



Moody's Investors Service

## Rating Action: **Moody's changes SCA's outlook to stable; affirms Baa1 rating**

---

Global Credit Research - 29 Oct 2009

Frankfurt, October 29, 2009 -- Moody's Investors Service has today changed the outlook to stable from negative for the Baa1 senior unsecured 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 SCA's Baa1 rating and Prime-2 short-term issuer rating.

"The outlook change back to stable reflects SCA's relatively robust operating performance throughout the currently challenging macroeconomic environment, reflected in strong cash flow and consequent credit metrics improvement, which Moody's expects to be sustained," says Christian Hendker, a Moody's Assistant Vice President and lead analyst for SCA.

"Performance improvements in SCA's personal care, consumer tissue and forest production businesses over the past few quarters have offset the impact of the underperforming packaging division. Indeed, free cash flow substantially improved and supported a recovery of SCA's credit metrics in line with Moody's requirements for the Baa1 rating category," Mr. Hendker continues. "Moody's also recognizes a shift in the company's financial policy towards cash preservation which should support the continued protection of credit metrics in line with our requirements for the Baa1 rating category going forward."

The outlook stabilisation is based on the expectation of continuing performance stability in SCA's personal care and consumer tissue businesses. Despite the constant structural pressure on pricing in the very competitive consumer products market, Moody's expects continued solid performance supported by growth from emerging markets and innovative products. The outlook change is also based on the expectation of a sustainable performance recovery of the packaging business going forward, which will preserve the group's consolidated performance stability. Although structural challenges in the European packaging industry remain significant, given the additional capacity coming on stream, the division's performance should benefit from a cyclical stabilisation in demand and pricing, in addition to benefits from implemented cost reduction measures. However, Moody's anticipates that pressure on SCA's forest products division may intensify over the coming quarters, primarily due to intensifying pricing pressure for publication papers.

Moody's notes that SCA generated positive free cash flow of SEK5.0 billion (approximately EUR500 million) in the last twelve months ending September 2009, compared to minus SEK1.9 billion in 2008, and thus met one of Moody's thresholds for a rating outlook stabilisation. The positive free cash flow was supported by the strengthening of underlying funds from operations, and was also due to lower dividend payouts, a more disciplined capital expenditure programme as well as working capital releases. As a result, RCF to net debt improved to a level of slightly above 20% in the same time period, in line with Moody's requirements for the Baa1 rating category. However, Moody's considers SCA's EBIT margin to be below the 10% threshold, as performance continues to be depressed by restructuring expenses; Moody's expects the EBIT margin to gradually improve over the next few quarters.

Moody's recognises that SCA's liquidity is good. The company currently has sufficient alternative funding sources, including cash of around SEK5.0 billion and availability under various credit facilities of around SEK39 billion, which are sufficient to fund upcoming debt maturities. Moody's also expects that the company will continue to generate positive free cash flow going forward.

Moody's cautions that the rating could be subject to downward pressure if (i) the EBIT margin declines below 7%, (ii) RCF/Net Debt falls below 20%, or (iii) SCA experiences a sustained period of negative free cash flow generation or an erosion of its solid liquidity profile.

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.

SCA's Baa1 senior unsecured 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; (iv) ongoing implementation of cost structure improvement measures and price/volume mix improvements, which have helped to mitigate cyclical volume pressure; 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; and (iii) the continuing challenge to preserve credit metrics in line with Moody's requirements for the higher end of the Baa rating category.

The last rating action was implemented on 30 October 2008, when Moody's changed the outlook to negative from stable on SCA's Baa1 rating.

Outlook Actions:

..Issuer: SCA Finans AB

....Outlook, Changed To Stable From Negative

..Issuer: Svenska Cellulosa Aktiebolaget SCA

....Outlook, Changed To Stable From Negative

The principal methodology used in rating SCA was Moody's Global Packaged Goods published in July 31, 2009 and available on [www.moody.com](http://www.moody.com) in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

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. SCA is the leading private forestland owner in Europe and sells its products in more than 90 countries. In FY2008, it had an average workforce of around 52,000 employees and generated revenues of SEK110 billion.

Paris  
Eric de Bodard  
Managing Director  
Corporate Finance Group  
Moody's France S.A.  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

Frankfurt  
Christian Hendker, CFA  
Asst Vice President - Analyst  
Corporate Finance Group  
Moody's Deutschland GmbH  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454



Moody's Investors Service

**CREDIT RATINGS ARE MIS'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD**

**PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

© Copyright 2009, Moody's Investors Service, Inc. and/or its licensors including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY 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, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. 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 credit ratings and financial reporting analysis 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. 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. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (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 on Moody's website at [www.moody's.com](http://www.moody's.com) under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."