

Södra's interim report

1 January – 31 March 2018

- Net sales amounted to SEK 5,717 million (5,098)
- Operating profit before taxes, depreciation and amortisation was SEK 1,216 million (750)
- Operating profit totalled SEK 938 million (490)
- Cash flow after investments was SEK 1,010 million (neg: 68)
- Return on capital employed was 22 percent (12)

Key figures	2018 Jan–Mar	2017 Jan–Mar	2017 Jan–Dec
Net sales, SEK million	5,717	5,098	20,518
Operating profit before depreciation, amortisation and impairment, SEK million	1,216	750	3,009
Operating profit, SEK million	938	490	1,917
Operating profit before depreciation, amortisation and impairment margin, %	21	15	15
Operating margin, %	16	10	9
Return on capital employed, %	22	12	12
Equity ratio, %	58	56	56
Cash flow after investments, SEK million	1,010	–68	356
No. of employees	3,271	3,556	3,402
CO ₂ fossil from production, ktonnes*	—	—	80
CO ₂ fossil from transportation, ktonnes*	—	—	191
Rate of forest growth, m ³ fo/ha per year*	—	—	6.9
Lost-time-accident (LTA**), no.	24	30	96
Lost-time- accident rate (LTAR***)	18	21	17

* CO₂ and rate of forest growth are not calculated quarterly.

** LTA (lost-time-accident): occupational injury with absence.

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



Highly robust first quarter

The 2018 financial year started very strongly for Södra. In the first quarter, operating profit rose more than 90 percent to SEK 938 million (490). We are seeing the positive effects of our extensive investment programme as well as of the completed structural changes and rationalisations. Efforts with new innovations and to create a more sustainable Södra are continuing unabated.

The first quarter of 2018 was very strong for Södra. Net sales rose to SEK 5,717 million (5,098) and operating profit improved markedly to SEK 938 million (490). The operating margin was 16 percent and return on capital employed was 22 percent. Cash flow before investments was SEK 1,275 million (492). The equity ratio of 58 percent was excellent.

There are several reasons for the robust earnings trend. The favourable global economy contributed to high demand and a positive price trend for Södra's products. We are also seeing the positive effects of our comprehensive investments to expand our pulp mills. Underlying profitability has improved, reflecting the strong demand for market pulp.

Demand and prices are also favourable in the sawn timber segment, and operating profit rose sharply year-on-year. The multi-year plan launched in 2016 to improve underlying profitability is ongoing, with continuing rationalisation, a focus on market orientation and investments in efficient processes. In engineered wood, the investment in CLT (cross-laminated timber) is also progressing as planned, and Södra Building Systems has been established to support the initiative. In the house-manufacturing area, the beginning of the year was weaker compared with 2017, mainly due to the introduction of mandatory home loan repayments. Based on the order book, the future trend looks better.

The supply of raw material to our mills could be effectively maintained, despite the need for re-prioritisation with account for the entire Group. The situation was sometimes problematic due to the weather conditions with soft, wet soil and heavy snow, which reduced the transport capacity. Overall, Södra's raw material stocks are currently favourable. Södra also strengthened its market offering of pulpwood and pine logs during the period.

Efforts with new innovations and to create a more sustainable Södra have continued unabated. Södra's investments to increase liquid biofuel production are progressing as planned. These strategic investments in the future are helping to create new business opportunities, and constitute steps towards a fossil-free society, and a sustainable bioeconomy in which forestry has a key role. The business policy frameworks are therefore of major significance for



the forest industry, and for the ability of Swedish forest owners to pursue active and sustainable forestry.

There are many indications that these favourable economic conditions could continue for some time. Key drivers are the growth of world trade – especially online trade, the need for more packaged goods, rising demand for renewable materials and a growing focus on initiatives to achieve a more sustainable society. At the same time, we are also witnessing an emergence of protectionist tendencies, with actions that threaten to restrict free trade. Such developments could have a major negative effect on the global economy. The geopolitical tensions in Syria are also worrying in many ways. Despite this risk scenario, the current market conditions indicate a continuation of Södra's positive trend into the next quarters of 2018. It is also particularly pleasing and stimulating that Södra was named Sweden's most attractive employer in 2018 by Randstad Employer Brand Research.

Lars Idermark
President and CEO



The period in brief

In the first quarter of 2018, operating profit totalled SEK 938 million, compared with SEK 490 million in the year-earlier period. Return on capital employed was 22 percent (12), and the equity ratio 58 percent (56).

MARKET CONDITIONS

The first quarter of the year was characterised by a continued strong global economy. Despite political uncertainty in many parts of the world, the economic outlook remains optimistic. The International Monetary Fund (IMF) revised its global growth projections upward for both 2018 and 2019. The fly in the ointment is the ongoing US-China trade dispute, where an escalation could have a dampening effect on the global economy.

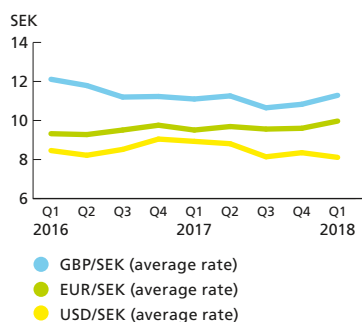
In the US, order inflows in the industrial sector were the highest in 14 years. Due to tax cuts, many companies have raised salaries, increased pension payments and announced extra bonuses to their employees. At the same time, unemployment has plunged to the lowest rate in several decades. On the negative side, there are trade barriers in the form of steel and aluminium tariffs, and measures aimed directly at Chinese exports into the US. While both the US and China have shown a certain willingness to negotiate, fears of a trade war persist, especially when President Trump's rhetoric seems to have reshaped US opinion and can therefore lead to new trade policy measures ahead of this autumn's mid-term elections.

In Asia, Japan, India and China continue to show solid growth rates. In both Japan and India, growth is largely driven by the domestic market. China is considerably more export-dependent, which is why a solution to the ongoing trade dispute with the US is of paramount importance.

In recent years, Europe has gone from strength to strength. Growth has a broad geographic spread and unemployment continues to fall, which means that household spending will increase. The low interest rates are expected to remain unchanged since the European Central Bank (ECB) has stated clearly that interest rates will not be raised before the stimulus package is phased out in September. The new German government is expected to pursue a more expansive policy. This is strengthening optimism in Europe, despite the shadow cast by the ongoing Brexit negotiations. However, the hope is that a final withdrawal deal will reduce the economic risks for both parties.

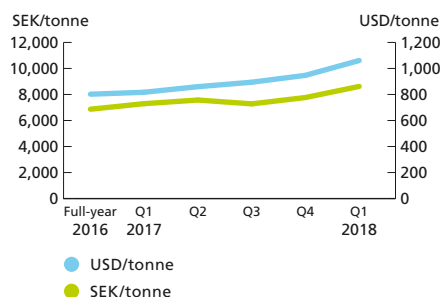
Sweden is experiencing a slowdown in the housing market, although the negative effects will probably not be noticeable until 2019 since many projects run for several years. While the construction sector's significance for economic growth has risen in recent

FOREIGN EXCHANGE RATES



Source: ECB

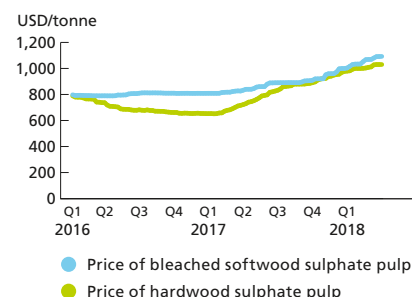
PULP PRICES



During the quarter, the price of bleached softwood sulphate pulp in USD increased. 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



The price of both softwood and hardwood pulp increased during the quarter. The diagram shows gross prices before discounts in the North European market.

Source: Bloomberg



years, the Swedish economy has also benefited from the weak SEK and a strong global trend.

During the quarter, the SEK weakened against the EUR, the USD and the GBP. USD rates are most relevant for the pulp operations, while GBP rates affect the sawmill operations, since the UK is Södra's largest export market for sawn timber.

During the quarter, the Swedish wood market was occasionally characterised by severe weather conditions, which led to higher transport costs and an inability to meet the delivery requirements of all production facilities. Due to the strong global economy, demand for both saw logs and pulpwood is high. At present, inventory levels at the mills are generally low. Although weather-related challenges are expected to persist into the second quarter, future supplies of wood are considered favourable.

Market conditions for sawn timber remain positive, mainly attributable to strong demand outside Europe – especially from China. In recent months, global supplies have been adversely impacted by production losses in the Nordic sawmills, due to weather-related problems with the supply of saw logs to sawmills. The decrease in supplies meant that prices continued to rise. The year began weaker than expected for the Swedish building trade, mainly due to the difficult weather conditions which had a widespread effect on construction activity. The trend in the Swedish house manufacturing sector could pose a future risk. Despite a somewhat cautious building trade, the UK market is still strong. The price trend in the UK is positive, and strengthened by the exchange rate of the GBP. Demand for sawn timber is rising in the US and Asia, while order inflows have fallen somewhat in China over the past month. This is believed to be a temporary response to the higher prices.

Overall, the global market for sawn timber is expected to be favourable in 2018, provided there are no significant changes in the political situation.

As throughout 2017, the market for interior wood products was characterised by intense price pressure, mainly for white-painted mouldings. This led to lower volumes and shrinking profit margins, and the ongoing restructuring of Södra's interior wood business is a direct consequence.

The positive trend in the pulp market continued during the first quarter of 2018. The strong underlying economy led to high demand for paper products, which subsequently pushed up prices for market pulp. Another contributing factor was that the capacity of some Nordic market pulp producers was restrained by the supply-related challenges for pulpwood. The pulp market is still affected by increased demand in China, where policy decisions have had a significantly adverse impact on imports of recycled fibre. During the quarter, pulp prices rose overall in Europe to USD 1,130 per tonne for softwood pulp and USD 1,030 per tonne for hardwood pulp. The current high price level is expected to persist in the short term.

In the first quarter, prices for dissolving pulp strengthened from USD 920 per tonne at year-end to USD 950 per tonne at the end of quarter. Because the price difference favoured paper pulp, supplies of dissolving pulp declined because swing mills (pulp mills capable of swinging production from dissolving pulp to paper pulp) decided to prioritise paper pulp production. In the long term, the decline in supplies of dissolving pulp will probably push up prices moving forward.



NET SALES

During the quarter, consolidated net sales amounted to SEK 5,717 million (5,098), up 12 percent.

RESULT

Operating profit for the period totalled SEK 938 million (490), representing an operating margin of 16 percent (10). Profit before tax amounted to SEK 941 million (469). Tax expense for the period was SEK 117 million (58).

The strong operating profit reflects the continued high price levels for both sawn timber and market

pulp. In addition, pulp-related volume growth contributed 14 percent. The results were also impacted by the ongoing improvement measures in Södra Wood.

Return on capital employed was 22 percent (12).

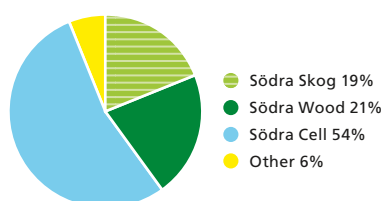
NET FINANCIAL ITEMS

The Group's net financial items for the first quarter amounted to SEK 3 million (expense: 21).

BUSINESS AREAS

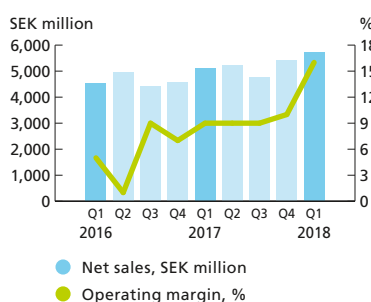
SEK million	Net sales			Operating profit/loss		
	2018 Jan–Mar	2017 Jan–Mar	2017 Jan–Dec	2018 Jan–Mar	2017 Jan–Mar	2017 Jan–Dec
Södra Skog	2,767	2,556	9,774	19	16	76
Södra Wood	1,392	1,539	5,934	91	3	38
Södra Cell	3,129	2,371	9,822	926	496	1,924
Other segments	319	369	1,532	8	32	121
Intra-Group	1	0	9	–105	–64	–275
Eliminations	–1,891	–1,737	–6,553	–1	7	33
Group	5,717	5,098	20,518	938	490	1,917

SALES PER BUSINESS AREA

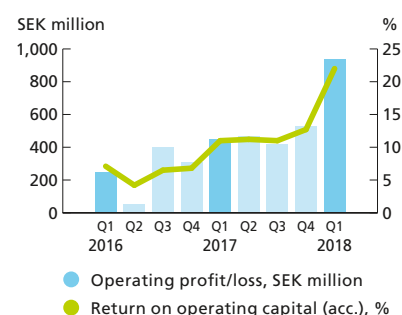


SEK 5,717 million in total, excluding internal deliveries.

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.



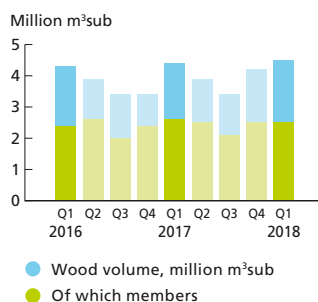
Business areas

Södra Skog

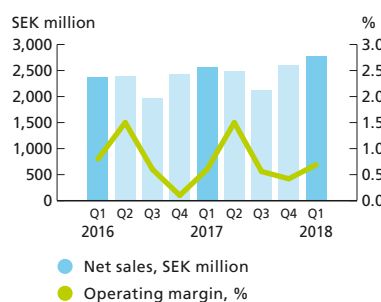
Södra Skog's operating profit for the period totalled SEK 19 million (16). The result was affected by higher transport costs due to the challenging supply situation during the first quarter. During the period,

Södra Skog purchased 4.5 million m³sub, comprising 56 percent pulpwood and cellulose chips, 29 percent saw logs and 15 percent biofuels.

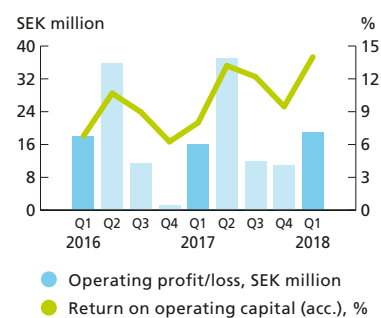
WOOD VOLUME



NET SALES AND OPERATING MARGIN



OPERATING PROFIT/LOSS AND RETURN

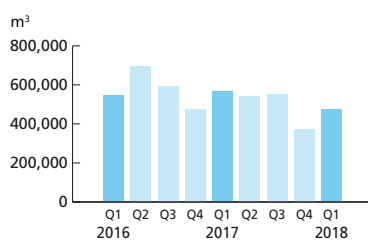


Södra Wood

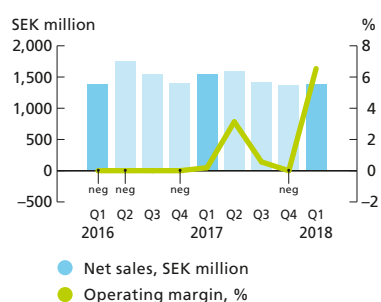
Södra Wood's operating profit for the period totalled SEK 91 million (3) and mainly reflects the high price level for sawn timber. However, the quarter was marked by certain challenges resulting from the saw-log shortage, which meant that some saw-mills were forced to reduce production and deliveries were thus under capacity. Sales for the quarter amounted to 1,392 (1,539).

The ongoing measures in Södra Interiör led to a year-on-year earnings improvement of SEK 12 million. The market for interior wood products remains characterised by increased price pressure, leading to lower margins and decreased delivery volumes.

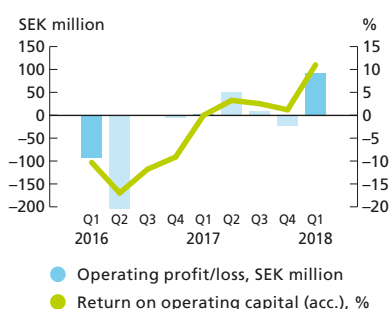
SALES VOLUME



NET SALES AND OPERATING MARGIN



OPERATING PROFIT/LOSS AND RETURN



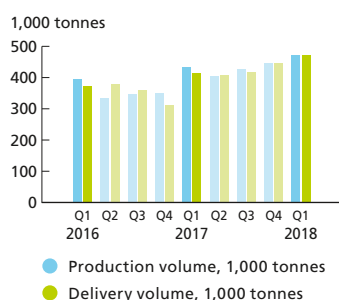


Södra Cell

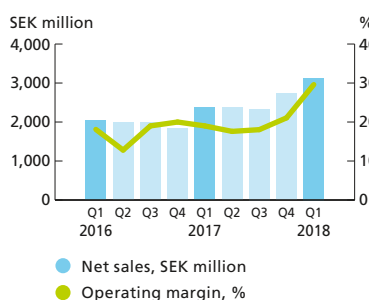
Södra Cell's operating profit for the period totalled SEK 926 million (496). The earnings trend was mainly attributable to the high price level and increased volumes. Sales for the quarter amounted to SEK 3,129 million (2,371). Delivery volumes during the quarter rose 14 percent year-on-year.

During the quarter, the production volume totalled 473,000 tonnes, comprising approximately 403,000 tonnes of softwood sulphate pulp, 34,000 tonnes of hardwood sulphate pulp and 36,000 tonnes of dissolving pulp.

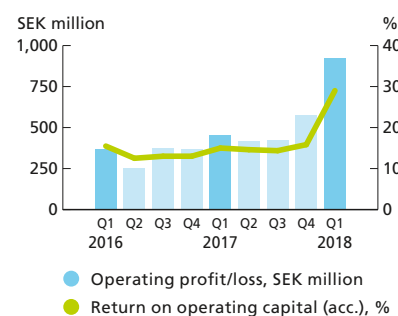
PRODUCTION AND DELIVERY VOLUME



NET SALES AND OPERATING MARGIN



OPERATING PROFIT/LOSS AND RETURN



Other segments

Trivselhus's operating loss for the period was SEK 4 million (profit: 23), mainly attributable to a lower share of land sales. While the orders received for houses have been adversely impacted by the pro-

posed mortgage payment requirements for some time, a slight improvement was noticed in March. During the quarter, 126 houses were delivered, which is lower year-on-year but in line with expectations.



CASH FLOW

Cash flow after investments for the quarter was SEK 1,010 million (neg: 68). Operating activities made a positive contribution; cash flow before investments improved from SEK 492 million in the year-earlier period to SEK 1,275 million this year. The combined effect of high prices and a currency trend in Södra's favour is strengthening liquidity. This development is expected to continue in the coming months. At the end of the quarter, cash and cash equivalents and current investments amounted to SEK 1,958 million (1,321 at year-end).

FINANCIAL POSITION

At 31 March 2018, equity amounted to SEK 13,779 million (12,884 at year-end), of which paid-up and issued contributed capital accounted for SEK 3,330 million (3,310 at year-end). Total assets rose slightly to SEK 23,900 million (23,104 at year-end). At 31 March 2018, the equity ratio was 58 percent (56 at year-end). Södra's borrowings comprised loans of SEK 2,711 million from members (3,406 at year-end), an eight-year loan of SEK 1,000 million (1,000 at year-end) from the Nordic Investment Bank and a three-year green bond of SEK 1,000 million (1,000 at year-end) listed on Nasdaq Stockholm. A loan commitment of SEK 2,000 million, maturing in February 2023, was unutilised at the balance-sheet date. The debt/equity ratio was 0.2 (0.3 at year-end).

INVESTMENTS, ACQUISITIONS AND DIVESTMENTS

In the first quarter, investments amounted to SEK 261 million (600), of which SEK 8 million (6) pertained to Södra Skog, SEK 38 million (23) to Södra

Wood and SEK 201 million (560) to Södra Cell. The investments were mainly focused on expansion, productivity and the environment.

On 1 February 2018, Södra Wood AS was divested to Sörnsen Holzleiten. In 2017, Södra Wood AS generated sales of SEK 363 million and loss for the year totalled SEK 39 million.

EVENTS AFTER THE CLOSE OF THE PERIOD

No significant events occurred after the close of the reporting period.

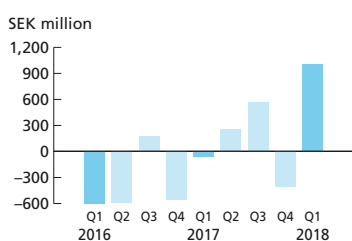
EMPLOYEES

At 31 March, the number of employees was 3,271 (3,556), of whom 22 percent were women (21). The lower number of employees was due to restructuring within the Group.

FUTURE OUTLOOK

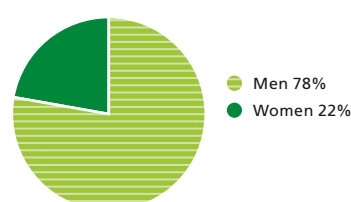
The start of 2018 has been strong. High price levels for sawn timber and market pulp, combined with a high USD exchange rate and an increased market pulp volume had a positive impact on earnings. The challenges that exist in regard to raw material supplies are expected to subside in the coming months and the contracted wood volumes are at healthy levels. Although global growth is favourable, there are signs of a slightly slower pace. A possible trade war between the US and China could also lead to a weaker economy. In Sweden, the housing market trend could result in an economic contraction. These uncertainties make it difficult to determine a long-term prediction. However, the current market conditions indicate a continuation of Södra's positive trend into the next quarters of 2018.

CASH FLOW AFTER INVESTMENTS



Cash flow after investments turned around during the quarter and amounted to SEK 1,010 million.

EMPLOYEES



At 31 March, the number of employees was 3,271, of whom 22 percent were women.



SUSTAINABILITY

Sustainability targets

Efforts to achieve the Group's sustainability targets continued during the quarter. Three of the targets are prioritised: fossil-free production and fossil-free transportation, a higher rate of forest growth and a zero accident vision.

Fossil-fuel free

The "A Fossil-Free Södra" project entered a new phase, with a focus on eliminating the challenges identified in the roadmap for fossil-free production by 2020 and fossil-free transportation by 2030. Wherever possible, activities were integrated into the line organisation to become part of day-to-day operations.

Forest growth

In order to achieve the target of 20-percent higher rate of forest growth by 2050, the analysis of appropriate measures continued. Several of the measures are dependent on forestry policies and Södra therefore plays an active role in the process to raise forest production issues with the Swedish Forest Agency. Two measures have commenced: the introduction of nutrient recycling by spreading bio-ash on forest land as a forestry service, starting with Mönsterås, and intensified efforts to reduce damage from wildlife browsing.

Occupational health and safety (OHS)

The number of lost-time-accidents (LTA, occupational injury with absence) was 24 (30) and the lost-time-accident rate (LTAR, number of occupational injury with absence per million hours worked) was 18 (21). Södra has a zero accident vision and the target is that the LTAR decreases with 15 percent per year until 2020. An action plan has been created to increase workplace safety at Södra. During the quarter, training in behaviour-based safety (BBS), safety inspections and safety walks continued in accordance with the action plan. The focus lies on preventive measures, including risk analyses, risk observations and behaviour-based safety.

OCCUPATIONAL INJURIES



* LTA (lost-time-accident). Occupational injury with absence.

** LTAR (lost-time-accident rate). No. of occupational injuries with absence per million hours worked.

On behalf of the Board of Directors

Växjö, 18 April 2018

Lars Idermark
President and CEO

ASSURANCE REPORT

This interim report has not been audited.



Condensed consolidated statement of comprehensive income

SEK million	2018 Jan–Mar	2017 Jan–Mar	2017 Jan–Dec
Net sales	5,717	5,098	20,518
Other revenue	62	87	264
Operating expenses	–4,563	–4,435	–17,773
Depreciation, amortisation and impairment	–278	–260	–1,092
Operating profit	938	490	1,917
Net financial items	3	–21	–87
Profit before tax	941	469	1,830
Income tax	–117	–58	–259
Profit for the period	824	411	1,571
Other comprehensive income			
Items that will not be reclassified to profit or loss	—	0	–61
Items that will be reclassified to profit or loss	63	–6	8
Other comprehensive income for the period	63	–6	–53
Total comprehensive income for the period	887	405	1,518
Profit attributable to			
Owners of the Parent	824	411	1,571
Profit for the period	824	411	1,571
Comprehensive income attributable to			
Owners of the Parent	887	405	1,518
Comprehensive income for the period	887	405	1,518



Condensed consolidated statement of financial position

SEK million	31 Mar 2018	31 Mar 2017	31 Dec 2017
ASSETS			
Intangible assets	381	400	384
Property, plant and equipment	13,731	13,576	13,720
Biological assets	540	524	540
Shares and participations in associates	228	187	222
Financial investments	14	17	20
Non-current operating receivables	49	60	39
Deferred tax assets	—	10	7
Total non-current assets	14,943	14,774	14,932
Inventories	3,186	3,124	3,036
Tax assets	21	38	66
Current operating receivables	3,792	3,345	3,749
Current investments	250	10	199
At the end of the quarter,	1,708	641	1,122
Total current assets	8,957	7,158	8,172
TOTAL ASSETS	23,900	21,932	23,104
EQUITY AND LIABILITIES			
Equity attributable to owners of the Parent	13,779	12,194	12,884
Total equity	13,779	12,194	12,884
Non-current interest-bearing liabilities	2,357	2,286	2,482
Provisions for pensions	323	261	324
Non-current provisions	156	179	160
Deferred tax liabilities	1,186	1,022	1,188
Total non-current liabilities	4,022	3,748	4,154
Current interest-bearing liabilities	2,461	2,294	2,740
Income tax liabilities	48	19	13
Current operating liabilities and provisions	3,590	3,677	3,313
Total current liabilities	6,099	5,990	6,066
Total liabilities	10,121	9,738	10,220
TOTAL EQUITY AND LIABILITIES	23,900	21,932	23,104



Condensed consolidated statement of changes in equity

SEK million	Total equity
Opening balance, 1 January 2018	12,884
Comprehensive income for the year	887
Contributed capital, paid-up by members	20
Contributed capital, paid-out to members	0
Other changes	-12
Closing balance, 31 March 2018	13,779
Opening balance, 1 January 2017	11,766
Comprehensive income for the year	405
Contributed capital, paid-up by members	23
Contributed capital, paid-out to members	0
Closing balance, 31 March 2017	12,194

Condensed consolidated statement of cash flows

SEK million	2018 Jan-Mar	2017 Jan-Mar	2017 Jan-Dec
Profit before income tax	941	469	1,830
Adjustment for non-cash items and change in provisions	219	164	959
Income tax paid	-31	-40	-92
Net cash flow from operating activities before change in working capital	1,129	593	2,697
Change in inventories (increase -)	-132	-25	15
Change in operating receivables (increase -)	3	-259	-620
Change in operating liabilities (increase +)	275	183	-177
Cash flow from operating activities	1,275	492	1,915
Cash flow from investing activities	-265	-560	-1,559
Cash flow after investing activities	1,010	-68	356
Change in contributed capital	20	23	67
Dividends paid	—	—	-467
Change in loans from members	-395	-309	324
Loans raised	—	5	12
Repayment of loans	-9	-30	-30
Other changes	-52	265	106
Cash flow from financing activities	-436	-46	12
CASH FLOW FOR THE PERIOD	574	-114	368
Cash and cash equivalents at beginning of period	1,122	758	758
Exchange gains/losses on cash and cash equivalents	12	-3	-4
Cash and cash equivalents at end of period	1,708	641	1,122



Parent Company

RESULT

In the first quarter, net sales rose to SEK 5,114 million (4,441), while operating profit increased to SEK 897 million (337), mainly attributable to favourable price levels for market pulp and sawn timber.

Net financial items for the first quarter amounted to SEK 8 million (expense: 5).

Profit after net financial items for the period totalled SEK 905 million (332).

MEMBERS

The number of members was 51,304 (51,009 at year-end) and the affiliated membership area rose to 2.55 million hectares (2.52 at year-end), an increase of approximately 0.03 million hectares.

Parent Company income statement, condensed

SEK million	2018 Jan-Mar	2017 Jan-Mar	2017 Jan-Dec
Net sales	5,114	4,441	17,649
Other revenue	54	29	129
Operating expenses	-4,002	-3,832	-15,099
Depreciation, amortisation and impairment	-269	-301	-1,028
Operating profit	897	337	1,651
Net financial items	8	-5	66
Profit after financial items	905	332	1,717
Appropriations	—	—	-743
Profit before tax	905	332	974
Income tax	-98	-41	-49
Profit for the period	807	291	925



Parent Company balance sheet, condensed

SEK million	31 Mar 2018	31 Mar 2017	31 Dec 2017
ASSETS			
Intangible assets	5	7	6
Property, plant and equipment	13,296	13,192	13,320
Shares in Group companies	1,236	1,251	1,238
Shares in associates	167	126	166
Endowment policies	40	38	40
Other non-current investments	14	17	20
Non-current interest-bearing receivables from Group companies	—	5	—
Non-current operating receivables	48	21	39
Deferred tax assets	56	64	57
Total non-current assets	14,862	14,721	14,886
Inventories	2,086	2,200	2,075
Current interest-bearing receivables from Group companies	935	714	872
Current operating receivables	3,372	2,862	3,406
Current financial investments	370	45	279
Cash and bank balances	1,424	359	866
Total current assets	8,187	6,180	7,498
TOTAL ASSETS	23,049	20,901	22,384
EQUITY AND LIABILITIES			
Restricted equity	4,743	4,545	4,723
Non-restricted equity	4,237	3,405	3,431
Total equity	8,980	7,950	8,154
Untaxed reserves	5,678	4,858	5,678
Provisions	191	216	194
Non-current interest-bearing liabilities from Group companies	8	8	8
Non-current interest-bearing liabilities	2,357	2,286	2,482
Non-current operating liabilities and provisions	—	12	—
Total non-current liabilities	2,365	2,306	2,490
Current interest-bearing liabilities from Group companies	111	12	132
Current interest-bearing liabilities	2,455	2,286	2,725
Current operating liabilities	3,269	3,273	3,011
Total current liabilities	5,835	5,571	5,868
TOTAL EQUITY AND LIABILITIES	23,049	20,901	22,384



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 2017 Annual Report, except for new standards and revisions of standards and interpretations applicable to annual periods beginning on or after 1 January 2018 and that have not already been applied in the preparation of the 2017 Annual Report. The standards with impact on the consolidated financial statements and that are applied for the first time in the financial year commencing 1 January 2018 are described below:

- IFRS 9: Financial instruments
- IFRS 15: Revenue from Contracts with Customers

Changes in these standards had no material impact on the financial statements, except for enhanced disclosure requirements. The accounting and measurement principles in these new standards are specified on pages 62–63 of the 2017 Annual Report.

A number of new or changed standards and interpretations will not become effective until the next financial year, and have not been applied in advance in the preparation of these financial statements. No early adoption of updates or amendments that take effect after the 2018 financial year is planned, and none of these are expected to have any material impact on the consolidated financial statements, with the exception of the following:

IFRS 16 Leasing will become effective on 1 January 2019 and entails that most of the Group's leases are to be recognised in the balance sheet, since the distinction between an operating and a finance lease no longer applies. No decision has yet been made regarding a transition method.

There are no other standards not yet effective that are expected to have any material effect on the Group, in the current or coming financial year.

Note 2 | Risks and uncertainties

No additional material risks have been identified since the 2017 Annual Report 2017. For a description of risks and uncertainties, refer to Södra's 2017 Annual Report under Risks and risk management on pages 26–29. An overall description of a selection of such risk areas, and the key measures for control and management, are presented below.

Södra operates in a global market and is therefore impacted by the general economic trend and currency fluctuations, as well as more industry and Group-specific factors.

Efforts to identify, assess and manage risks are an integral and key component of Södra's business management. The Treasury Unit is responsible for managing financial risk, based on a financial policy established by the Board. Operational risks are controlled and managed by the President, management team and employees, in accordance with central policies and guidelines. Södra also has a Business Ethics Council and a Health and Safety Committee that work Group-wide with risk areas including corruption, cyber security and safety risks.

Note 3 | Related parties

There were no transactions between Södra and related parties with any significant effect on the company's position and result. The nature and scope of transactions with related parties are consistent with those that existed in 2017.



Note 4 | Revenue

The following table shows Södra's net sales per revenue category:

SEK million	2018 Jan–Mar				
	Södra Skog	Södra Wood	Södra Cell	Other segments	Group
Wood raw material	423	—	—	—	423
Wood products	—	1,045	—	—	1,045
Market pulp	—	—	3,003	—	3,003
Energy products	227	40	75	19	361
Houses and lots	—	—	—	175	175
Forestry services	329	—	—	—	329
Transport	107	90	—	—	197
Construction contract	—	—	—	133	133
Other	9	49	—	–7	51
Net sales, goods and services	1,095	1,224	3,078	320	5,717

Note 5 | 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	31 Mar 2018		31 Dec 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial investments	14	14	20	20
Operating receivables	2,951	2,951	2,843	2,843
Current investments	250	250	199	199
At the end of the quarter,	1,708	1,708	1,122	1,122
Total assets, financial instruments	4,923	4,923	4,184	4,184
Other assets, non-financial instruments	18,977		18,920	
Total assets	23,900		23,104	
Non-current liabilities	2,357	2,484	2,482	2,590
Current interest-bearing liabilities	2,461	2,481	2,740	2,764
Current operating liabilities	2,631	2,631	2,339	2,339
Total liabilities, financial instruments	7,449	7,596	7,561	7,693
Other liabilities, non-financial instruments	2,672		2,659	
Total liabilities	10,121		10,220	

The following tables present information about how fair value is determined for the financial instruments that are measured at fair value in the consolidated statement of financial position. Fair value measurements are categorised into a three-level hierarchy.

Level 1: Based on prices quoted in active markets for identical instruments.

Level 2: Based on direct or indirect observable market data not included in level 1.

Level 3: Based on inputs that are unobservable in the market.

Group, 31 Mar 2018

SEK million	Level 1	Level 2	Level 3	Total
Assets	1,588	370	15	1,973
Liabilities	—	—	8	8

Group, 31 Dec 2017

SEK million	Level 1	Level 2	Level 3	Total
Assets	1,042	279	21	1,342
Liabilities	—	—	6	6

The fair value of financial instruments is measured on the basis of quoted market prices at the balance-sheet date. Derivatives are measured on the basis of published price quotations in an active market. For unquoted shares where a reliable market value cannot be determined, the carrying amount is used as an indicator of fair value. The fair value of debt instruments is measured using techniques such as discounting expected future cash flows at quoted market interest rates for each duration.



Note 6 | Business disposals

On 1 February 2018, Södra Wood AS was divested to Sörnsen Holzleiten. In 2017, Södra Wood AS generated sales of SEK 363 million and loss for the year totalled SEK 39 million.

Note 7 | Scheduled maintenance shutdowns

At Södra Cell, in addition to routine maintenance during normal operations, there are also planned maintenance shutdowns to perform more extensive maintenance, whereby pulp production is stopped. The earnings impact of the maintenance shutdowns varies, depending on the extent and nature of the maintenance measures and the duration of the stops. The cost comprises lost revenue due to lost production, and the direct cost of the maintenance. There were no planned maintenance shutdowns during the first quarters of 2018 and 2017.



Quarterly data and segment information

	Q1 2018	Q1 2017	Full-year 2017
NET SALES, SEK MILLION			
Södra Skog	2,767	2,556	9,774
of which external	(1,095)	(1,032)	(3,995)
Södra Wood	1,392	1,539	5,934
of which external	(1,224)	(1,362)	(5,286)
Södra Cell	3,129	2,371	9,822
of which external	(3,078)	(2,335)	(9,703)
Other segments	319	369	1,532
of which external	(319)	(369)	(1,532)
Intra-Group	1	—	9
Eliminations	–1,891	–1,737	–6,553
Group	5,717	5,098	20,518
OPERATING PROFIT/LOSS BEFORE DEPRECIATION, AMORTISATION AND IMPAIRMENT, SEK MILLION			
Södra Skog	30	29	121
Södra Wood	137	50	255
Södra Cell	1,138	688	2,721
Other segments	11	35	132
Intra-Group	–101	–59	–254
Eliminations	1	7	34
Group	1,216	750	3,009
OPERATING PROFIT, SEK MILLION			
Södra Skog	19	16	76
Södra Wood	91	3	38
Södra Cell	926	496	1,924
Other segments	8	32	121
Intra-Group	–105	–64	–275
Eliminations	–1	7	33
Group	938	490	1,917
OPERATING MARGIN, %			
Södra Skog	1	1	1
Södra Wood	7	0	1
Södra Cell	30	21	20
Other segments	3	9	8
Intra-Group	neg.	neg.	neg.
Eliminations	—	—	—
Group	16	10	9
ASSETS, SEK MILLION			
Södra Skog	2,634	2,144	2,573
Södra Wood	2,490	2,356	2,405
Södra Cell	11,791	9,833	10,969
Other segments	1,570	1,465	1,501
Intra-Group	6,554	7,007	6,799
Eliminations	–1,139	–873	–1,143
Group	23,900	21,932	23,104
OPERATING CAPITAL, SEK MILLION			
Södra Skog	439	670	682
Södra Wood	3,258	3,297	3,135
Södra Cell	12,993	12,080	12,841
Other segments	1,166	1,149	1,127
Intra-Group	—	—	—
Eliminations	—	—	—
Group, capital employed	16,948	16,321	17,089



	Q1 2018	Q1 2017	Full-year 2017
RETURN ON OPERATING CAPITAL, %			
Södra Skog	14	8	9
Södra Wood	11	0	1
Södra Cell	29	16	16
Other segments	3	11	11
Intra-Group	—	—	—
Eliminations	—	—	—
Consolidated return on capital employed, %	22	12	12
CASH FLOW AFTER INVESTMENTS, SEK MILLION			
Södra Skog	280	273	317
Södra Wood	–32	–38	164
Södra Cell	806	–128	467
Other segments	–41	–8	–97
Intra-Group	–3	–167	–495
Eliminations	—	—	—
Group	1,010	–68	356
INVESTMENTS, SEK MILLION			
Södra Skog	8	6	60
Södra Wood	38	23	147
Södra Cell	201	560	1,249
Other segments	2	3	45
Intra-Group	12	8	105
Eliminations	—	—	—
Group	261	600	1,606
AVERAGE NO. OF EMPLOYEES			
Södra Skog	525	556	527
Södra Wood	1,043	1,285	1,149
Södra Cell	1,167	1,168	1,176
Other segments	277	282	277
Intra-Group	233	235	233
Eliminations	—	—	—
Group	3,245	3,526	3,362



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 %

	Q1 2018	Q1 2017	2017
Opening net sales	5,098	4,545	18,482
Closing net sales	5,717	5,098	20,518
Change	12	12	11

Shows Södra's growth.

OPERATING PROFIT BEFORE DEPRECIATION, AMORTISATION AND IMPAIRMENT, SEK MILLION

	Q1 2018	Q1 2017	2017
Operating profit	938	490	1,917
Depreciation, amortisation and impairment	278	260	1,092
Operating profit before depreciation, amortisation and impairment	1,216	750	3,009

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

OPERATING PROFIT BEFORE DEPRECIATION, AMORTISATION AND IMPAIRMENT MARGIN, %

	Q1 2018	Q1 2017	2017
Operating profit before depreciation, amortisation and impairment	1,216	750	3,009
Net sales	5,717	5,098	20,518
Operating profit before depreciation, amortisation and impairment margin	21	15	15

Operating profit before the depreciation, amortisation and impairment margin shows the percentage of surplus on each SEK earned less operating costs, but before depreciation, amortisation and impairment. This measure can provide a clear view of the cash flow generated. The measurement is used to produce an overall trend analysis of Södra's performance, and for comparison with other companies.

OPERATING MARGIN, %

	Q1 2018	Q1 2017	2017
Operating profit	938	490	1,917
Net sales	5,717	5,098	20,518
Operating margin	16	10	9

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



NET DEBT, SEK MILLION

	Q1 2018	Q1 2017	2017
Interest-bearing provisions	—	—	—
Interest-bearing liabilities	4,580	4,580	5,222
Financial receivables	—	-1	—
Current investments and cash and cash equivalents	-1,958	-651	-1,321
Net debt	2,622	3,928	3,901

Shows Södra's financial strength.

DEBT/EQUITY RATIO, TIMES

	Q1 2018	Q1 2017	2017
Net debt, SEK million	2,622	3,928	3,901
Equity	13,779	12,194	12,884
Debt/equity ratio	0.2	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

	Q1 2018	Q1 2017	2017
Assets	23,900	21,932	23,104
Financial assets	-1,972	-670	-1,341
Provisions*	-156	-179	-160
Income tax*	-1,234	-1,085	-1,201
Operating liabilities	-3,590	-3,677	-3,313
Capital employed	16,948	16,321	17,089
Average	17,019	16,109	16,493

* 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, %

	Q1 2018	Q1 2017	2017
Average capital employed	17,019	16,109	16,493
Operating profit/loss	938	490	1,917
12-month operating profit	3,752	1,960	1,917
Return	22	12	12

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

EQUITY RATIO, %

	Q1 2018	Q1 2017	2017
Equity	13,779	12,194	12,884
Assets	23,900	21,932	23,104
Equity ratio	58	56	56

An established and key measurement of Södra's financial strength. Shows the proportion of total assets financed by equity. The measure 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, SEK million
Operating profit/loss excluding depreciation and amortisation of property, plant and equipment and intangible assets.

Operating profit before depreciation, amortisation and impairment margin, %
Operating profit/loss excluding depreciation and amortisation of property, plant and equipment and intangible assets.

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

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.

Financial reporting

- The interim report for April–June will be published on 16 July 2018.
- The interim report for July–September will be published on 24 October 2018.
- The interim report for October–December and Year-end report will be published in February 2019.
Interim reports can be downloaded from sodra.com
- The Annual General Meeting will be held on 23 May 2018.

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 April 2018 at 8:00 a.m. (CET).

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This is Södra

Södra was founded in 1938 and is the largest forest-owner association in Sweden, with a membership of more than 51,000 forest owners. We engage in modern and responsible forestry, and operate state-of-the-art mills in which we process our raw material. Net sales in 2017 were 20.5 SEK billion and there were 3,400 employees. Through value-generating relationships and a long-term approach, Södra is leading the way for the future of sustainable forestry.