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CREDIT OPINION
1 December 2016

Update

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RATINGS

Svenska Cellulosa Aktiebolaget SCA

Domicile	Sweden
Long Term Rating	Baa1
Type	Senior Unsecured - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Svenska Cellulosa Aktiebolaget SCA

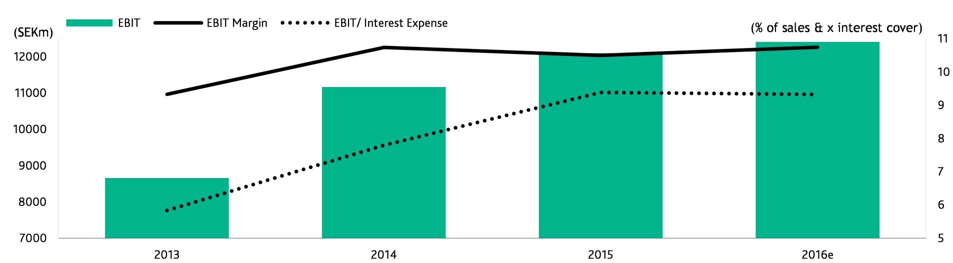
Update Following the Outlook Stabilisation

Summary Rating Rationale

In August 2016 SCA announced that it was preparing to split into two independent listed companies. Until the demerger of the group's Personal Care and Tissue operations is successfully closed, we will continue to look at SCA in its current perimeter. SCA is currently strongly positioned at its rating level of Baa1 evidenced by the group's strong market positions with both branded and private label products in personal care products (30% of net sales in 2015), tissue (55%) and forest products (15%) including paper for packaging and print, market pulp, solid-wood products and renewable energy have helped SCA generate relatively stable results at solid margins through the cycle. The company's strong business profile is to some extent balanced by the fact that the majority of sales is generated in low-growth mature markets, such as Europe (c.63% of group sales in 2015) and North America (c. 10%), as well as gradually rising exposure to higher growth Asian and Latin American markets (c. 27%).

Following the deleveraging to 2.3x debt/ EBITDA as per LTM June 2016 (down from the temporarily higher leverage related to the increased ownership in Vinda in early 2014 and despite the Wausau acquisition in January 2016) in combination with the high profitability and resilience of its hygiene business as well as consistent positive free cash flow generation, SCA is strongly positioned at the current rating level. Risks are related to the integration of acquired assets and realization of targeted synergies, the management of volatile input costs and continued growth ambitions of SCA.

Exhibit 1
Svenska Cellulosa maintains solid profit levels and coverage ratios 2013-2016



Source: Company filings, Moody's Financial Metrics and Moody's estimates

Credit Strengths

» Prior to the split into two entities SCA has a strong business profile with good segmental diversification and well positioned global (Tork, Tena) and regional brands

» Expanding Consumer Products business with positive sales growth supported by bolt-on acquisitions in emerging and mature markets

» Profitability improvements given ongoing efficiency measures and shift towards higher margin product offering

» Conservative financial policy bodes well for stability in leverage

Credit Challenges

» SCA's plan to split the company into two independent listed companies during 2017

» Majority of sales in stable but low-growth domestic markets with periodic overcapacity issues

» Significant exposure to volatile raw material costs which can only be passed on with a time lag

» Ongoing need for innovation in the Personal Care and Tissue business areas to preserve pricing levels

» Event risk: potential M&A activity, alternatively shareholder returns, special dividend

Rating Outlook

The stable outlook reflects Moody's expectation of gradual profitability enhancement in the underlying business on the back of rising demand for its hygiene products, a continued favorable input costs development and a smooth integration of SCA's ongoing acquisitions. In addition, we expect synergies of the transformed group to positively contribute to SCA's profitability and hence a stable rating positioning.

Factors that Could Lead to an Upgrade

» EBIT margins above 12% throughout all business areas

» RCF/Net Debt clearly above 25%

» Continued positive free cash flow generation applied towards debt reduction

Factors that Could Lead to a Downgrade

» Decline of EBIT margins to below 7%

» RCF/Net Debt falling sustainably below 20%

» Free cash flow turning negative

» Erosion of the company's solid liquidity profile

Key Indicators

Exhibit 2

KEY INDICATORS [1]

Svenska Cellulosa Aktiebolaget SCA

	6/30/2016(L)	12/31/2015	12/31/2014	12/31/2013	12/31/2012
Total Sales (USD Billion)	$13.7	$13.7	$15.2	$14.3	$12.6
EBIT Margin	10.8%	10.5%	10.7%	9.3%	8.3%
Debt / EBITDA	2.3x	2.0x	2.6x	2.9x	3.1x
RCF / Net Debt	28.7%	34.2%	23.4%	18.8%	25.5%
EBIT / Interest Expense	10.0x	9.4x	7.8x	5.8x	4.5x

Source: Moody's Financial Metrics

Detailed Rating Considerations

In August 2016 SCA announced that it was preparing to split into two independent listed companies. In October 2016 it provided further clarity around future capital structures of the Forest Products operations that will stay with SCA and Personal Care and Tissue operations that will be transferred to newly created SCA Hygiene AB ("SCAH", Baa1 stable) that will retain essentially all of SCA's external debt subject to debt holders consent and novation of the various unsecured legacy debt instruments. We understand that SCA will provide an interim guarantee to those instruments between transfer of the debt until closing of the spin-off.

Until the demerger is successfully closed, we will continue to look at SCA in its current perimeter, i.e. comprising both Forest Products and the Personal Care and Tissue operations. In this perimeter is SCA solidly positioned in the Baa1 rating category. However, we note that the Forest Products operations on a standalone basis (i.e. future SCA once the demerger completed) would likely to have a rating lower than Baa1 and possibly also lower than its P-2 rating, even with limited external debt attached to those operations. If the unsecured bonds issued by SCA are successfully novated and SCAH becomes their issuer, they

STRONG BUSINESS PROFILE WITH SOLID INVESTMENT GRADE CHARACTERISTICS

SCA is among the leading hygiene and forest products companies globally as reflected in #1 or #2 market positions particularly for the business areas Tissue and Personal Care, in about 90 countries. Following a number of acquisitions and disposals, the group's product portfolio now has a greater focus on hygiene products, with Personal Care and Tissues generating 30% and 55% of reported sales and operating profits of 29% and 52% respectively. This is complemented by 15% of sales and 19% operating profits that are related to Forest Products, with publication paper representing less than 4% of overall group sales within the latter business area.

With its three business areas personal care, tissue and forest products, SCA encompasses a diversified business profile with a high exposure towards stable consumer products end markets. SCA holds solid market shares across its product offerings and carries a good brand portfolio. This is an important consideration given high bargaining power of retailers and challenges from competition in the group's consumer products business areas. The current business setup which was only created during 2012 with the acquisition of Georgia Pacific's European tissue business and the disposal of its packaging division to DS Smith, has performed well so far but we note that the market for forest products remains highly cyclical.

POSITIVE SALES GROWTH DRIVEN BY EMERGING MARKET GROWTH, ACQUISITIONS AND PROFITABILITY IMPROVEMENTS ON THE BACK OF INCREASED HIGHER MARGIN PRODUCT OFFERING

During the first nine months of 2016, SCA's consolidated net sales were flattish compared to the same period a year ago (2% organically excluding exchange rate effects, acquisitions and divestments) while profitability was maintained at an EBIT margin of 10.8% during LTM June 2016 compared to 9.3% in 2013 as adjusted by Moody's) despite greater competition in the global markets for hygiene products offset by low but positive growth in mature markets of Europe and North America and continued favorable growth in Emerging Markets. An improved price mix, higher volumes and cost savings (cost savings associated with the acquisition of Georgia-Pacific's European tissue operations amounted to approximately SEK930m in 2015, concluding the specific programme) helped maintain profitability despite a considerable strengthening of the USD against the SEK and other currencies, which among other things led to higher costs for raw materials, such as pulp, purchased in U.S. dollars. SCA's 5-year SEK7.8 billion investment programme in increased capacity at the Östrand pulp mill in Sweden by 2019 is to improve the group's self-sufficiency in pulp to 40% from 24% (based on 2015 pulp consumption) while providing additional protection against pulp price fluctuations.

We expect SCA to continue to deliver gradually rising profit margins on the back of incremental benefits from ongoing efficiency programs (including at kraftliner mills in Obbola and Munksund) and including cost savings (at Ortviken paper mill) and positive business operation synergies of recent acquisitions including Wausau.

MAJORITY OF SALES IN STABLE BUT OVERALL LOW GROWTH MATURE MARKETS WITH BOLT-ON ACQUISITIONS AND STRATEGIC PROJECTS TO INCREASE EMERGING MARKET EXPOSURE

SCA continues to generate the majority of its sales in fairly mature markets of Europe and North America, both of which are expected to show only moderate growth in the coming years except for incontinence products with growth opportunities as a result of an aging population and so far still limited product use. During recent years the group has, therefore, been increasing its efforts to grow in emerging markets (Asia, Southeast Europe and Latin America), where still significantly lower per capita consumption of tissue and personal care products yet improving disposable income levels and living standards are expected to result in higher demand growth for hygiene products compared to mature Western markets.

Following the 2012 acquisitions of Georgia Pacific's European tissue assets, as well as companies in China, Chile and Taiwan, during Q413 the group acquired additional shares in HongKong Stock exchange listed tissue company Vinda (following minority ownership since 2007), thus becoming the majority shareholder with a 51.4% ownership. Vinda produces consumer tissue, personal care and away-from-home products including toilet paper, boxed facial tissue, paper napkins, paper towels and paper tissues in addition to its extensive distribution network which led SCA to divest of its business in South East Asia, Taiwan and South Korea for integration with Vinda on 1 April 2016. The increased ownership gives SCA access to the rapidly expanding market for tissue products in China, which is estimated to grow by up to 10% annually because of demographic trends towards the occidental lifestyle among Asia's growing young population, rising income levels and urbanization.

In January 2016 SCA closed the ca $687 million acquisition of North American commercial and industrial away-from-home tissue producer Wausau Paper Corp., increasing its market share in the key North America tissue market and generate cost savings that in Moody's view will offset the initially high purchase price. While we expect SCA to continue to play an active role in the consolidation of hygiene activities in emerging markets, we expect M&A transactions to be of bolt-on nature. This is related to the relatively greater fragmentation of these markets with many small players compared to Western Europe and North America.

CONSERVATIVE FINANCIAL POLICY PROVIDES FOR STABILITY IN LEVERAGE

Debt protection metrics such as Debt/EBITDA of 2.3x as per LTM June 2016 have further improved in recent years (down from 3.1x in 2011), also a reflection of the conservative funding for recent acquisitions. We also note positively SCA's history of generating positive free cash flows through the cycle. For 2016, we expect credit metrics to support the strong positioning of SCA in its rating category absent material debt-financed expansion activity. This is supported by contributions from recent acquisitions, gradual cost savings and positive free cash flow generation.

Liquidity Analysis

SCA's liquidity profile is good, supported by our expectation of continued positive free cash flow generation going forward. As per end-September 2016, liquidity needs for the next 12 months primarily include cash outflow for capex, working cash, working capital as well as dividends and scheduled debt repayments of around SEK7 billion over the next 12 months, of which a large portion relate to commercial papers and other loans, which we would expect to be rolled over.

The liquidity uses correspond to cash generation, about SEK4.1 billion of cash as of September 2016 and around SEK19.3 billion availability under various credit facilities, in total SEK23.4 billion. SCA's liquidity profile includes revolving facilities without MAC clauses and other conditionality language, the core of which being two syndicated facilities of each €1.0 billion (maturing in 2019 and 2020). These lines are currently undrawn and serve (partly) as backstop facilities for the commercial paper programme, which is a central source of SCA's short term funding needs. SCA's liquidity is governed by its liquidity reserve policy that aims to maintain cash and cash equivalents and unutilized credit facilities totaling at least 10% of the Group's forecasted annual sales.

Profile

Svenska Cellulosa Aktiebolaget, headquartered in Stockholm, Sweden, is a global hygiene and forest products company that develops and produces personal care products, tissue, publication papers and solid-wood products. Sales are generated in more than 100 countries under regional and global brands including TENA and Tork with a global work force of approximately 44,000 employees. SCA is also the leading private forestland owner in Europe which offers important raw material access to produce solid-wood, pulp (24% self-sufficient in 2015 and mainly for use in tissue production), kraftliners and publication papers. Sales for the last twelve months (LTM) as of September 2016 amounted to approximately SEK115.5 billion

Rating Methodology and Scorecard Factors

The issuer rating of Baa1 is one notch below the indicated score of A3 under Moody's Global Packaged Goods Rating Methodology based on SCA's business profile and expected financial performance as well as the last twelve months as of June 2016 results. The difference is mainly attributed to a weak positioning of SCA in the A category for Geographic diversification and Category assessment sub-factors.

Svenska Cellulosa Aktiebolaget SCA

Exhibit 3

Rating Factors				
Svenska Cellulosa Aktiebolaget SCA				
Consumer Packaged Goods Industry Grid [1][2]	**Current LTM 6/30/2016**		**Moody's 12-18 Month Forward View As of November 2016 [3]**	
Factor 1 : Scale and Diversification (44%)	**Measure**	**Score**	**Measure**	**Score**
a) Total Sales (USD Billion)	$13.7	A	$14 - $14.5	A
b) Geographic Diversification	A	A	A	A
c) Segmental Diversification	Baa	Baa	Baa	Baa
Factor 2 : Franchise Strength and Potential (14%)				
a) Market Share	A	A	A	A
b) Category Assessment	A	A	A	A
Factor 3 : Profitability (7%)				
a) EBIT Margin	10.8%	Ba	10% - 12%	Ba
Factor 4 : Financial Policy (14%)				
a) Financial Policy	A	A	A	A
Factor 5 : Leverage and Coverage (21%)				
a) Debt / EBITDA	2.3x	A	2x - 2.5x	A
b) RCF / Net Debt	28.7%	Baa	28.7%	Baa
c) EBIT / Interest Expense	10.0x	A	8x - 10x	A
Rating:				
a) Indicated Rating from Grid		A3		A3
b) Actual Rating Assigned				Baa1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 6/30/2016(L); Source: Moody's Financial Metrics™
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics

Ratings

Exhibit 4

Category	Moody's Rating
SVENSKA CELLULOSA AKTIEBOLAGET SCA	
Outlook	Stable
Senior Unsecured	Baa1
ST Issuer Rating	P-2

Source: Moody's Investors Service

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