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Research Update:

SCA Outlook Revised To Negative On Weakening Financial Performance; Ratings Affirmed

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Rationale

On Oct. 29, 2008, Standard & Poor's Rating Services revised the outlook on Sweden-based global hygiene and paper products company Svenska Cellulosa Aktiebolaget SCA (SCA) to negative from stable. At the same time, all ratings on SCA were affirmed, including the 'BBB+' long-term and 'A-2' short-term corporate credit ratings.

The outlook revision primarily reflects weakening conditions in the markets of SCA's packaging operations. In 2008, these conditions have delayed an expected improvement in SCA's financial performance and credit measures. In light of the weakening economic environment in Europe and high inventory levels, SCA will face challenges in improving the performance of its packaging operations in the near term. This could lead to continued underperformance against ratings requirements in 2009, despite our expectations of continued good performance in the group's core hygiene businesses and gradually lower input costs.

The ratings continue to reflect the group's diverse earnings base, leading positions in core hygiene and packaging markets, high level of integration, and intermediate financial risk profile. On Sept. 30, 2008, SCA had total unadjusted debt of about Swedish krona (SEK) 49.8 billion (€5.1 billion).

SCA's earnings and cash flow have remained under pressure in 2008 as a result of continuing increases in input costs and weakening demand for the output of its packaging operations and part of its forest products segment. Although the group has been able to offset higher costs in its consumer related hygiene businesses through volume growth and price increases, this has not been possible to the same extent in its packaging and publication paper businesses. In addition, prices in the sawmill market have deteriorated. We expect, however, that input cost pressure will ease, and that SCA will continue expanding its hygiene businesses and implement further cost rationalization measures to offset weaker packaging markets in the near term. A reduction of testliner production could help to improve the current supply and demand imbalance in the packaging segment.

Reflecting the pressure on operating cash flows, the group's credit measures have been slightly weak for the ratings over the past few years, with adjusted funds from operations to adjusted debt slightly below 30%. We expect the group's credit measures to remain under pressure throughout 2008 on the basis of the performance during the first three quarters. We expect improvement during 2009 to primarily come from gradually improving operating cash flows, as continued high growth capital expenditures and dividend payments are likely to limit any material debt reduction. We expect, however,

that acquisition activity will be very limited in the near term.

Short-term credit factors

SCA's short-term rating is 'A-2', reflecting our view that the group's liquidity position is adequate. The liquidity position is supported by large backup facilities which balance a substantial exposure to short-term financing. On Sept. 30, 2008 short-term debt amounted to SEK18.7 billion, of which SEK15.7 billion consisted of outstanding commercial paper with maturities of up to five months. The remaining SEK3 billion related to financial leases, subsidiary funding and other short-term portions of long-term debt. The short-term borrowings are backed by committed syndicated and bilateral credit facilities totaling SEK26.5 billion, of which SEK18.2 billion were available on Sept. 30, 2008. In addition, the group had about SEK6 billion in liquid funds at the end of September.

The main long-term credit facilities are a €1.1 billion facility maturing in 2012, a €1.0 billion facility maturing in 2014, and bilateral credit facilities totaling SEK5 billion (the majority expiring in 2010 and 2013). The credit facilities have no financial covenants or material adverse change clauses that would restrict SCA from drawing under them. In October 2008, SCA signed an additional SEK3 billion bilateral bank facility expiring in 2011.

SCA increased utilization of its syndicated credit facilities in the third quarter of 2008, partly as a result of challenging conditions in the commercial paper market.

Excluding commercial paper, SCA's debt maturity profile is relatively extended, with an average maturity of about four years. As of Sept. 30, 2008, the group's debt maturities in 2009 and 2010 amounted to about SEK2.4 billion and SEK2.9 billion, respectively. The corresponding amounts in 2011 and 2012 were about SEK7.5 billion and SEK5.6 billion.

Over the short term, operating cash flow generation is likely to continue to exceed working capital and capital expenditure needs. Furthermore, we assume that SCA has a degree of flexibility in terms of both capital expenditure and dividend payments, if necessary, to avoid liquidity pressure.

Outlook

The negative outlook reflects the possibility that we will lower the ratings if SCA's operating cash flows and credit measures fail to recover over the near to medium term as a result of weaker market conditions. This means, for example, that we would expect adjusted funds from operations to debt to improve to about 30% in 2009. Although not expected, any major debt-financed acquisition would also create downside risk for the ratings.

The outlook could be revised to stable if SCA is successful in improving its operating performance through price increases and/or cost reductions to recover margins and cash flows, as well as maintaining an intermediate financial risk profile, with funds from operations to adjusted debt of about 30%-35%.

Ratings List

Ratings Affirmed; Outlook Action

| | To | From |
|---|-------------------|-----------------|
| Svenska Cellulosa Aktiebolaget SCA Corporate Credit Rating | BBB+/Negative/A-2 | BBB+/Stable/A-2 |

Ratings Affirmed
Commercial Paper

K-1

NB: This list does not include all ratings affected.

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