

**Announcement: Moody's places all ratings of SCA on review for possible downgrade upon acquisition announcement**

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Global Credit Research - 11 Nov 2011

**Approximately EUR 1.4 billion of rated debt affected**

Frankfurt am Main, November 11, 2011 -- Moody's Investors Service has today placed all ratings of Svenska Cellulosa Aktiebolaget SCA (SCA) under review for possible downgrade, including the group's Baa1 senior unsecured rating and the P-2 short term rating as well as the Baa1 senior unsecured rating of its guaranteed finance subsidiary AB SCA Finans.

On Review for Possible Downgrade:

Svenska Cellulosa Aktiebolaget SCA

Short-Term Issuer Rating (foreign currency) of P-2 on watch for possible downgrade

Senior Unsecured (domestic and foreign currency) ratings of Baa1 on watch for possible downgrade

Senior Unsecured MTN (foreign currency) ratings of (P)Baa1 on watch for possible downgrade

AB SCA Finans

BACKED Senior Unsecured (domestic and foreign currency) ratings of Baa1 on watch for possible downgrade

BACKED Senior Unsecured MTN (foreign currency) ratings of (P)Baa1 on watch for possible downgrade

**RATINGS RATIONALE**

The rating action follows SCA's announcement that it has made a binding offer to Georgia-Pacific (GP, rated Baa3 stable) to purchase GP's European tissue operations for a total consideration of EUR1.32 billion. The transaction will be subject to customary consultation with employee representatives and approval by relevant competition authorities.

The proposed purchase of GP's European tissue activities will add about SEK11.9 billion of sales (about 11% of group sales) and is well in line with SCA's communicated strategy to strengthen the group's hygiene operations. Once executed, the transaction will contribute to much needed consolidation of the European tissue market and will enable SCA to clearly enhance its market leading position in both branded and private label consumer tissue as well as in tissue for away-from-home applications in Europe. Moody's estimates the purchase price at around 8x EBITDA and notes SCA's plans to reap sizable synergies and restructuring benefits estimated at EUR125 million over a three year horizon.

To finance the purchase price, SCA has arranged for long-term committed credit facilities. In addition, we note that SCA has recently entered into a transaction encompassing the sale of 50% of its Australasian hygiene operations to Pacific Equity Partners, resulting in disposal proceeds of SEK3.2 billion, which will be used for partial funding. While Moody's understands that the company is committed to delever and to maintain a solid investment grade rating, the review initiated today will mainly focus on (i) progress on the closing of the transaction (ii) details of the financing structure and SCA's ultimate balance sheet structure, (iii) the future level of cash flow generation and profitability determining its capability and timeline to reduce indebtedness, (iv) SCA's potential to generate synergies especially through improved production efficiencies, procurement savings and cost reductions and, (v) the company's positioning towards its customers and relationships with the major retailers and potential to create value from a combination of both company's product portfolio and leveraging the strengthened market position in particular in the consumer tissue business.

The review will also consider the challenges and costs to integrate the sizable operations into SCA's existing tissue operations and the expected timeline until meaningful synergies can likely be realized. Moody's also notes separately, that SCA's operating performance over 2011 has been pressured by high input cost inflation, which resulted in moderately declining operating margins. While SCA has addressed this issue by pricing measures implemented over the past months and as prices for key inputs have started to decline recently, Moody's will also consider the company's progress in recovering higher costs in the assessment of future cash flow generation. At this stage, Moody's believes that a rating downgrade -- if any - as a result of the transaction, assuming no major adjustments to the terms as described above, will likely be limited to one notch.

As communicated in prior publications, 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. These aspects, however, may be balanced by potential benefits from the contemplated acquisition such as synergies, increased diversification or higher purchasing power as well as management's strategy with regards to reducing incremental leverage. Considering today's rating action, an upgrade seems unlikely in the short to medium term based on current information.

The principal methodology used in rating SCA was the Global Packaged Goods Industry Methodology published in July 2009. Please see the Credit Policy page on [www.moody's.com](http://www.moody's.com) for a copy of these methodologies.

Svenska Cellulosa Aktiebolaget SCA ("SCA" or "the company"), headquartered in Stockholm, Sweden, is a global hygiene and paper company that develops and produces personal care products, tissue, packaging solutions, publication papers and solid-wood products. Sales are conducted in some 100 countries. SCA is also the leading private forestland owner in Europe. Last twelve months sales per September 2011 amounted to SEK106.5 billion (c. EUR11.6 billion). SCA has approximately 45,000 employees.

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For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating.

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Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing this review.

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