene	Ba1/Stable	10,761	11.0%	5.4%	4.6X	4.1X	5.6X	13.6%	2.3%
Weyerhaeuser	Ba1/Stable	5,528	2.8%	-1.2%	24.7X	0.0X	0.5X	5.4%	-1.8%
International Paper	Baa3/Stable	23,366	30.7%	25.5%	4.3X	2.4X	3.2X	12.8%	5.0%

	Rating	Revenues in USD million	EBITA-Margin	Return on Assets	FFO/ Net Debt	Debt/ EBITDA	RCF/ Net Debt	Total Coverage	FCF/ Total Debt
Kimberly-Clark	A2/Stable	19,115	16.5%	15.7%	39.4%	2.2X	27.2%	6.4X	27.4%
Procter & Gamble	Aa3/Stable	78,938	21.6%	12.6%	43.2%	1.9X	27.6%	12.7X	23.4%
SCA	Baa1/Stable	14,582	8.7%	6.1%	27.2%	3.1X	21.8%	4.4X	11.8%

Appendix

Rating Methodology Grid

Rating Factors – Svenska Cellulosa Aktiebolaget SCA							
Packaged Goods Industry FY 2009	Aaa	Aa	A	Baa	Ba	B	Caa
Factor 1: Scale & Diversification							
a) Total Sales			14.580				
b) Geographic Diversification				x			
c) Segmental Diversification (# Segments)				x			
Factor 2: Franchise Strength							
a) Market Share			x				
b) Organic Revenue Growth				x			
c) Qualitative Assessment of Portfolio			x				
Factor 3: Distribution Environment & Pricing Flexibility							
a) Retailer Exposure			x				
Factor 4: Cost Efficiency & Profitability							
a) Qualitative Assessment				x			
b) EBITA Margin					8.7%		
c) Return on Assets (EBITA / Avg. Assets)							6.1%
Factor 5: Financial Policy & Credit Metrics							
a) Financial Strategy			x				
b) FFO / Net Debt					27.2%		
c) Debt / EBITDA					3.1x		
d) RCF / Net Debt					21.8%		
e) EBIT / Interest Expense					4.43x		
f) Free Cash Flow / Total Debt					11.8%		
Rating:							
a) Indicated Rating from Grid					Baa2		
b) Actual Rating Assigned					Baa1		

Related Research

Rating Methodologies:

- » [Global Packaged Goods Industry, July 2009 \(119226\)](#)
- » [Global Paper and Forest Products Industry, September 2009 \(119875\)](#)
- » [Moody's Approach to Global Standard Adjustments in the Financial Statements for Non-Financial Corporations – Part II, February 2006 \(96729\)](#)

Industry Outlooks:

- » [Global Consumer Products, June 2009 \(118086\)](#)
- » [Global Paper and Forest Products, March 2009 \(115147\)](#)
- » [Global Paper and Forest Products, September 2009 \(120072\)](#)

Special Comment:

- » [European Paper Sector: Improving Market Conditions and Disciplined Cost Management Benefit Ratings, October 2010 \(128239\)](#)

Analysis:

- » [Procter & Gamble, November 2009 \(121347\)](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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