

**Issuer Comment: Moody's says: SCA's Baa1 rating unchanged following 2Q results announcement**

---

Global Credit Research - 21 Jul 2010

Moody's noted SCA's ("SCA" or "the company") 2Q2010 results announcement and comments that the Baa1/P1 ratings with a stable outlook remain unchanged, as credit metrics remain in line with our expectation for the current rating category.

SCA's consolidated profitability excluding restructuring costs has been further improved in 2Q 2010 compared to the same period last year, despite a negative impact from rising raw material costs which have reversed from relatively low levels in 2009. Rising raw material costs have not yet been fully recovered by price increases, which however are targeted for the coming months in most divisions. Relative to its competitors, SCA's performance has a higher degree of protection against rising raw material costs, due to the company's relatively solid degree of vertical integration.

The performance improvement was primarily supported by the turnaround of the packaging division, boosted by benefits of recent restructuring activities combined with a recovery of pricing and demand levels. Forest products as well gradually supported rising profitability levels due to rising volumes, however higher prices for the pulp and sawmill operations were offset by lower prices and rising raw material prices for publication paper operations.

Profitability levels in Personal Care suffered from higher raw material costs and decreased baby diaper sales, partially offset by rising demand for incontinence and feminine care products. The performance of the Tissue division has suffered from the higher raw material costs, as well as challenging markets for consumer tissues in Western Europe, while AFH tissue showed a strong recovery in all markets.

SCA continued to realize a solid cash conversion over the last quarters, reflected in credit metrics supporting a solid positioning in the current rating category, in line with Moody's expectation when the previously negative rating outlook on SCA was stabilized on 29 October 2009. In the last twelve months ending June 2010, SCA generated an EBIT-Margin of around 8%, RCF to net debt of around 21% and continued sizable free cash flows, despite rising working capital needs and tax payouts but benefiting from largely unchanged dividend payments which remained on a reduced level compared to 2008. The current rating is based on the assumption that these metrics will be sustained going forward.

Positive rating pressure could emerge if SCA builds up a track record of performance stability throughout all business areas, reflected in (i) the EBIT margin being improved towards 12%, (ii) RCF/Net Debt increases clearly above 25% and (iii) continued material positive free cash flows applied towards debt reduction.

The rating could be downgraded if SCA's financial profile weakens as indicated by a decline of EBIT margins to below 7%, RCF/Net debt falling below 20%, free cash flow turning negative or an erosion of the company's solid liquidity profile.

SCA is headquartered in Stockholm, Sweden and is one of the largest global personal care and tissue manufacturers. The company also produces packaging solutions, publication paper, pulp and solid wood products, and generated revenues of SEK109 billion in the last twelve months ending June 2010.

**Contacts**

Christian Hendker, CFA/Frankfurt  
Anke Rindermann/Frankfurt  
Myriam Durand/Paris  
Eric de Bodard/Paris

**Phone**

4969-7073-0720  
4969-7073-0788  
33-1-5330-1049  
33-1-5330-1040

**AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from reliable sources; however, MOODY'S does not and cannot in every instance independently verify, audit or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moodys.com](http://www.moodys.com) under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Any publication into Australia of this document is by MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001.