



Södra's interim report

1 April–30 June 2017

- Net sales amounted to SEK 5,244 million (4,953)
- Operating profit before depreciation, amortisation and impairment (EBITDA) was SEK 776 million (377)
- Operating profit totalled SEK 464 million (50)
- Cash flow after investments was SEK 261 million (neg: 598)

Key indicators	2017 Apr-Jun	2016 Apr-Jun	2017 Jan-Jun	2016 Jan-Jun	2016 Jan-Dec
Net sales, SEK million	5,244	4,953	10,342	9,498	18,482
Operating profit before depreciation, amortisation and impairment (EBITDA), SEK million	776	377	1,537	861	2,101
Operating profit (EBIT), SEK million	464	50	915	299	1,005
Profit before income tax, SEK million	444	37	874	270	939
EBITDA margin, %	15	8	15	9	11
Operating margin, %	9	1	9	3	5
Return on capital employed, %			11	4	7
Equity ratio, %			55	52	55
Cash flow after investments, SEK million	261	-598	193	-1,199	-1,581
No. of employees			3,585	3,726	3,594
Occupational injuries with absence, no.	14	18	44	42	94
Lost-time accident rate (LTAR*)	9	11	15	14	16

* LTAR (lost time accident rate): the number of occupational injuries with sickness absence per million hours worked.

This is Södra

Founded in 1938, Södra is Sweden's largest forest-owner association, with more than 50,000 forest owners as its members. Södra is also an international forest industry Group, with operations based on processing its members' forest products. Södra is one of the largest European suppliers of market pulp, and has one of the largest sawmill operations in Sweden. In 2016, the wood volume was 15 million m³sub, sales amounted to SEK 18.5 billion and employees totalled 3,600.



Favourable economic climate and strong result

Södra reported strong operating profit for the second quarter. The trend was boosted by favourable demand for Södra's products, higher prices and internal operational improvements. Efforts to increase our strength and focus, based on Södra's new strategic direction, will continue unabated.

The overall forest economy remains strong, which is to Södra's advantage. Much seems to indicate that this trend will continue throughout 2017. Higher prices for both market pulp and sawn timber contributed to a strong quarter for Södra. A firmer customer and market orientation is also yielding results. In addition, the expansion investments at our pulp mills and the restructuring process in the sawmill operations had a positive impact on operating profit.

Operating profit for the second quarter totalled SEK 464 million (50), representing a major earnings improvement. All business areas reported higher year-on-year operating profit. Accumulated operating profit for the first half-year totalled SEK 915 million (299). Södra's sales are growing due to the increased production volumes enabled by investments in the expansion of our pulp mills. This development is in line with expectations. Södra's currency basket performed favourably, despite a slight deterioration compared with the prevailing exchange rates during the first quarter. Södra is achieving and surpassing its financial targets.

Demand for paper pulp is expected to be favourable in the coming months, but the additional production volumes due to the expansion of other long-fibre pulp producers may have a dampening effect on the price trend. The market for sawn timber should remain strong for the rest of the year, boosted by the high level of construction activity in Sweden as well as globally.

The raw material supply to Södra's production facilities is favourable. Due to higher prices for saw logs and pulpwood, Södra's market offering to forest owners is very strong.

Efforts to further drive digitisation within the organisation will bring gradual changes to Södra's business model. As a forest company, Södra aims to be at the forefront of this development. Our innovation portfolio also includes several new viable product and service initiatives that may soon be commercialised. Södra's contribution to forest industry-related research projects through the Södra Research Foundation plays a key role here, as well as the development of strategic collaborations. One such



example is the development of a totally biodegradable, fibre-based packaging material for Svensk Butikskött's meat products based on Durapulp – a renewable material developed by Södra.

Unfortunately, we are living in a time of growing uncertainty, both politically and economically, and that is something that we, as a company, will always have to handle as best we can. The best way to meet an uncertain future is to be transparent and flexible, while continuously working to strengthen and develop our global competitiveness. That is what we are strengthening and focusing on at Södra.

Lars Idermark
President and CEO, Södra



The period in brief

Operating profit for the second quarter of 2017 totalled SEK 464 million, compared with SEK 50 million in the year-earlier period. Return on capital employed was 11 per cent (4), and the equity ratio 55 percent (52).

MARKET CONDITIONS

The political uncertainty that dominated the first quarter of the year also impacted the second quarter. The results of the French presidential election had a positive effect on geopolitical concerns, while the UK parliamentary election weakened the Conservative government, who lost their overall majority. While the likelihood of a hard Brexit was thereby reduced, domestic political concerns had a negative effect on the GBP. Nonetheless, the European economic indicators remain favourable. GDP growth in the eurozone is expected to rise slightly in 2017 compared with 2016, while overall growth in Europe is expected to remain unchanged.

In the US, it remains uncertain whether the Trump administration will deliver on its election promises of tax reforms and an infrastructure plan. Falling unemployment and rising real wages indicate continued positive economic growth.

Economic growth in Nordic countries is also favourable. In Sweden, residential construction activity and the public sector are the main drivers of growth, while the export industry is benefitting from the continued weak SEK. Denmark is favoured by increased foreign demand, and industrial indicators in Finland have reached their highest levels for several years. In Norway, investment activity is also improving and exports are rising.

Despite the uncertain geopolitical situation, the forecast for economic growth is generally optimistic.

Exchange rate movements against the USD are most relevant for Södra's pulp operations, while GBP rates are highly significant for the sawmill operations,

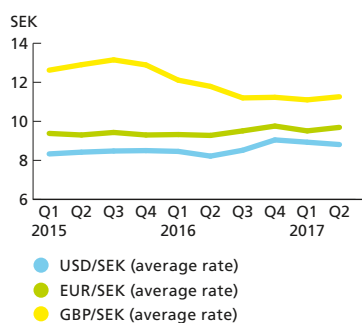
since the UK is Södra's largest export market for sawn timber. At the end of the quarter, the SEK was slightly weaker than the EUR compared with the preceding quarter, but stronger than the USD and the GBP.

Demand for saw logs remained high during the second quarter, due to improved market conditions for sawn timber. The high level of demand is expected to continue for the rest of the year. While supplies of softwood and hardwood pulp are favourable, volumes must be increased in the coming quarter to meet growing market demand.

The market for sawn timber remains favourable. Due to increased demand in the US and China, in particular, global supplies are not meeting market demand, despite production increases. Construction activity is favourable in the US, as well as in major parts of Europe, with strong demand in such countries as Sweden and the Netherlands. In the UK, the building trade is somewhat hesitant, but timber-frame buildings continue to gain market share. To date, the price trend in the UK has offset the volatility of the GBP, but exchange-rate fluctuations in the future will present a challenge. The overall assessment of the market for sawn timber remains favourable. With reservation for any changes in the political situation, the high level of demand is also expected to continue in future quarters.

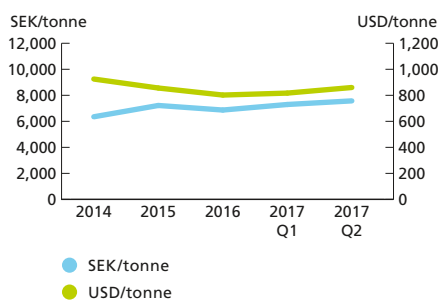
The market for interior wood was marked by intensified competition again in the second quarter. A growing number of players offering white-painted moulding led to substantial price pressure, followed by lower volumes and shrinking margins.

FOREIGN EXCHANGE RATES



Source: ECB

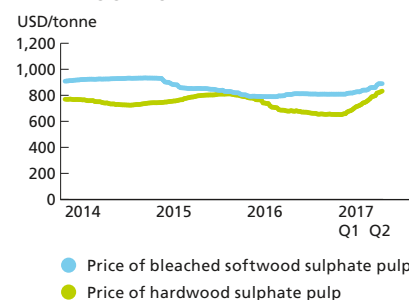
PULP PRICES



In the second quarter of 2017, the price of bleached softwood sulphate pulp continued to rise in USD. The diagram shows the average prices for softwood sulphate pulp delivered to European customers.

Source: Foex PIX Pulp Index

LIST PRICE FOR SOFTWOOD AND HARDWOOD PULP



In the second quarter of 2017, prices for both softwood and hardwood pulp increased. The diagram shows gross prices before discounts in the North European market.

Source: Bloomberg



A strong trend in the market for bleached sulphate pulp continued in the second quarter. Low producer stock levels are a clear indication of this development, and the reason why there was no surplus of pulp in the market. Prices subsequently continued to rise in the second quarter. At the end of June 2017, the list price for bleached softwood sulphate was USD 890 per tonne, compared with USD 840 at the end of March 2017. Due to market conditions and the subsequently favourable price level, the third quarter began on a positive note, despite a generally low level of demand during the summer months. In the future, a new production facility in Finland will increase supplies of bleached softwood sulphate and have a dampening effect on price levels.

The market for hardwood sulphate pulp also improved in the second quarter. At the end of the second quarter, the list price was USD 860, which was USD 130 higher than the corresponding price at the end of March 2017, and USD 205 higher than at year-end.

In the second quarter, prices for dissolving pulp declined from USD 950 at the beginning of the period to USD 840 by the end of the quarter.

NET SALES

In the second quarter, consolidated net sales amounted to SEK 5,244 million (4,953), up 6 percent. Growth was mainly driven by the Södra Cell business area.

Sales for the first half-year amounted to SEK 10,342 million (9,498), corresponding to an increase of 9 percent.

RESULT

Operating profit for the second quarter totalled SEK 464 million (50), representing an operating margin of 9 percent (1). Tax expense for the period was SEK 49 million (1).

The preceding year's result was impacted by a non-recurring cost of SEK 204 million in Södra Wood, but even when discounting this, the Group's result doubled. The sharp upward trend in operating profit was mainly due to favourable market conditions for both Södra Cell and Södra Wood, with high price levels and strong demand for both paper pulp and sawn timber. The effects of Södra Wood's ongoing restructuring process also contributed. The result was also impacted by positive exchange rates.

At the end of the quarter, return on capital employed was 11 percent (4).

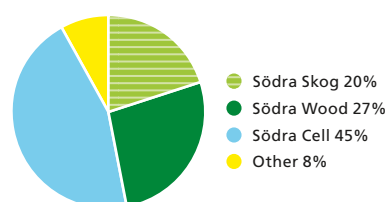
Accumulated operating profit for the first half-year totalled SEK 915 million (299), corresponding to an operating margin of 9 percent (3). The upward profitability trend was mainly due to positive volume growth. Profit before tax amounted to SEK 874 million (270). Accumulated tax expense was SEK 106 million (41).

BUSINESS AREAS

SEK million	Net sales					Operating profit/loss				
	2017 Apr-Jun	2016 Apr-Jun	2017 Jan-Jun	2016 Jan-Jun	2016 Jan-Dec	2017 Apr-Jun	2016 Apr-Jun	2017 Jan-Jun	2016 Jan-Jun	2016 Jan-Dec
Södra Skog	2,481	2,384	5,037	4,756	9,139	37	36	53	54	67
Södra Wood	1,600	1,753	3,139	3,146	6,091	50	-204	53	-297	-302
Södra Cell	2,378	1,985	4,749	4,032	7,845	418	253	875	624	1,368
Other/eliminations*	-1,215	-1,169	-2,583	-2,436	-4,593	-41	-35	-66	-82	-128
Group	5,244	4,953	10,342	9,498	18,482	464	50	915	299	1,005

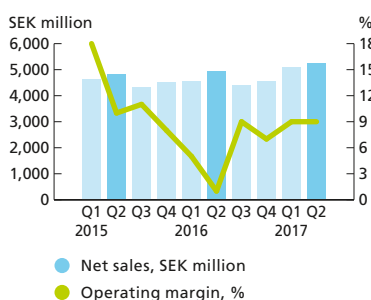
* Includes the wholly owned subsidiary Trivselhus with quarterly sales of SEK 405 million (298) and operating profit of SEK 9 million (22) for the period.

SALES PER BUSINESS AREA

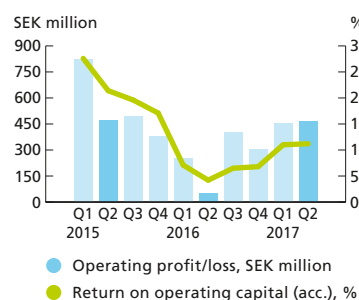


SEK 5,244 million in total, excluding internal deliveries.

NET SALES AND OPERATING MARGIN



OPERATING PROFIT/LOSS AND RETURN ON CAPITAL EMPLOYED



Södra's financial target is a minimum long-term return of 10 percent on capital employed.



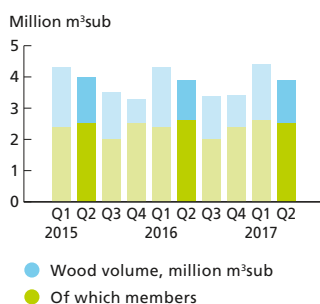
Business areas

Södra Skog

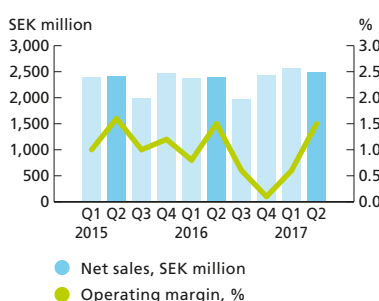
Södra Skog's operating profit for the quarter totalled SEK 37 million (36), reflecting volume growth of 4 percent. During the period, Södra Skog purchased 3.9 million m³sub, comprising 57 percent pulpwood and cellulose chips, 34 percent saw logs and 9 percent biofuels.

For the first half-year, Södra Skog's operating profit was SEK 53 million (54). The earnings trend reflects slightly higher expenses.

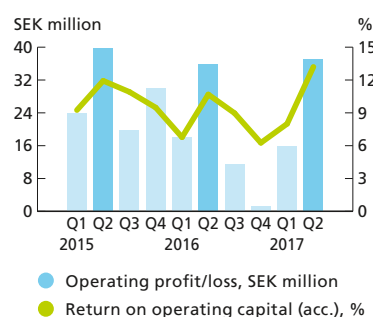
WOOD VOLUME



NET SALES AND OPERATING MARGIN



OPERATING PROFIT/LOSS AND RETURN



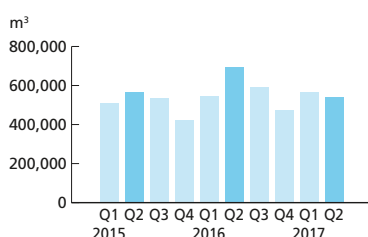
Södra Wood

Södra Wood's operating profit for the second quarter totalled SEK 50 million (loss: 204). The sharply increased result was mainly due to improved earnings for sawn timber. In addition, the second quarter of 2016 was impacted by a non-recurring cost of SEK 204 million related to the restructuring of Södra Wood's sawmill operations. This restructuring has generated results, with the addition of a continued upward price trend for sawn timber and strong demand. As a deliberate consequence of the restructuring measures, the sawn timber volumes delivered by Södra's Swedish operations declined slightly, which was offset by the upward price trend.

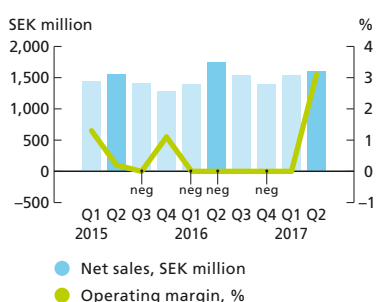
A higher price level was achieved in the second quarter and, combined with continued strong demand, is an indication that Södra Wood's positive trend will also continue in the third quarter. The increase in timber prices announced in April have not yet had any effect but, with reservation for any other changes, are expected to have a negative impact on the operating margin.

For the first half-year, Södra Wood's operating profit totalled SEK 53 million (loss: 297). The year-on-year improvement was due to favourable market conditions, combined with the ongoing restructuring process.

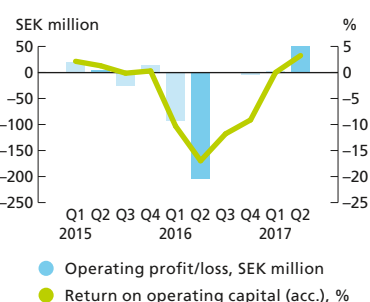
SALES VOLUME



NET SALES AND OPERATING MARGIN



OPERATING PROFIT/LOSS AND RETURN





Södra Cell

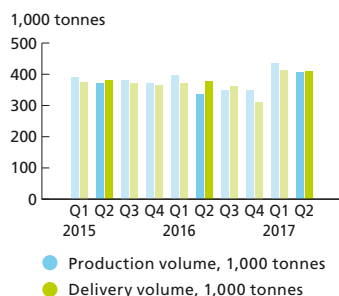
Södra Cell's operating profit for the second quarter totalled SEK 418 million (253), an improvement of 65 percent. The earnings trend was mainly due to higher volumes and a 20-percent increase in quarterly sales. Following the extensive expansion investments of recent years, the pulp mill at Värö has been fully operational since autumn 2016 and capacity is increasing according to plan, resulting in higher production and delivery volumes. The result was also positively impacted by the higher price level for softwood sulphate pulp. The USD exchange rate has a major impact on the business area's sales, since 65 percent of sales are invoiced in USD. The currency situation was mainly favourable throughout the quarter, despite a significant strengthening of the SEK against the USD in June.

The second-quarter production volume was 406,000 tonnes, comprising approximately 327,000 tonnes of softwood sulphate pulp, 46,000 tonnes of hardwood sulphate pulp and 33,000 tonnes of dissolving pulp.

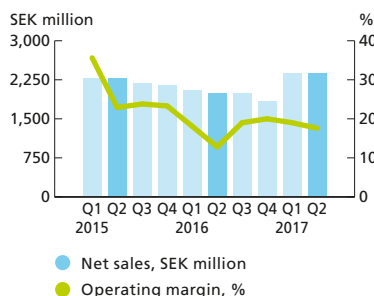
In the second quarter, electricity generated by the pulp mills and Södra's six wind turbines was 401 GWh, including 8 GWh from wind power. Surplus electricity amounted to 36 GWh. The surplus represented about 9 percent of the generated volume and was sold on the open market.

Södra Cell's accumulated operating profit for the first half-year totalled SEK 875 million (624). The year-on-year improvement was mainly attributable to increased volumes and a high price level for pulp.

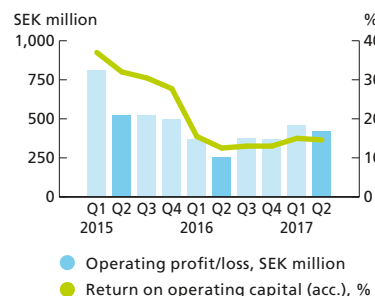
PRODUCTION AND DELIVERY VOLUME



NET SALES AND OPERATING MARGIN



OPERATING PROFIT/LOSS AND RETURN



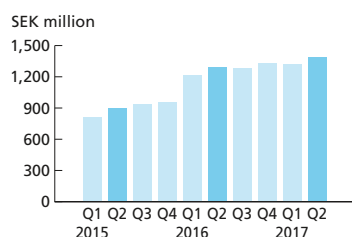
Other

Trivselhus's operating profit for the second quarter totalled SEK 9 million (22). The year-on-year deterioration was mainly due to lower land sales. Second-quarter sales were lower than expected, due to the postponement of some projects. A strong order book

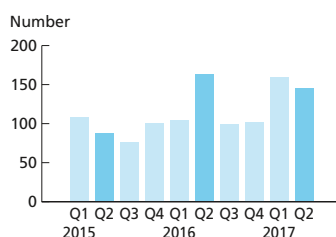
indicates increased sales in the future, in both the UK and Sweden.

Trivselhus's accumulated amounted operating profit for the first half-year totalled SEK 32 million (37).

ORDER BOOK



NO. OF HOUSES DELIVERED





NET FINANCIAL ITEMS

The Group's net financial items for the second quarter amounted to an expense of SEK 20 million (expense: 13).

CASH FLOW

Cash flow before investments for the quarter was SEK 617 million (553). Cash flow after investments improved sharply to SEK 261 million (neg: 598), essentially due to completion of the extensive investments in Södra Cell Värö. Accumulated cash flow before investments was SEK 1,109 million (834), while cash flow after investments was SEK 193 million (neg: 1,199). At the end of the quarter, cash and cash equivalents and current investments amounted to SEK 733 million (1,458).

FINANCIAL POSITION

At 30 June 2017, equity amounted to SEK 12,257 million (11,921 at year-end), of which paid-up and issued contributed capital accounted for SEK 3,290 million (3,108 at year-end). Total assets rose slightly to SEK 22,228 million (21,870 at year-end). At 30 June 2017, the equity ratio was 55 percent (55 at year-end). Södra's borrowings comprised loans of SEK 2,736 million from members (2,781 at year-end), a nine-year loan of SEK 1,000 million (1,000 at year-end) from Nordic Investment Bank and a four-year green bond of SEK 1,000 million (1,000 at year-end) listed on Nasdaq Stockholm. Loan commitments of EUR 210 million and SEK 1,000 million, maturing in June 2019, were unutilised at the balance-sheet date.

INVESTMENTS, ACQUISITIONS AND DIVESTMENTS

Investments during the second quarter of 2017 totalled SEK 362 million (1,172), of which SEK 21 million (29) pertained to Södra Skog, SEK 31 million (78) to Södra Wood and SEK 299 million (1,012) to Södra Cell. The investments were mainly focused on expansion, productivity and the environment.

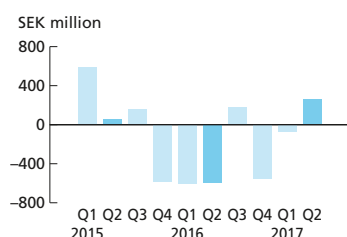
EVENTS AFTER THE CLOSE OF THE PERIOD

On 1 July, the Lithuanian subsidiary UAB SI Wood was divested to Sörnsen Holzleiten, one of Södra Wood's main suppliers in the Interiör segment. The divestment is part of the ongoing consolidation process in Södra Wood and will also improve Sörnsen Holzleiten's delivery capacity in relation to Södra.

FUTURE OUTLOOK

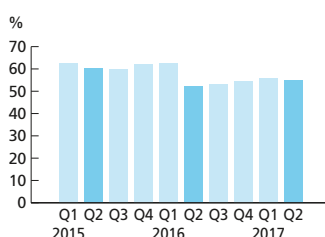
The price of paper pulp remains high which, in combination with high demand and a favourable USD exchange rate, has impacted positively on profitability this year to date. The currently high price levels for sawn timber, linked to high and stable demand for wood products, have also contributed to the strong result, despite the weaker GBP. There are indications that the future price trend may slow slightly, at the same time as wood costs are increasing. However, the overall assessment is that market conditions will remain favourable.

CASH FLOW AFTER INVESTMENTS



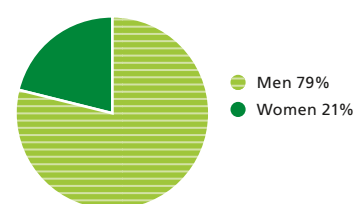
In the second quarter of 2017, cash flow after investments was reversed to a positive amount of SEK 261 million.

EQUITY RATIO



At the end of the second quarter of 2017, the equity ratio was 55 percent. Södra's financial target is a long-term equity ratio of 55 percent.

EMPLOYEES



At 30 June, the number of employees was 3,585, of whom 21 percent were women.



SUSTAINABILITY

Sustainability targets

Efforts to achieve the Group's sustainability targets continued in the second quarter. In 2017, the targets will be integrated into Södra's operations.

Fossil-fuel free

The project *A Fossil-free Södra* continued as planned with a situation analysis. The analysis will form the basis for Södra's fossil-free roadmap. A communication plan for the project was also established during the period. External collaboration plays a key role and in April, Södra joined the Fossil Free Sweden initiative and committed to the challenge of achieving fossil-free transportation by 2030.

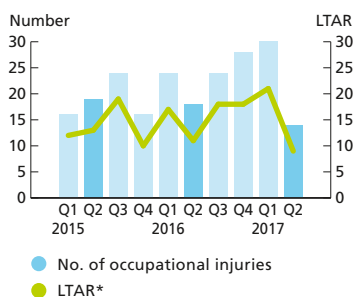
Forest growth

An analysis of appropriate measures for increasing forest production is ongoing. The aim is to produce concrete proposals for how to achieve the target of a 20-percent higher rate of forest growth by 2050 compared with 2015. Research and development initiatives in areas including the SE project (somatic embryogenesis) and tree breeding continued. Södra became involved in the Swedish Forest Agency's "Cooperation process for forest production" project. The aim of the project is to bring the forestry sector and the Swedish government together to develop a joint position on forest production in Swedish forests.

Occupational health and safety (OHS)

The number of occupational injuries was 14 (18) and the LTAR (lost-time accident rate – the number of occupational injuries with sickness absence per million hours worked) was 9 (11). Södra has a zero accident vision and by 2020, the LTAR will have declined 15 percent. To increase workplace safety at Södra, an action plan has been prepared. During the second quarter, "safety walks" continued in conjunction with intensified health and safety communication campaigns. An OHS Council was formed to highlight Group-wide health and safety-related issues. A pilot trial of behaviour-based safety (BBS) training was implemented.

OCCUPATIONAL INJURIES



* LTAR (lost-time accident rate): the number of occupational injuries with sickness absence per million hours worked.

The occupational injuries rate is still too high. Initiatives based on the prepared action plan have commenced.

On behalf of the Board of Directors

Växjö, 18 July 2017

Lars Idermark
President and CEO

REVIEW REPORT

This interim report was not subject to review by the association's auditors.



Condensed consolidated statement of comprehensive income

SEK million	2017 Apr-Jun	2016 Apr-Jun	2017 Jan-Jun	2016 Jan-Jun	2016 Jan-Dec
Net sales	5,244	4,953	10,342	9,498	18,482
Other revenue	28	43	115	80	221
Operating expenses	-4,496	-4,619	-8,920	-8,717	-16,602
Depreciation, amortisation and impairment	-312	-327	-622	-562	-1,096
Operating profit	464	50	915	299	1,005
Net financial items	-20	-13	-41	-29	-66
Profit before income tax	444	37	874	270	939
Income tax	-49	-1	-106	-41	-112
Profit for the period	395	36	768	229	827
Other comprehensive income/loss					
Items that will not be reclassified to profit or loss	0	-86	0	-99	-55
Items that will be reclassified to profit or loss	-6	7	-12	12	27
Other comprehensive loss for the period	-6	-79	-12	-87	-28
Total comprehensive income/loss for the period	389	-43	756	142	799
Profit attributable to					
Owners of the Parent	395	36	768	229	827
Profit for the period	395	36	768	229	827
Comprehensive income/loss attributable to					
Owners of the Parent	389	-43	756	142	799
Comprehensive income/loss for the period	389	-43	756	142	799



Condensed consolidated statement of financial position

SEK million	30 Jun 2017	30 Jun 2016	31 Dec 2016
ASSETS			
Intangible assets	399	402	401
Property, plant and equipment	13,784	12,094	13,439
Biological assets	524	516	524
Shares and participations in associates	174	177	164
Financial investments	17	17	17
Other non-current receivables	59	16	54
Deferred tax assets	10	61	13
Total non-current assets	14,967	13,283	14,612
Inventories	3,141	2,896	3,097
Tax assets	39	113	48
Operating receivables	3,348	3,827	3,079
Current investments	10	41	276
Cash and cash equivalents	723	1,417	758
Total current assets	7,261	8,294	7,258
TOTAL ASSETS	22,228	21,577	21,870
EQUITY AND LIABILITIES			
Equity attributable to owners of the Parent	12,257	11,256	11,921
Total equity	12,257	11,256	11,921
Non-current interest-bearing liabilities	2,322	2,396	2,278
Provisions for pensions	254	338	268
Non-current provisions	180	155	180
Deferred tax liabilities	1,065	1,065	1,059
Total non-current liabilities	3,821	3,954	3,785
Current interest-bearing liabilities	2,522	2,537	2,636
Income tax liabilities	19	138	23
Current operating liabilities	3,609	3,692	3,505
Total current liabilities	6,150	6,367	6,164
Total liabilities	9,971	10,321	9,949
TOTAL EQUITY AND LIABILITIES	22,228	21,577	21,870



Condensed consolidated statement of changes in equity

SEK million	Total equity
Opening balance, 1 January 2017	11,921
Comprehensive income for the year	756
Contributed capital, paid-up by members	48
Contributed capital, paid-out to members	0
Dividends to members	-468
Closing balance, 30 June 2017	12,257
Opening balance, 1 January 2016	11,945
Comprehensive income for the year	142
Contributed capital, paid-up by members	43
Contributed capital, paid-out to members	0
Dividends to members	-874
Closing balance, 30 June 2016	11,256

Condensed consolidated statement of cash flows

SEK million	2017 Jan-Jun	2016 Jan-Jun	2016 Jan-Dec
Profit before income tax	874	270	939
Adjustment for non-cash items and change in provisions	552	539	1,078
Income tax paid	-90	-188	-133
Net cash flow from operating activities before change in working capital	1,336	621	1,884
Change in inventories (increase -)	-59	125	-75
Change in operating receivables (increase -)	-262	-391	293
Change in operating liabilities (increase +)	94	479	213
Cash flow from operating activities	1,109	834	2,315
Cash flow from investing activities	-916	-2,033	-3,896
Cash flow after investing activities	193	-1,199	-1,581
Change in contributed capital	48	43	51
Dividends paid	-468	-874	-874
Loans raised	5	2,014	2,014
Repayment of loans	-30	-47	-217
Change in loans from members	-45	140	293
Other changes	269	990	717
Cash flow from financing activities	-221	2,266	1,984
CASH FLOW FOR THE PERIOD	-28	1,067	403
Cash and cash equivalents at beginning of period	758	340	340
Exchange gains/losses on cash and cash equivalents	-7	10	15
Cash and cash equivalents at end of period	723	1,417	758



Parent Company

RESULT AND FINANCIAL POSITION

In the second quarter, net sales increased to SEK 4,478 million (4,244) and operating profit to SEK 421 million (0). The year-earlier period was charged with a restructuring reserve of SEK 204 million.

Net financial items for the second quarter amounted to SEK 8 million (expense: 9).

Profit after net financial items for the period totalled SEK 429 million (loss: 9).

In 2016, the Board made a decision to redeem the Parent Company's subordinated debentures, which were repaid at the beginning of the year. The subordinated debentures totalled SEK 130 million.

MEMBERS

The number of members was 50,796 (50,771 at year-end) and the affiliated membership area rose to 2.49 million hectares (2.48 at year-end), an increase of about 0.01 million hectares.

Parent Company income statement, condensed

SEK million	2017 Apr-Jun	2016 Apr-Jun	2017 Jan-Jun	2016 Jan-Jun	2016 Jan-Dec
Net sales	4,478	4,244	8,919	8,258	15,886
Other revenue	17	31	46	67	192
Operating expenses	-3,770	-3,956	-7,602	-7,544	-14,492
Depreciation, amortisation and impairment	-304	-319	-605	-549	-881
Operating profit	421	0	758	232	705
Net financial items	8	-9	3	31	81
Profit/loss after financial items	429	-9	761	263	786
Appropriations	—	—	—	—	-266
Profit/loss before income tax	429	-9	761	263	520
Income tax	-47	1	-88	-50	27
Profit/loss for the period	382	-8	673	213	547



Parent Company balance sheet, condensed

SEK million	30 Jun 2017	30 Jun 2016	31 Dec 2016
ASSETS			
Intangible assets	6	9	7
Property, plant and equipment	13,231	11,613	12,900
Shares and participations in Group companies	1,251	1,318	1,251
Shares and participations in associates	126	119	101
Surplus in funded pension plans	38	35	38
Other non-current investments	17	17	17
Non-current interest-bearing receivables from Group companies	0	8	7
Other non-current receivables	20	16	15
Deferred tax assets	64	34	68
Total non-current assets	14,753	13,169	14,404
Inventories	2,190	2,211	2,225
Current interest-bearing receivables from Group companies	854	440	786
Current receivables	2,867	3,318	2,664
Current financial investments	60	528	499
Cash and bank balances	472	659	291
Total current assets	6,443	7,156	6,465
TOTAL ASSETS	21,196	20,325	20,869
EQUITY AND LIABILITIES			
Restricted equity	4,703	4,643	4,651
Non-restricted equity	3,179	2,791	3,115
Total equity	7,882	7,434	7,766
Untaxed reserves	4,858	4,572	4,858
Provisions	217	188	216
Non-current interest-bearing liabilities from Group companies	8	8	8
Non-current interest-bearing liabilities	2,322	2,202	2,278
Non-current operating liabilities	7	33	16
Total non-current liabilities	2,337	2,243	2,302
Current interest-bearing liabilities from Group companies	117	96	64
Current interest-bearing liabilities	2,514	2,428	2,503
Current operating liabilities	3,271	3,364	3,160
Total current liabilities	5,902	5,888	5,727
TOTAL EQUITY AND LIABILITIES	21,196	20,325	20,869



Notes

Note 1 | Accounting policies

Södra applies International Financial Reporting Standards (IFRS), as adopted by the EU. This interim report for the Group was prepared in accordance with IAS 34 Interim Financial Reporting and the Swedish Annual Accounts Act. The Parent Company applies Recommendation RFR 2 Accounting for Legal Entities of the Swedish Financial Reporting Board, and the Swedish Annual Accounts Act.

The accounting policies applied are consistent with those applied in the 2016 Annual Report, except for new standards and revisions of standards and interpretations applicable to annual periods beginning on or after 1 January 2017 and that have not already been applied in the preparation of the 2016 Annual Report. Changes to these standards have not had any material impact on the recognition, measurement or disclosure requirements in the financial statements.

From 2018, IFRS 15 Revenue from Contracts with Customers will replace all existing standards related to revenue recognition. Södra is in the final stages of analysing the effects of IFRS 15. As yet, no material effects have been identified.

Note 2 | Risks and uncertainties

No additional material risks have been identified since the 2016 Annual Report was published. For a description of risks and uncertainties, refer to Södra's 2016 Annual Report under Risks

and risk management on pages 24-27. An overall description of a selection of such risk areas, and the key measures for control and management, are presented below.

Södra's earnings are highly sensitive to economic cycles, which are directly reflected in price trends and changes in sales volumes. Adverse changes in both global and local economies could have a negative impact on Södra's sales, financial position and result.

In order to manage unforeseen events that could damage facilities, cause production losses and damage to goods during transportation, Södra works systematically with preventive maintenance in the facilities and works actively with insurance coverage.

Södra is exposed to financial risks with regard to variations in earnings and cash flow due to fluctuations in exchange rates, raw material prices, interest-rate levels and refinancing and credit risks. The Group's financial risk management is regulated by a financial policy established by the Board.

Note 3 | Related parties

As a result of the decision to introduce a new ownership structure, Södra Cell AB was merged with the Parent Company. The merger took place in May 2016. On 31 March 2016, Södra also acquired all outstanding shares in Crown Timber Group Plc. The holding was previously classified as an associate. The nature and extent of transactions with related parties are otherwise consistent with those that existed in 2016.

Note 4 | Financial instruments

Financial assets and liabilities are essentially of the same nature and extent as in the most recently published annual report.

Group, SEK million	30 Jun 2017		30 Jun 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial investments	17	17	17	17
Operating receivables	2,673	2,673	2,691	2,691
Current investments	10	10	41	41
Cash and cash equivalents	723	723	1,417	1,417
Total assets, financial instruments	3,423	3,423	4,166	4,166
Other assets, non-financial instruments	18,805		17,411	
Total assets	22,228		21,577	
Non-current liabilities	2,322	2,445	2,396	2,491
Current interest-bearing liabilities	2,522	2,542	2,537	2,559
Current operating liabilities	2,631	2,632	2,282	2,284
Total liabilities, financial instruments	7,475	7,619	7,215	7,334
Other liabilities, non-financial instruments	2,496		3,106	
Total liabilities	9,971		10,321	

Group, 30 Jun 2017

SEK million	Level 1	Level 2	Level 3	Total
Assets	673	60	20	753
Liabilities	—	—	3	3

Group, 30 Jun 2016

SEK million	Level 1	Level 2	Level 3	Total
Assets	841	617	21	1,479
Liabilities	—	—	4	4

Note 5 | Business combinations

No business acquisitions or divestments were conducted during the year. In the first quarter of 2016, Crown Timber Group Plc was acquired and Södra Wood AS was divested. Aktiebolaget Nordingrå Trä was also divested in the fourth quarter of 2016.



Quarterly data and segment information

	2017 Jan-Mar	2017 Apr-Jun	2017 Jan-Jun	2016 Jan-Mar	2016 Apr-Jun	2016 Jan-Jun	2016 Jan-Dec
NET SALES, SEK MILLION							
Södra Skog	2,556	2,481	5,037	2,372	2,384	4,756	9,139
of which external	(1,032)	(1,061)	(2,093)	(911)	(1,055)	(1,966)	(3,825)
Södra Wood	1,539	1,600	3,139	1,393	1,753	3,146	6,091
of which external	(1,362)	(1,441)	(2,803)	(1,209)	(1,617)	(2,826)	(5,546)
Södra Cell	2,371	2,378	4,749	2,047	1,985	4,032	7,845
of which external	(2,335)	(2,352)	(4,687)	(2,037)	(1,976)	(4,013)	(7,791)
Intra-Group/eliminations	-1,368	-1,215	-2,583	-1,267	-1,169	-2,436	-4,593
Group	5,098	5,244	10,342	4,545	4,953	9,498	18,482
OPERATING PROFIT/LOSS BEFORE DEPRECIATION, AMORTISATION AND IMPAIRMENT (EBITDA), SEK MILLION							
Södra Skog	29	47	77	31	47	78	113
Södra Wood	50	96	146	-43	-69	-112	-21
Södra Cell	699	666	1,364	538	427	965	2,111
Intra-Group/eliminations	-17	-33	-50	-42	-28	-70	-102
Group	761	776	1,537	484	377	861	2,101
OPERATING PROFIT/LOSS, SEK MILLION							
Södra Skog	16	37	53	18	36	54	67
Södra Wood	3	50	53	-93	-204	-297	-302
Södra Cell	457	418	875	371	253	624	1,368
Intra-Group/eliminations	-25	-41	-66	-47	-35	-82	-128
Group	451	464	915	249	50	299	1,005
OPERATING MARGIN, %							
Södra Skog	1	1	1	1	2	1	1
Södra Wood	0	3	2	neg.	neg.	neg.	neg.
Södra Cell	19	18	18	18	13	15	17
Group	9	9	9	5	1	3	5
ASSETS, SEK MILLION							
Södra Skog	—	—	2,264	—	—	2,023	2,332
Södra Wood	—	—	2,388	—	—	2,538	2,395
Södra Cell	—	—	10,360	—	—	8,970	9,444
Group	—	—	22,228	—	—	21,577	21,870
OPERATING CAPITAL, SEK MILLION							
Södra Skog	—	—	678	—	—	821	932
Södra Wood	—	—	3,327	—	—	3,650	3,263
Södra Cell	—	—	12,278	—	—	10,596	11,662
Group, capital employed	—	—	16,603	—	—	15,051	16,051
RETURN ON OPERATING CAPITAL, %							
Södra Skog	—	—	13	—	—	11	6
Södra Wood	—	—	3	—	—	neg.	neg.
Södra Cell	—	—	15	—	—	13	13
Consolidated return on capital employed, %	—	—	11	—	—	4	7
CASH FLOW AFTER INVESTMENTS, SEK MILLION							
Södra Skog	273	31	304	270	162	432	332
Södra Wood	-38	7	-31	-375	1	-374	-13
Södra Cell	-128	373	245	-279	-506	-785	-1,108
Intra-Group/eliminations	-175	-150	-325	-217	-255	-472	-792
Group	-68	261	193	-601	-598	-1,199	-1,581
INVESTMENTS, SEK MILLION							
Södra Skog	6	21	27	10	29	39	71
Södra Wood	23	31	54	237	78	315	416
Södra Cell	560	299	859	613	1,012	1,625	3,640
Intra-Group/eliminations	11	11	22	15	53	68	129
Group	600	362	962	875	1,172	2,047	4,256
AVERAGE NO. OF EMPLOYEES							
Södra Skog	—	—	604	—	—	589	596
Södra Wood	—	—	1,347	—	—	1,480	1,443
Södra Cell	—	—	1,198	—	—	1,208	1,207
Group	—	—	3,693	—	—	3,776	3,740



Alternative performance measures

Södra manages its operations by analysing key indicators. Some of these financial key indicators are defined or specified in applicable regulations for financial information, or by other applicable laws. All others are referred to as alternative performance

measures. Södra uses the following alternative performance measures and believes they provide valuable complementary information for analysing Södra's performance.

NET SALES, CHANGE IN %

	2017 Jan-Jun	2016 Jan-Jun	2016 Jan-Dec
Opening net sales	9,498	9,436	18,267
Closing net sales	10,342	9,498	18,482
Change	9	1	1

Shows Södra's growth.

OPERATING PROFIT/LOSS BEFORE DEPRECIATION, AMORTISATION AND IMPAIRMENT (EBITDA), SEK MILLION

	2017 Jan-Jun	2016 Jan-Jun	2016 Jan-Dec
Operating profit	915	299	1,005
Depreciation, amortisation and impairment	622	562	1,096
EBITDA	1,537	861	2,101

A complement to operating profit/loss, which shows the items on the income statement that affect cash flow.

EBITDA MARGIN, %

	2017 Jan-Jun	2016 Jan-Jun	2016 Jan-Dec
Operating profit/loss before depreciation, amortisation and impairment	1,537	861	2,101
Net sales	10,342	9,498	18,482
EBITDA margin, %	15	9	11

The EBITDA margin is a measurement of the percentage of surplus on each SEK earned less operating costs, but before depreciation, amortisation and impairment. This surplus is used to cover depreciation, interest expense and tax, and to provide an acceptable profit. The measurement is used to produce an overall trend analysis of Södra's performance, and for comparison with other companies. This performance measurement is also a key parameter for Södra's variable remuneration system.

OPERATING MARGIN, %

	2017 Jan-Jun	2016 Jan-Jun	2016 Jan-Dec
Operating profit/loss	915	299	1,005
Net sales	10,342	9,498	18,482
Operating margin	9	3	5

The operating margin is a measurement of the percentage of surplus on each SEK earned less operating costs, including depreciation. This surplus is used to cover interest expense and tax, and to provide an acceptable profit. The measurement is used to produce an overall trend analysis of Södra's performance, and for comparison with other companies.

RETURN ON EQUITY, %

	2017 Jan-Jun	2016 Jan-Jun	2016 Jan-Dec
Opening equity	11,921	11,945	11,945
Closing equity	12,257	11,256	11,921
Average equity	12,089	11,601	11,933
Profit before income tax	874	270	939
12-month profit	1,748	540	939
Standard tax, 22%	-385	-119	-207
Return	11	4	6

Return on equity is a measure of the interest that Södra pays on its members' capital.

**NET DEBT, SEK MILLION**

	2017 Jan-Jun	2016 Jan-Jun	2016 Jan-Dec
Interest-bearing provisions	—	—	—
Interest-bearing liabilities	4,844	4,933	4,914
Financial receivables	-1	-1	-1
Current investments and cash and cash equivalents	-733	-1,457	-1,034
Net debt	4,110	3,475	3,879

DEBT/EQUITY RATIO, TIMES

	2017 Jan-Jun	2016 Jan-Jun	2016 Jan-Dec
Net debt, SEK million	4,110	3,475	3,879
Equity	12,257	11,256	11,921
Debt/equity ratio	0.3	0.3	0.3

The debt/equity ratio is used to measure Södra's financial strength and, in combination with the equity ratio, is the measurement most frequently used to monitor financial leverage.

CAPITAL EMPLOYED, SEK MILLION

	2017 Jan-Jun	2016 Jan-Jun	2016 Jan-Dec
Assets	22,228	21,577	21,870
Financial assets	-751	-1,475	-1,052
Provisions*	-180	-154	-180
Income tax*	-1,084	-1,203	-1,082
Operating liabilities	-3,610	-3,692	-3,505
Capital employed	16,603	15,053	16,051
Average	16,327	14,248	14,747

* Not considered in the calculation of Operating capital.

Capital employed shows the capital used by Södra and is a component of Return on capital employed.

RETURN ON CAPITAL EMPLOYED, %

	2017 Jan-Jun	2016 Jan-Jun	2016 Jan-Dec
Average capital employed	16,327	14,248	14,747
Operating profit	915	299	1,005
12-month operating profit	1,830	598	1,005
Return	11	4	7

Return on capital employed is a measure of the interest that Södra pays on capital tied up in operations.

EQUITY RATIO, %

	2017 Jan-Jun	2016 Jan-Jun	2016 Jan-Dec
Equity	12,256	11,256	11,921
Assets	22,257	21,577	21,870
Equity ratio	55	52	55

An established and key measurement of Södra's financial strength. Measures the proportion of total assets financed by equity. The measurement indicates the ability to pay long-term liabilities, since any future losses will be deducted from equity.

DEFINITIONS

Operating profit/loss before depreciation, amortisation and impairment (EBITDA), SEK million
Operating profit/loss excluding depreciation and amortisation of property, plant and equipment and intangible assets.

EBITDA margin, %
EBITDA expressed as a percentage of net sales.

Operating margin, %
Operating profit/loss expressed as a percentage of net sales.

Return on equity, %
Full-year profit/loss before income tax less 22 percent standard tax in relation to average equity.

Net debt, SEK million
Interest-bearing liabilities less interest-bearing assets and cash and cash equivalents.

Debt/equity ratio, times
Net debt in relation to equity.

Capital employed, SEK million
Assets excluding interest-bearing assets, provisions and liabilities.

Return on capital employed, %
Full-year operating profit/loss expressed as a percentage of average capital employed.

Equity ratio, %
Equity expressed as a percentage of assets.

The information in this interim report is such that Södra Skogsägarna ekonomisk förening is required to disclose under the Swedish Securities Market Act and/or the Financial Instruments Trading Act. The information was submitted for publication on 19 July 2017 at 8:00 a.m. (CET).

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FINANCIAL STATEMENTS

- As of 2017, Södra will publish quarterly reports.
- The interim report for July-September will be published on 19 October 2017.
- Interim reports can be downloaded from www.sodra.com