

# Södra Skogsägarna ekonomisk förening

Full Rating Report

## LONG-TERM RATING

**BBB**

## OUTLOOK

**Stable**

## SHORT-TERM RATING

**N-1+**

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## RATING RATIONALE

Our 'BBB' long-term issuer rating on Swedish forestry cooperative Södra Skogsägarna ekonomisk förening (Södra) reflects the company's strong balance sheet, low financial leverage, and healthy cash flows. The rating also reflects Södra's healthy long-term profitability, cost-efficient operations, and extensive geographic reach. We assess the company's liquidity as strong and believe that the current business model and ownership structure help to moderate risk.

The rating is constrained by the forestry sector's historical earnings volatility, which is mainly due to the cyclical markets for market pulp and sawn wood products. Although Södra's credit metrics are currently strong, its financial policy allows for higher leverage, which we reflect in our financial risk assessment. The rating is also constrained by Södra's exposure to homogenous end-products along with the large size of its customers, which effectively reduces the company's bargaining power. We view the company's relatively high customer concentrations, especially in its pulp sales, and its unhedged currency exposures as negative rating factors. Environmental, social and governance (ESG) factors are assessed as neutral even though Södra is under investigation by European authorities over the pricing of market pulp. Like its industry peers, the company is subject to recurring media scrutiny due to concerns about unsustainable harvesting.

## STABLE OUTLOOK

The outlook is stable, reflecting our expectations that Södra's profitability and financial profile will remain strong and cash flows healthy. We expect prices for market pulp and sawn wood products to decrease in 2022 but remain at high levels, following exceptionally strong markets in 2021. In our view, Södra's balance sheet is sufficiently strong to withstand weaker market conditions than at present. The outlook also reflects our expectations that the investigation into market pulp prices will have no or limited repercussions.

### POTENTIAL POSITIVE RATING DRIVERS

- Long-term improvement in financial risk profile, together with a commitment to a reduced risk appetite.
- Improved operational efficiency as a result of better process economics.
- Increased diversity through investments in new value-added products.

### POTENTIAL NEGATIVE RATING DRIVERS

- Deteriorating market fundamentals resulting in a long-term net debt/EBITDA ratio above 2x.
- Unexpected long-term mill outages, impacting costs and volumes.
- Regulatory changes that have a negative effect on the business risk profile, or substantial fines that weaken credit metrics.

Figure 1. Södra key credit metrics, 2018–2024e

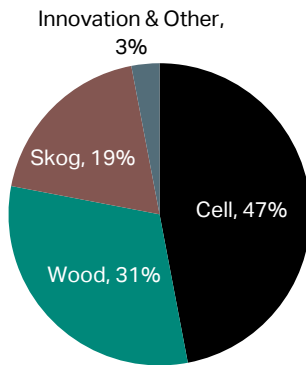
SEKm	2018	2019	2020	2021	2022e	2023e	2024e
Revenues	24,230	23,183	20,351	27,060	29,522	26,970	25,837
NCR-adj. EBITDA	5,532	3,824	2,195	6,752	5,854	5,125	4,542
NCR-adj. EBITDA margin (%)	22.8	16.5	10.8	25.0	19.8	19.0	17.6
NCR-adj. FFO	5,071	3,527	2,068	5,924	5,167	4,570	4,069
NCR-adj. net debt	5,022	4,127	4,336	1,323	1,221	189	-670
Total assets	27,094	29,337	29,253	33,429	36,267	38,244	39,892
NCR-adj. net debt/EBITDA (x)	0.9	1.1	2.0	0.2	0.2	0.0	(0.1)
NCR-adj. EBITDA/net interest (x)	79.0	49.0	25.8	103.9	96.4	73.0	57.7
NCR-adj. FFO/net debt (%)	101.0	85.5	47.7	447.8	423.1	2,421.1	neg.
NCR-adj. FOCF/net debt (%)	(5.0)	68.5	22.1	202.4	144.1	1,448.6	neg.

Based on NCR estimates and company data. e—estimate. FFO—funds from operations. FOCF—free operating cash flow. All metrics adjusted in line with NCR methodology.

### ISSUER PROFILE

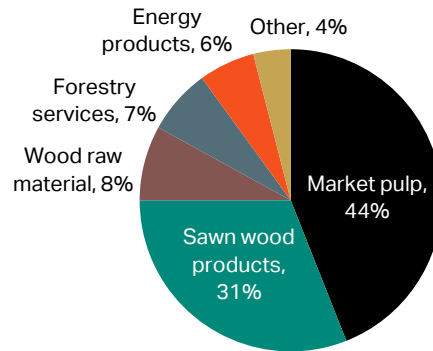
Södra is a leading Swedish forestry cooperative and exporter. It was founded in 1938 following a merger of regional forestry associations in southern Sweden, where its operations are still located. Södra is owned by 52,000 associate members, which own 2.7m hectares of forest land. The company is organised into four main segments: Cell, Wood, Skog (Forest), and Innovation, while some minor operations are bundled together as 'Other segments'. Cell, Wood and Innovation are manufacturing segments producing market pulp, sawn wood products, energy products, and biochemicals/biofuels. Skog is effectively a trading company, buying timber from associate members on behalf of the other three segments. The associate members operate in 19 regional units across southern Sweden and have an option to sell their timber to Skog.

Figure 2. Södra external revenues by segment, 31 Dec. 2021



Source: company.

Figure 3. Södra external revenues by product type, 31 Dec. 2021



Source: company.

### BUSINESS RISK ASSESSMENT

Business risk assessment 'bb+'

Our business risk assessment reflects the volatility of the operating environment as well as Södra's relative strengths in terms of scale, sector and regional concentrations. We also consider its role on behalf of its members and its robust operating efficiency.

#### Volatile prices for market pulp and sawn wood products sensitive to economic cycles

Operating environment 'bb'

Our assessment of the operating environment focuses on the external business conditions for market pulp and sawn wood products. This is because Södra Skog is mainly a facilitator for the Cell and Wood segments, while Södra Innovation is a minor contributor to overall revenues and profits.

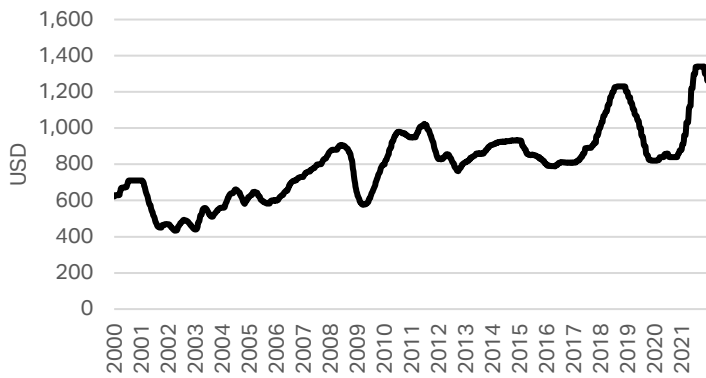
Södra Cell produces pulp of varying quality and sells it on the open market. The most common end-uses of Södra's pulp are tissue paper (42% of 2021 revenues), special products (24%), and publishing and writing paper (20%). We take a favourable view of the exposure to tissue paper and special products due to relatively strong trends within these product types. Södra Cell competes with dedicated and integrated producers located in the Nordic region and elsewhere. It is a price taker in a market strongly characterised by volatile pulp prices (see Figure 4). The segment's main pulp export markets are Europe and Asia, where China has a pronounced pricing impact. We expect pulp prices to decrease in 2022 but remain at high levels, following an exceptionally strong performance in 2021. We believe that near-term demand remains high and that market volumes could level out at relatively low levels as a consequence of Russia's invasion of Ukraine and any resulting sanctions. In addition to pulpwood, the Cell segment is dependent on the price of chemicals used in production, which account for about 10% of input costs.

The market for sawn wood products has lower barriers to entry than the pulp market, making Södra Wood a price taker. Market prices tend to be volatile and sensitive to economic cycles. The segment's main markets are the UK (34% of 2021 revenues), Sweden (23%), and the Netherlands (11%). We expect sawn wood prices to decrease slightly following exceptionally strong prices in 2021, despite positive demand from DIY customers and a general increase in construction involving wood.

All four segments produce energy products, either as a main or by-product. Consequently, Södra is directly exposed to energy prices which have been rising sharply over the past year. Although the

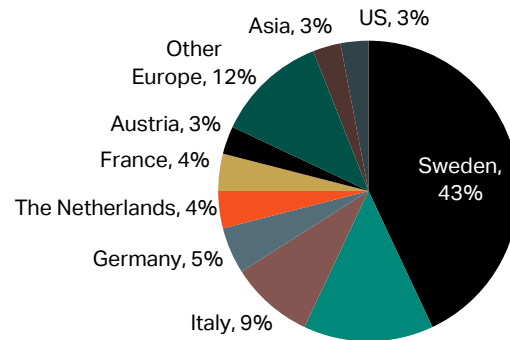
company is a net seller of electricity, customer demand is often price sensitive. For this reason, high electricity prices are likely to have a negative impact over the long term.

Figure 4. Bleached softwood pulp prices (per tonne), 2000–2021



Source: FOEX Indexes Ltd.

Figure 5. Södra revenues by country/region, 31 Dec. 2021



Source: company.

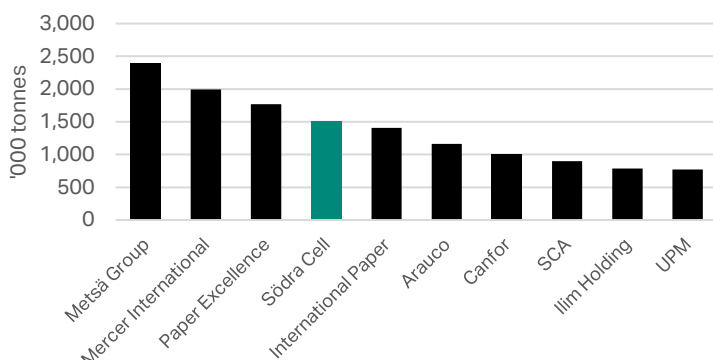
**Solid market position confined by product homogeneity**

Market position 'bb+'

Södra's market position varies across its core markets and is supported by its internal wood sourcing, large and efficient mills, and strong logistics connections. The company has a competitive advantage over its peers because of its large membership and extensive area under forestation. In addition, it owns forest land in Latvia worth an estimated SEK 3.8bn.

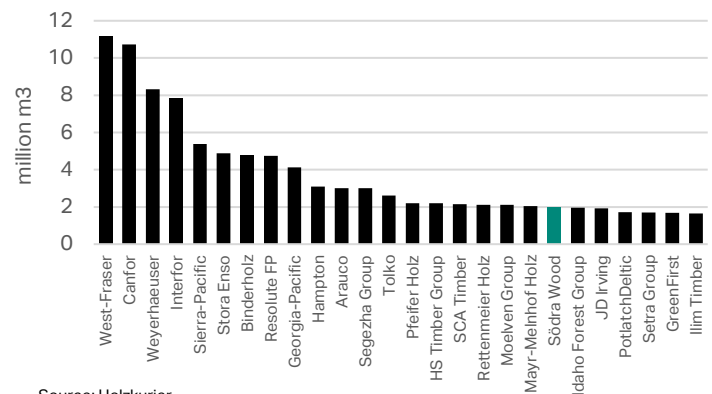
Södra competes in a global market, although most of its sales go to European customers. The Cell segment is the global No. 4 producer of bleached softwood market pulp, producing about 1.8m tonnes yearly. In the Nordic region, Södra Cell competes with peers such as Stora Enso, UPM-Kymmene, Svenska Cellulosa (SCA), BillerudKorsnäs, and Holmen. The segment is also a niche provider of electricity in southern Sweden as pulp mill co-generation produces surpluses that can be sold. In municipalities near the mills, the segment has a strong presence in energy sales as it sells hot water to district heating networks. The Wood segment ranks among the top three producers of sawn wood products in Sweden. Globally, it is among the top 25 producers, which account for a quarter of total global production. The Wood segment is also a major exporter and has market shares of about 10% in the UK and the Netherlands.

Figure 6. Södra Cell global peers, 2021



Source: AFRY AB.

Figure 7. Södra Wood global peers, 2021



Source: Holzkurier.

Most of Södra's output is homogenous and most of its output consists of bulk products. Brands and trademarks are consequently of less importance than those of competitors with end-market exposure to paper and packaging. Despite the homogenous nature of market pulp, Södra has long-lasting relationships with customers, specifically hygiene and specialty product manufacturers, which account for about 66% of the company's pulp sales. However, these customers are generally larger than Södra and therefore have a stronger negotiating position.

Because Södra is the only pulp mill owner wholly located in southern Sweden, it has shorter transport distances to other parts of Europe and more logistics alternatives than its domestic competitors, which gives it a competitive advantage.

Size and diversification  
'bbb-'

**Economies of scale create competitive edge, but diversity limited**

Much of Södra's competitive edge lies in its operational scale, not least in the Cell segment as pulp production is complex and energy intensive. Södra Cell operates three modern pulp mills which are among the 10 largest in the Nordic region. Scale is critical in the pulp industry and the Cell segment is markedly larger than most domestic competitors.

The Wood segment has streamlined its operations over the past few years by restructuring and closing sawmills. In 2021, the segment produced 2.0m cubic metres of sawn wood products and, as of end-2021, operated eight sawmills, making it larger than most of its domestic peers. Södra's largest sawmills are located at the sites of the Cell segment's pulp mill operations, enabling cross-utilisation of energy supply, manpower, warehousing, and transport, while reducing waste.

Södra's geographic diversity is limited given the locations of its forest assets and mills. Customer concentrations differ by product line. The Cell segment's customers are large companies such as European and other international tissue manufactures with production units in western Europe where relatively little softwood pulp is produced. The segment's top five customers account for about 30% of revenues. Customer concentrations in the Wood segment are significantly lower than in the Cell segment. Revenues come from a mix of DIY customers, builders, and makers of wooden structures.

To increase product diversity and earn more from its existing processes, Södra has increased its focus on production of high-margin cross-laminate sawn wood products, biofuels, biochemicals, as well as value-added services such as in-forest monitoring for members. Although these operations remain relatively small, we believe they could improve product diversity over the long term.

**Operating margins average in a homogenous industry**

Operating efficiency  
'bb+'

Because most of Södra's output consists of homogenous bulk products, the company has a strong focus on lowering costs and improving operational efficiency, especially by maximising use of raw materials. Consequently, all of Södra's segments are sellers of energy products, often waste products from production of pulp and sawn wood products.

As a major Nordic operator, Södra generates efficiencies and economies of scale in its two key areas of production. Efficiency is added by the proximity of premises to supplies of pulpwood and sawn timber, and sources of energy. Both the Cell and Wood segments operate at close to full capacity and generate high revenues and output per employee in comparison with their domestic peers.

Södra's profitability margins vary from year to year but are typically in line with the company's peer group average. Margins are naturally volatile due to the cyclical nature of the operating environment combined with Södra's significant earnings in euro and US dollars. Over the past five years, Södra's EBITDA margin (excluding fair value changes) has averaged 19%, placing the company as average within its Nordic peer group. The company's high fixed-cost base results in substantial dependence on volumes to meet its financial profitability targets, requiring high utilisation rates as inadequate production volumes could quickly translate into losses and negative cash flows.

Figure 8. Södra Cell segment peer EBITDA margins, 2017–2021

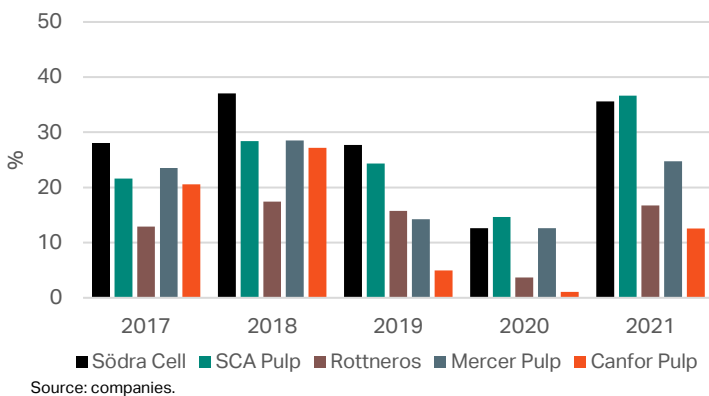
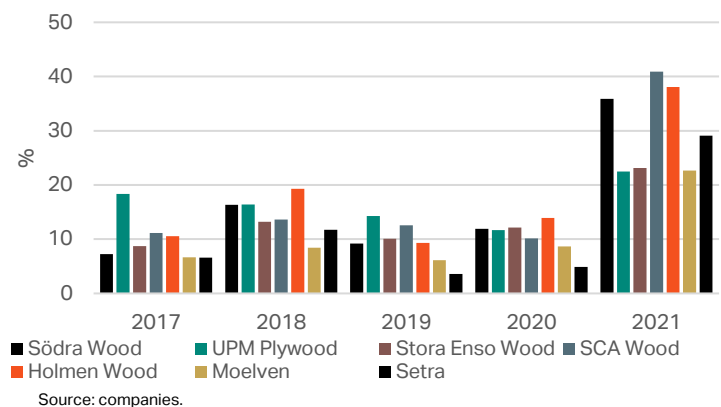


Figure 9. Södra Wood segment peer EBITDA margins, 2017–2021



## FINANCIAL RISK ASSESSMENT

Financial risk  
assessment 'a'

Our financial risk assessment reflects Södra's low leverage, strong cash flow, debt servicing, and interest coverage. We assess Södra's financial risk appetite as greater than warranted by our ratio analysis, reflecting the cyclical nature of the company's operations, as well as its financial policy which allows for higher leverage than current levels.

### Leverage low, debt servicing strong

Ratio analysis 'aa-'

Due to the cyclical nature of the operating environment, Södra's key credit metrics (and profitability margins) tend to vary due to prevailing market conditions. In 2021, the company's financial profile was boosted by exceptionally strong prices for both market pulp and sawn wood products, resulting in substantial deleveraging. We expect operational tailwinds to remain favourable, but assume credit metrics will continue to show volatility.

In our base case for the forecast period through 2024 we assume:

- revenue growth of 9% in 2022 followed by decreases of 9% in 2023 and 4% in 2024;
- a gross profit margin of 38–40%;
- an EBITDA margin of 17–20%;
- capital spending of SEK 2.8bn in 2022, SEK 2.0bn in 2023, and SEK 2.0m in 2024;
- yearly pulp production of 1.9 million tonnes;
- yearly production of sawn wood products amounting to 2.1 million cubic meters;
- yearly dividends amounting to 50% of the previous year's pre-tax profit; and
- effective retention of about 50% of cash dividends paid to members in the form of new member loans to the company.

On the basis of these assumptions, we estimate the following metrics for 2022–2024:

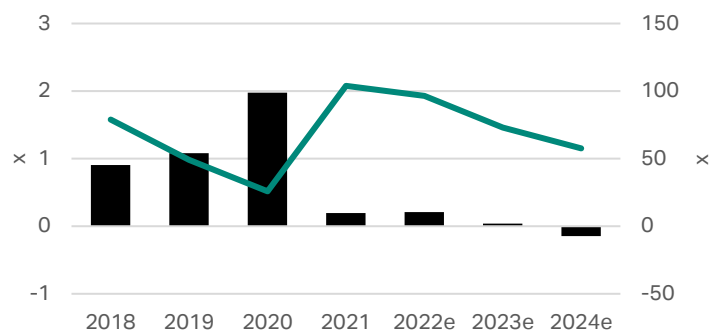
- NCR-adjusted net debt/EBITDA of about 0x;
- NCR-adjusted EBITDA/net interest of 50–100x;
- NCR-adjusted FFO/net debt of 400–2,500%; and
- NCR-adjusted FOCF/net debt of 140–1,500%.

Figure 10. NCR's adjustments to Södra's credit metrics, 2018–2024e

SEKm	2018	2019	2020	2021	2022e	2023e	2024e
Reported EBITDA (operating profit before depreciation)	5,654	3,897	2,164	6,811	5,854	5,140	4,535
Non-EBITDA income/expenses	-79	-38	-87	-12	0	-15	7
Share of profit in JVs and associates	-43	-35	118	-47	0	0	0
NCR-adjusted EBITDA	5,532	3,824	2,195	6,752	5,854	5,125	4,542
Reported net interest	-77	-87	-145	-83	-61	-70	-79
Non-recurring items	7	9	60	18	0	0	0
NCR-adjusted net interest	-70	-78	-85	-65	-61	-70	-79
NCR-adjusted EBITDA	5,532	3,824	2,195	6,752	5,854	5,125	4,542
NCR-adjusted net interest	-70	-78	-85	-65	-61	-70	-79
Current taxes	-391	-219	-42	-763	-626	-484	-395
NCR-adjusted FFO	5,071	3,527	2,068	5,924	5,167	4,570	4,069
NCR-adjusted FFO	5,071	3,527	2,068	5,924	5,167	4,570	4,069
Capital spending	-4,380	-1,128	-1,549	-1,830	-2,800	-2,000	-2,000
Changes in working capital	-944	429	439	-1,416	-608	164	125
NCR-adjusted FOCF	-253	2,828	958	2,678	1,760	2,735	2,194
Cash and cash equivalents	873	2,072	2,300	3,674	4,605	6,496	8,018
Short-term liquidity placements	199	938	887	1,648	1,648	1,648	1,648
Less 25% short-term liquidity placements	-50	-235	-222	-412	-412	-412	-412
NCR-adjusted cash and equivalents	1,022	2,776	2,965	4,910	5,841	7,732	9,254
Gross interest-bearing debt	5,630	6,097	6,483	5,785	6,614	7,473	8,137
Non-current leasing liabilities	0	210	139	128	128	128	128
Current leasing liabilities	0	118	76	77	77	77	77
Retirement benefit obligations	414	477	463	243	243	243	243
Leasing liabilities in assets held for sale	0	0	140	0	0	0	0
NCR-adjusted cash and equivalents	-1,022	-2,776	-2,965	-4,910	-5,841	-7,732	-9,254
NCR-adjusted net debt	5,022	4,127	4,336	1,323	1,221	189	-670

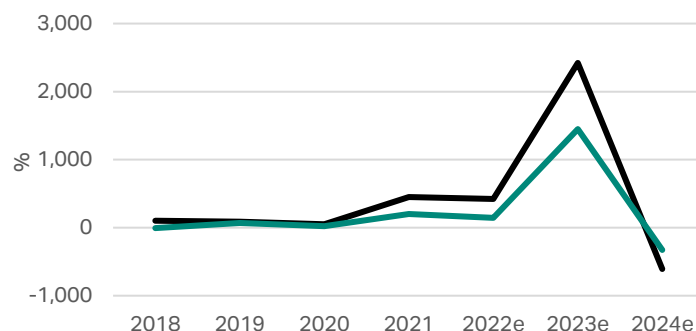
Based on NCR estimates and company data. e—estimate. JVs—joint ventures.

Figure 11. Södra NCR-adj. net debt/EBITDA and EBITDA/net interest, 2018–2024e



Based on company and NCR data. e—estimate.

Figure 12. Södra NCR-adj. FFO/net debt and, FOCF/net debt, 2018–2024e



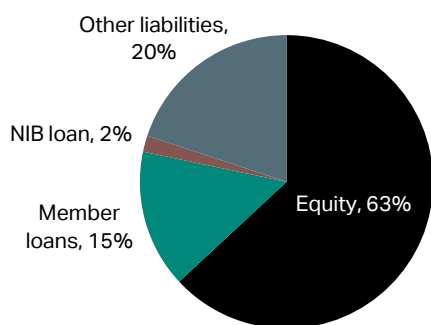
Based on company and NCR data. e—estimate.

### Cyclicality and volatile metrics constrain financial risk assessment

Risk appetite 'bbb+'

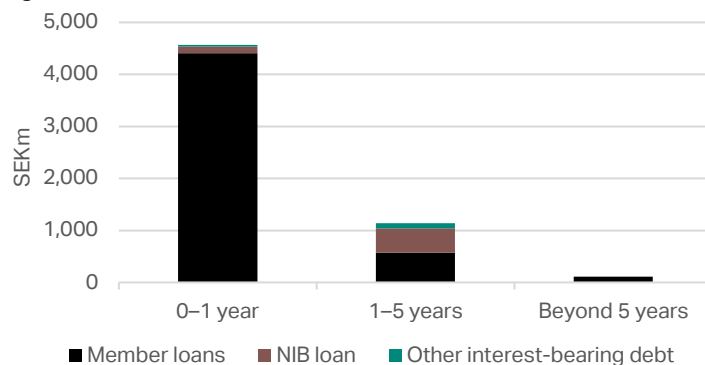
Södra finances its operations through a mix of equity, member loans, and a loan from the Nordic Investment Bank (NIB). As of end-2021, the company's equity amounted to SEK 21.1bn, consisting of SEK 5.1bn in member capital and SEK 16.0bn in other equity. As of 31 Dec. 2021, total interest-bearing debt (excluding leasing liabilities) stood at SEK 5.8bn, of which SEK 4.4bn was comprised of cancellable short-term member loans. These loans could appear to be a significant contributor to refinancing risk, but historically have been held well beyond their maturity dates. To meet the unlikely event of substantial withdrawals, Södra maintains a total of SEK 4bn in unutilised credit facilities. As of 31 Dec. 2021, Södra had no outstanding market loans. We expect the company to return to the debt capital markets if necessary.

Figure 13. Södra funding profile, 31 Dec. 2021



Source: company.

Figure 14. Södra debt maturities, 31 Dec. 2021



Source: company.

Södra's interest-bearing debt is governed by two covenants; we note that the company has historically maintained healthy covenant headroom. Corporate financial policy stipulates profitability, equity ratio and dividend targets (see Figure 15). In our assessment, the minimum 55% equity ratio target is adequate given the cyclical nature of the sector. However, we note that the financial policy allows for significantly higher leverage than current levels and that Södra, as a member association, has no clearly outlined procedures for equity injections, clearly reducing its ability to restore the equity ratio should it fall below target.

Figure 15. Södra financial covenants, policies and reported metrics

Metric	Common covenants	Financial policy targets	Reported 31 Dec. 2021
Net debt/equity ratio	≤0.7x	-	0.0x
Equity ratio	≥40%	≥55%	63%
Return on capital employed	-	≥10%	25%
Dividend, as percentage of profit before tax	-	≥50%	43%

Source: company.

Södra aims to pay 50% of pre-tax profit in dividends to members over the long term and has historically paid substantial dividends, even following years of reported losses. Dividends consist of three parts: interest on member capital; compensation for wood deliveries; and new issues of member capital. The latter is a form of value transfer, converting collectively owned equity to individually owned equity, and has no effect on liquidity. Dividends on member capital and wood deliveries are paid into member accounts with favourable interest rates. Members have an option to leave their dividends in their member accounts, thereby reducing any negative impact on cash flow. Typically, about 50% of dividends paid into member accounts remain there, effectively becoming loans to the company.

Pulp prices are denominated in US dollars, but many of Södra's paper-manufacturing customers are located in the euro area. Consequently, both currencies have a major impact on the company's financial performance. As the UK is an important market for sawn wood, Södra also has considerable exposure to sterling. Despite its significant currency exposure, the company does not typically hedge currency risk, other than as part of its regular translation exposure. In addition, price exposure to pulp and sawn wood products is also unhedged, which is common among most of the company's integrated peers. We view these currency and end-product price exposures as risks but believe that they are mitigated by Södra's strong balance sheet.

#### ADJUSTMENT FACTORS

Adjustment factors neutral

Adjustment factors are assessed as neutral and have no effect on our standalone credit assessment.

#### Liquidity

Liquidity adequate

Our 12-month liquidity analysis is based on a stressed scenario in which the company cannot access the capital markets or extend bank loans, and therefore has to rely on internal or committed external funding sources to cover its liquidity needs. We typically expect an investment grade company to cover all liquidity needs over the coming 12 months.

We assess Södra's liquidity as adequate given the company's sources to uses ratio of 3.6x. Liquidity is supported by the company's strong cash position following an exceptionally strong performance in 2021, as well as large unutilised credit facilities. We believe that substantial withdrawals from member accounts in 2022 are unlikely despite theoretical short-dated maturities of SEK 4.4m in member loans. Accordingly, we exclude member loans from our calculation of uses of liquidity for the year. In the unlikely event of a run on member accounts, we consider that Södra's strong cash position and large credit facilities offer adequate protection.

We estimate the following primary liquidity sources for the 12 months ending 31 Dec. 2022, totalling SEK 12.8bn:

- SEK 3.7bn in cash and cash equivalents;
- SEK 1.2bn in adjusted short-term liquid placements, equal to 75% of balance-sheet items;
- SEK 3.9bn, equal to 75% of FFO; and
- SEK 4.0bn in unutilised credit facilities.

This compares with the following uses of liquidity, totalling SEK 3.5bn:

- SEK 0.1bn in amortisation;
- SEK 2.8bn in capital spending; and
- SEK 0.6bn in working capital needs.

#### **Environmental, social and governance factors**

ESG factors adequate

Södra publishes an annual externally audited sustainability report that follows the principles of the Global Reporting Initiative. Transparency is a major focus because of the high risk of direct environmental impact, especially in terms of sustainable forestry and resource efficiency.

Forestry is part of the EU's Sustainable Finance Taxonomy but the final form of the project is currently unclear in view of likely objections to proposed thresholds or screening criteria. Södra sources certified wood according to defined standards and carries out sustainable harvesting at levels that are well within approved limits. The company generally scores well in terms of its impact on soil and water, while other parameters such as energy use have improved. Södra's own energy use generates net zero CO<sub>2</sub> emissions although external emissions such as those from transport are increasing. Importantly, Södra generates more energy in total than it consumes and is a net seller of fossil free energy. In addition, the company's handling of residuals is becoming more efficient due to an increased focus on circularity.

The main ESG issues that could affect our overall assessment of Södra's creditworthiness are factors that might contribute to increased regulation, negative media attention, fines, or loss of production (see Figure 16).



Figure 16. Södra ESG considerations

Issue	Risk	Mitigating efforts	Result
Direct impact on biodiversity and climate due to large-scale harvesting	Increased regulation or negative media attention affecting business opportunities.	Working actively with members and external forest owners towards sustainable harvesting (targets 95% approved "green" harvest sites) through codes of conduct and targets sourcing only certified wood (FSC and PEFC). Active role in public debates.	In 2021, the proportion of approved "green" harvest sites was 78%. Two-thirds of wood sourced from members was certified.
Emissions from processes	Increased regulation, loss of licence to operate, or worsened relationships with stakeholders.	Investment, new processes, products and technology. Goal to reduce overall emissions and environmental impact.	Accounting for coal reserves in member forests and substitution effects of end-customers using wood instead of e.g. plastic or concrete. Södra is net fossil fuel free, even though it emits 0.7m tonnes of CO <sub>2</sub> yearly.
Other direct regulatory risk including governance matters	Regulatory breaches and cancellation of approvals, certifications, or licences, resulting in fines or negatively impacting production and exports.	Active dialogue with members and other stakeholders. Codes of conduct to mitigate conflicts of interest. External audits. Whistle blowing function.	Ongoing investigation into the pricing of market pulp. Södra is co-operating with authorities and expects no repercussions.
Incident and other health and safety risk	Incidents which could halt production and fatal accidents, increasing costs, possibly closing units, and lowering volumes.	Targets a lost time accident rate of less than 5 by 2025.	The lost time accident rate has decreased steadily in the past few years, but increased to 11 in 2021, from 9 in 2020.
Biological and weather-related risk	Insect infestation and unpredictable weather events, such as major storms, affecting timber supply and quality.	Actively works to help members counter serious infestation through selection of plants, monitoring, mechanical measures, and specific harvesting techniques.	Spruce beetle infestation remains an issue, although risks are mostly borne by members. Major storms continue to affect supply of timber.

Source: company. FSC–Forest Stewardship Council. PEFC–Programme for the Endorsement of Forest Certification.

### OWNERSHIP ANALYSIS

Ownership neutral

We view Södra's ownership as supportive of the company's relatively low-risk strategy and solid financial position. In our view the cooperative structure generates solid financial results for the associate members while maintaining a balanced approach to risk. Generally, many of the associate members have little debt and a significant part of their wealth is tied up in forest assets with limited alternative use, suggesting there would be mutual benefit to supporting Södra should a need for new equity arise. However, as a member association, Södra does not have clearly outlined procedures for equity injections, clearly reducing its ability to obtain new equity if needed.

### ISSUE RATINGS

As of 31 Dec. 2021, Södra had no outstanding debt instruments. If the company were to issue senior unsecured debt, we would likely rate such instruments in line with the 'BBB' issuer rating, reflecting Södra's flat debtor hierarchy and large proportion unsecured debt.

**Figure 17. Södra key financial data, 2018–2021**

SEKm	2018	2019	2020	2021
<b>INCOME STATEMENT</b>				
Total revenue	24,230	23,183	20,351	27,060
Gross profit	10,894	8,979	6,892	12,929
EBITDA (operating profit before depreciation)	5,654	3,897	2,164	6,811
EBIT	4,508	2,582	891	5,316
Net financial items	-77	-87	-145	-83
Pre-tax profit	4,431	2,495	746	5,233
<b>Net profit</b>	<b>3,730</b>	<b>2,172</b>	<b>142</b>	<b>4,483</b>
<b>BALANCE SHEET</b>				
Property, plant and equipment	17,598	17,708	18,385	19,075
Goodwill	240	253	74	63
Intangible assets other than goodwill	151	140	33	3
Interests in associates	310	324	367	256
Other non-current assets	109	380	291	367
<b>Non-current assets</b>	<b>18,408</b>	<b>18,805</b>	<b>19,150</b>	<b>19,764</b>
Cash and cash equivalents	873	2,072	2,300	3,674
Other current assets	7,813	8,460	7,803	9,991
<b>Total current assets</b>	<b>8,686</b>	<b>10,532</b>	<b>10,103</b>	<b>13,665</b>
<b>Total assets</b>	<b>27,094</b>	<b>29,337</b>	<b>29,253</b>	<b>33,429</b>
Total equity	16,011	17,382	16,759	21,088
Long-term borrowings	2,465	2,368	1,248	1,246
Long-term leasing liabilities	0	210	139	128
Retirement benefit obligations	414	477	463	243
Deferred tax liabilities	1,478	1,554	1,624	1,663
Other long-term liabilities	141	178	107	388
<b>Non-current liabilities</b>	<b>4,498</b>	<b>4,787</b>	<b>3,581</b>	<b>3,668</b>
Current liabilities	6,585	7,168	8,913	8,673
<b>Total equity and liabilities</b>	<b>27,094</b>	<b>29,337</b>	<b>29,253</b>	<b>33,429</b>
<b>CASH FLOW STATEMENT</b>				
Pre-tax profit	4,431	2,495	746	5,233
Adjustment for items not in cash flow	783	419	1,132	1,373
<b>Cash flow before changes in working capital</b>	<b>5,214</b>	<b>2,914</b>	<b>1,878</b>	<b>6,606</b>
Changes in working capital	-944	429	439	-1,416
<b>Operating cash flow</b>	<b>4,270</b>	<b>3,343</b>	<b>2,317</b>	<b>5,190</b>
Cash flow from investing activities	-4,412	-1,116	-1,671	-1,998
Cash flow from financing activities	-117	-1,036	-404	-1,828
Exchange rate effects on cash and cash equivalents	10	8	-14	10
Cash and cash equivalents at start of year	1,122	873	2,072	2,300
<b>Cash flow for year</b>	<b>-249</b>	<b>1,199</b>	<b>228</b>	<b>1,374</b>
Cash and cash equivalents at end of year	873	2,072	2,300	3,674

Source: company.

**Figure 18. Södra rating scorecard**

<b>Subfactors</b>	<b>Impact</b>	<b>Score</b>
Operating environment	20.0%	bb
Market position	10.0%	bb+
Size and diversification	10.0%	bbb-
Operating efficiency	10.0%	bb+
<b>Business risk assessment</b>	<b>50.0%</b>	<b>bb+</b>
Ratio analysis		aa-
Risk appetite		bbb+
<b>Financial risk assessment</b>	<b>50.0%</b>	<b>a</b>
<b>Indicative credit assessment</b>		<b>bbb</b>
Liquidity		Adequate
ESG		Adequate
Peer comparisons		Neutral
<b>Stand-alone credit assessment</b>		<b>bbb</b>
Support analysis		Neutral
<b>Issuer rating</b>		<b>BBB</b>
Outlook		Stable
<b>Short-term rating</b>		<b>N-1+</b>

**Figure 19. Capital structure ratings**

<b>Seniority</b>	<b>Rating</b>
Senior unsecured	BBB

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