

Södra's interim report 1 July–30 September 2018

- Net sales amounted to SEK 5,826 million (4,763)
- Operating profit before depreciation, amortisation and impairment amounted to SEK 1,558 million (702)
- Operating profit totalled SEK 1,277 million (437)
- The operating margin was 22 percent (9)
- Cash flow after investments was SEK 1,731 million (575)

Key figures	2018 Jul-Sep	2017 Jul-Sep	2018 Jan-Sep	2017 Jan-Sep	2017 Jan-Dec
Net sales, SEK million	5,826	4,763	18,168	15,105	20,518
Operating profit before depreciation, amortisation and impairment, SEK million	1,558	702	4,389	2,175	3,009
Operating profit, SEK million	1,277	437	3,533	1,388	1,917
Operating profit before depreciation, amortisation and impairment margin, %	27	15	24	14	15
Operating margin, %	22	9	19	9	9
Return on capital employed, %	—	—	28	12	12
Equity ratio, %	—	—	59	55	56
Cash flow after investments, SEK million	1,731	575	3,241	768	356
No. of employees	—	—	3,133	3,445	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
Occupational injuries with absence (LTA**), no.	15	14	61	58	96
Lost-time-accident rate (LTAR***)	13	12	16	14	17

* CO₂ and 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.



Sustained strong result

The third quarter was yet another very strong period with an operating profit of SEK 1,277 million. Operating profit amounted to SEK 3,533 million for the first nine months of the year. Return on capital employed was 28 percent. All business areas reported highly favourable results.

In the third quarter, operating profit was very satisfactory, especially in light of the challenges for timber flows and production caused by the extreme weather conditions. However, the summer drought has resulted in a large-scale infestation of spruce bark beetles, mainly in the eastern part of Södra's membership area. This has had an adverse impact on field operations, but is being positively managed in collaboration with our forest owners. Raw material supply and raw material stocks are currently at a favourable level.

Net sales rose 22 percent year-on-year to SEK 5,826 million (4,763). Operating profit improved to SEK 1,277 million (437). The operating margin was 22 percent (9). For the first nine months, an historically strong result was reported of SEK 3,533 million, an increase of SEK 2,145 million year-on-year. A strong cash flow and healthy liquidity have significantly strengthened the financial situation. The balance sheet is very robust with an equity/assets ratio of 59 percent.

All business areas reported highly favourable results. Prices rose for sawn and processed wood products as well as paper pulp. The relatively weak SEK made a positive contribution to the result. The result was negatively impacted by a planned maintenance shutdown at the pulp mill at Mönsterås and certain production disruption at pulp mills during the quarter.

The extensive investment programme and restructuring over the past few years were timely. Södra's production facilities are now more competitive while production volumes have increased, primarily of paper pulp. Demand for paper pulp remained strong and we can see no signs of weakening in the medium term. Favourable global demand has absorbed the higher volumes for long-fibre paper pulp resulting from the expansion investments. The market is demanding additional volumes and the positive price situation for market pulp is thus expected to continue. Demand for sawn and processed wood products was also favourable and is expected to remain strong for some time yet. The interest in timber construction, with its positive effects on the environment, has increased in recent years, though demand is strongly dependent of developments in the housing and construction sector. This positive outlook is also supported by global demand for timber and paper products and for market pulp, which is driven by better welfare and demographic trends.

Investments at the facility for CLT production (cross-laminated timber) are on track. There is a strong rise in interest in building systems using wood products. Even if this market is sensitive to economic fluctu-



ations, it is a long-term initiative aimed at strengthening Södra's market position and at adding further value.

The construction of the facility for the production of methanol at the pulp mill at Mönsterås is progressing according to plan. The investments in liquid biofuels together with Statkraft are also progressing very well from a technical viewpoint. However, start-up of the demo facility is behind schedule as the permitting process from relevant authorities has delayed proceedings.

Efforts to achieve Södra's sustainability targets are progressing well, though some targets are heavily dependent on the participation of other companies and of society at large. Södra has already achieved the interim target for 2020 with fossil-fuel independence at most of our production facilities, with Södra's nurseries now also totally fossil-free.

Even if the favourable global economy and the strong demand for forest products is expected to continue for some time, there are some concerns that may eventually have adverse effects. Not least, this concerns free trade, with an escalation in the trade war between the US and China, but also an increase in nationalism and populism. There are concerns about recent developments in the stock market.

The parliamentary situation in Sweden after the general election is complicated and it is essential that the incoming government pursues a long-term and responsible business and forestry policy. This also applies to attitudes towards forest ownership and management. These issues are of major significance for both Södra and the forest industry as a whole. The forest industry makes a strong contribution to employment in different parts of the country and to substantial export revenues and Swedish welfare. Forestry is also an industry of the future when it comes to solving the major climate challenges.

Lars Idermark
President and CEO

The period in brief

In the third quarter of 2018, operating profit totalled SEK 1,277 million, compared with SEK 437 million in the year-earlier period. Return on capital employed was 28 percent (12), and the equity ratio 59 percent (55).

MARKET CONDITIONS

The global economy remained favourable during the quarter. The level of investment was favourable, unemployment decreased in several markets and households continue to have a positive outlook. However, there are signals of slightly weaker GDP growth in Europe and China. Political uncertainty remains high and the hostile trade conflict between the US and China is impacting the financial markets, primarily through the sustained strength of the USD. According to the IMF, an increase in tariffs and customs duties would have a noticeable impact on global growth, though it should be taken into account that the current actions are mainly unilateral and concern the US against the surrounding world.

The US is driving global growth. Unemployment fell further and President Trump's tax cuts continue to favour the US economy. A new trade agreement between the US, Mexico and Canada also had a positive impact on the economy. Basic inflation stabilised around 2 percent and it is assumed that the US Federal Reserve will continue on its rate-raising path with another raise this year and three next year.

The economic trend in Asia was mixed. India was hampered by the continued very weak rupee.

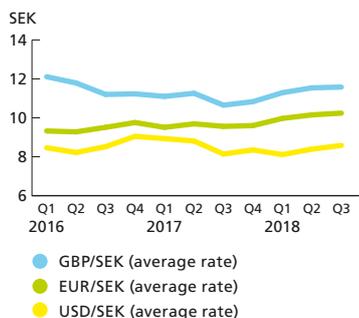
Growth in Japan remained healthy but inflation continues to be at a troubling level. In China, growth slowed slightly but remained stable. The trend was mainly impacted by falling investments and a shrinking retail sector but also the safeguard duties by the US, which are starting to have an effect.

The overall financial development for Europe moved in a weaker direction, though the picture is mixed. Generally, GDP growth was weaker than expected. The German economy was booming while the opposite was the case for the UK. Wages and employment rates noted negative growth and the continuing weak currency resulted in a raise in the key interest rate by the Bank of England.

At the end of the quarter, inflation was at approximately 2 percent, though excluding energy and food, core inflation was much lower, at 0.9 percent. The market is therefore of the opinion that the European Central Bank (ECB) is unlikely to announce an interest rate change before 2019.

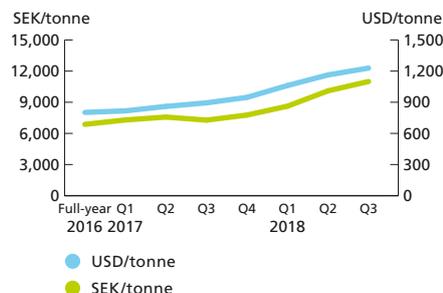
In the third quarter, the Swedish economy was again characterised by positive growth, largely driven by the export industry, which is supported by the weak SEK exchange rate. The residential market continued to weaken and may have negative implica-

FOREIGN EXCHANGE RATES



Source: ECB

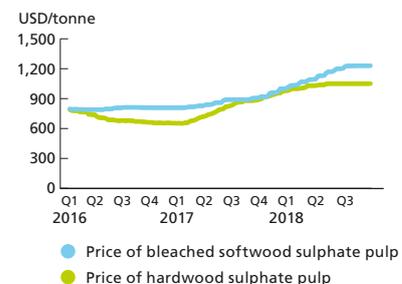
PULP PRICES



The price of bleached softwood sulphate pulp in USD rose during the quarter. The diagram shows the average prices for softwood sulphate pulp delivered to European customers.

Source: Foex PIX and Södra

LIST PRICE FOR SOFTWOOD AND HARDWOOD PULP



The price of softwood pulp increased slightly in the quarter while the price of hardwood pulp was stable. The diagram shows gross prices before discounts in the North European market.

Source: Foex PIX Pulp Index



tions, despite a slight recovery in housing prices in recent months. The uncertain parliamentary situation has also given rise to some concern, primarily pertaining to the performance of the SEK. The SEK strengthened slightly in the quarter against the USD, EUR and 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.

In the third quarter, the wood market in Sweden was impacted by the exceptionally hot and dry summer. Periodically, harvesting bans were in place in large areas of the country, which had an adverse impact on access to raw materials while demand for both saw logs and pulpwood remained high. Developments improved in September and access to wood supplies is expected to be favourable moving forward. Inventory levels at the mills are considered well-balanced.

The market situation for sawn timber remains favourable despite the slowdown in previously strong demand in China and the US. In China, customers have as a rule high inventory levels, which influences the short-term order demand. In the US, the pace of housing construction was lower than anticipated. Due to a slightly lower production rate in Scandinavia — largely caused by the weather situation — producers' stock levels remain low, which is contributing to a favourable price level. The Swedish building trade performed well during the quarter though a declining residential construction trend may lead to a slowdown in the future. In the UK market, supply will probably grow as more players transfer volumes

from the US to the UK. This is expected to result in price pressure, though price levels are favourable with the current GBP exchange rate. Demand remains positive in the rest of Europe. Overall, the global market for sawn timber is expected to remain good during the fourth quarter of 2018 even if prices are expected to level off.

Demand for paper products remained high in the third quarter. The price of market pulp was pushed higher and the current list prices in USD are at historically high levels. Demand continued to be high in China, but also increased in Europe owing to higher production of packaging and specialty paper in the region. At present, additional volumes of market pulp are expected to be absorbed by the sustained growth in demand. Price levels are therefore expected to remain at high levels over the next few months. At the end of the quarter, pulp prices in Europe were USD 1,230 per tonne for softwood pulp and USD 1,050 per tonne for hardwood pulp.

Prices for dissolving pulp remained stable at a favourable level in the quarter and were USD 930 per tonne at the end of the quarter. The price difference continues to benefit paper pulp, whereby dissolving pulp supplies will probably decline because the swing mills (pulp mills that can produce both paper pulp and dissolving pulp on the same production line) prioritise paper pulp production. At the same time, the price of cotton remained at a very high level, which in turn favours viscose-based fabric production. Overall, the price of dissolving pulp is therefore expected to be relatively stable in the coming months.



NET SALES

During the quarter, consolidated net sales amounted to SEK 5,826 million (4,763), up 22 percent. Cumulative sales amounted to SEK 18,168 million (15,105).

RESULT

Operating profit for the period totalled SEK 1,277 million (437), representing an operating margin of 22 percent (9). Profit before tax amounted to SEK 1,245 million (418). Tax expense for the period was SEK 149 million (47). Cumulative operating profit amounted to SEK 3,533 million (1,388), representing the strongest nine-month figure in Södra's history.

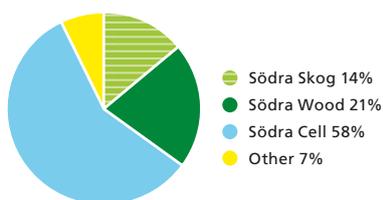
The strong operating profit for the period reflects a sustained very favourable price level for both sawn timber and market pulp. In addition, a 10 percent growth in pulp volume and a favourable USD exchange rate made a contribution.

Return on capital employed was 28 percent (12).

BUSINESS AREAS

SEK million	Net sales					Operating profit/loss				
	2018 Jul-Sep	2017 Jul-Sep	2018 Jan-Sep	2017 Jan-Sep	2017 Jan-Dec	2018 Jul-Sep	2017 Jul-Sep	2018 Jan-Sep	2017 Jan-Sep	2017 Jan-Dec
Södra Skog	2,415	2,128	8,239	7,165	9,774	14	12	82	65	76
Södra Wood	1,382	1,238	4,178	3,908	5,106	162	28	473	129	157
Södra Cell	3,411	2,334	10,144	7,083	9,822	1,140	436	3,262	1,348	1,924
Other segments	418	543	1,418	1,778	2,373	8	2	-31	6	2
Intra-Group	1	3	3	6	9	-47	-46	-253	-180	-275
Eliminations	-1,801	-1,483	-5,814	-4,835	-6,566	—	5	—	20	33
Group	5,826	4,763	18,168	15,105	20,518	1,277	437	3,533	1,388	1,917

SALES PER BUSINESS AREA

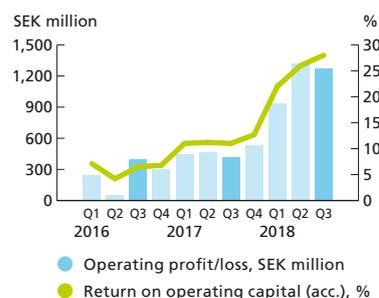


SEK 5,826 million in total, excluding internal deliveries.

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.

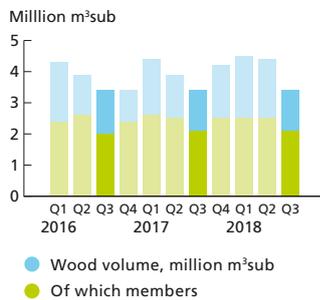
Business areas

Södra Skog

Södra Skog's operating profit for the period totalled SEK 14 million (12). The result was impacted by the summer drought that led to a harvesting ban and made it impossible to conduct site preparation and forest regeneration work. During the period, Södra

Skog purchased 3.4 million m³sub, comprising 63 percent pulpwood and cellulose chips, 30 percent saw logs and 7 percent biofuels. Cumulative operating profit amounted to SEK 82 million (65).

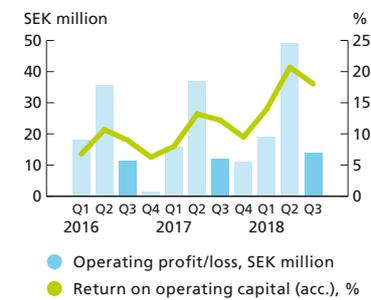
WOOD VOLUME



NET SALES AND OPERATING MARGIN



OPERATING PROFIT/LOSS AND RETURN



Södra Wood

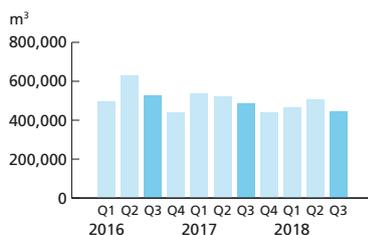
Södra Wood's operating profit for the period totalled SEK 162 million (28) and mainly reflects the excellent price level for sawn timber, but also the continuing positive impact from the ongoing restructuring process. Sales for the quarter amounted to SEK 1,382 million (1,238).

Cumulative sales amounted to SEK 4,178 million (3,908). Operating profit totalled SEK 473 million

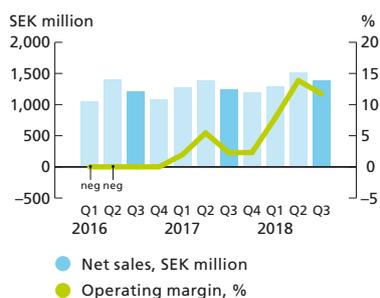
(129), which corresponds to a three-fold increase year-on-year and was mainly driven by the favourable market conditions.

Since the second quarter of 2018, Södra Wood only consists of the sawmill business. The comparative figures have been adjusted. The Interior Wood segment has largely been discontinued and is now reported under Other segments.

SALES VOLUME SAWN TIMBER



NET SALES AND OPERATING MARGIN



OPERATING PROFIT/LOSS AND RETURN



Södra Cell

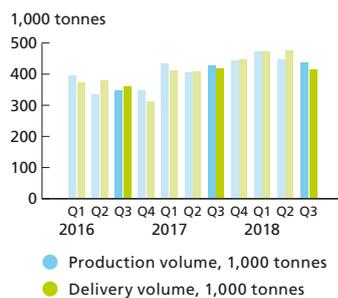
Södra Cell's operating profit totalled SEK 1,140 million (436) for the period. The profit trend was mainly attributable to the high price level and the favourable USD exchange rate. Sales for the quarter amounted to SEK 3,411 million (2,334).

Cumulative sales amounted to SEK 10,144 million (7,082). Operating profit for the first nine months of the year totalled 3,262 (1,348) representing an operating margin of 32 percent (19).

During the quarter, the production volume totalled 438,000 tonnes, comprising approximately 353,000 tonnes of softwood sulphate pulp, 47,000 tonnes of hardwood sulphate pulp and 38,000 tonnes of dissolving pulp.

During the quarter, electricity generated at the pulp mills was 429 GWh. Surplus electricity amounted to 121 GWh. The surplus represented about 28 percent of the generated volume and was sold on the open market.

PRODUCTION AND DELIVERY VOLUME



NET SALES AND OPERATING MARGIN



OPERATING PROFIT/LOSS AND RETURN



Other segments

Trivselhus's operating profit for the quarter totalled SEK 1 million (8). The reduction in profit is due to a decline in volumes. New mortgage repayment requirements, among other factors, have led to a stagnation in orders, especially for duplexes. In light of the market decline, Trivselhus has implemented measures to reduce costs. As part of these measures, 22 FTE equivalents were served lay-off notices on 2

July 2018. During the quarter, 79 homes (115) were delivered.

As of the second quarter, the Interior Wood segment (previously part of the Södra Wood business area) is reported under Other segments. As previously communicated, most of the interior wood business was divested on 7 June 2018. Loss for the quarter totalled SEK 8 million (loss: 21).

NET FINANCIAL ITEMS

The Group's net financial items for the quarter amounted to an expense of SEK 32 million (expense: 19).

CASH FLOW

Cash flow after investments for the quarter was SEK 1,731 million (575). Operating activities made a positive contribution; cash flow before investments improved from SEK 823 million in the year-earlier period to SEK 1,955 million. The combined effect of high prices and a currency trend in Södra's favour has led to strengthening liquidity. This trend is expected to continue in the coming months. Cumulative cash flow before investments amounted to SEK 4,037 million (1,895), while cash flow after investments was SEK 3,241 million (768). At the end of the quarter, cash and cash equivalents and current investments amounted to SEK 4,016 million (1,321 at year-end).

FINANCIAL POSITION

At 30 September 2018, equity amounted to SEK 15,486 million (12,884 at year-end), of which paid-up and issued contributed capital accounted for SEK 3,565 million (3,310 at year-end). Total assets increased to SEK 26,420 million (23,104 at year-end). At 30 September 2018, the equity ratio was 59 percent (56 at year-end). Södra's borrowings comprised loans of SEK 3,140 million from members (3,106 at year-end) and an almost eight-year loan of SEK 1,000 million (1,000 at year-end) from the Nordic Investment Bank. Repayment will begin in the second quarter of 2019. An almost three-year green bond of SEK 1,000 million (1,000 at year-end) is 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 0.1 (0.3 at year-end)

INVESTMENTS, ACQUISITIONS AND DIVESTMENTS

Investments for the quarter totalled SEK 213 million (269), of which SEK 0 million (21) pertained to Södra Skog, SEK 27 million (37) to Södra Wood and SEK 143 million (201) to Södra Cell. The investments were mainly focused on expansion, productivity and the environment.

EVENTS AFTER THE CLOSE OF THE PERIOD

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

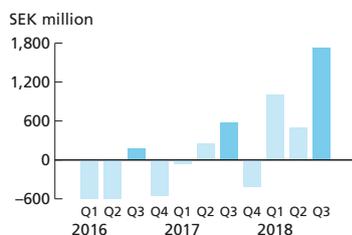
EMPLOYEES

At 30 September, the number of employees was 3,133 (3,445), of whom 23 percent (21) were women. The lower number of employees was due to restructuring within the Group.

FUTURE OUTLOOK

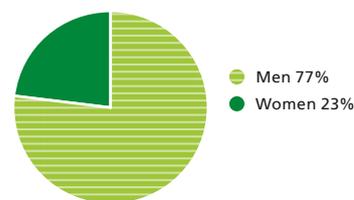
The third quarter of 2018 was yet another strong quarter. A sustained high price level for both sawn timber and market pulp, combined with a strong USD, contributed to the positive result, despite challenges involving the timber flow during late summer. Prices are expected to remain at current levels in the coming months. The contracted wood volumes remained at a favourable level. Global growth is healthy but some signs of a slowdown are discernable. In Sweden, the housing market trend is causing concern. Although it is difficult to present a long-term forecast, the current market conditions are providing ideal prospects for Södra to deliver a very strong result for the full-year 2018.

CASH FLOW AFTER INVESTMENTS



Cash flow after investments was SEK 1,731 million during the quarter.

EMPLOYEES



At 30 September, the number of employees was 3,133, of whom 23 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

Södra’s target is fossil-free production by 2020 and fossil-free transportation by 2030. Work towards fossil-free production continued. During the quarter, biogas replaced natural gas at one unit for timber impregnation. The consumption of fossil fuel oil at the pulp mills increased during the quarter compared with 2017. Södra began installing charging stations for electric vehicles at the head office and at several production units to facilitate commuting by electric car. Construction began of a biomethanol production facility in Mönsterås. Södra, together with partners, was awarded funding by the Swedish Transport Administration to develop a pilot study into the potential to use biomethanol as fuel in freighters contracted by Södra.

Forest growth

Södra’s target is a 20 percent higher rate of forest growth by 2050 compared with 2015. Work continued to implement the target to reduce damage from wildlife browsing and the Administrative Council adopted a strategy for Södra’s efforts. Work with the Swedish Forest Agency’s cooperative process for forest production entered a final stage and a consulta-

tion will be sent out at the end of October. Efforts continued during the quarter to intensify forest cultivation work, to ensure better reproductive material for spruce, for example.

Occupational health and safety (OHS)

Södra has a zero accident vision and the lost-time-accident rate (LTAR – number of occupational injuries with absence per million hours worked) will decrease 15 percent per year until 2020. During the quarter, the number of lost-time-accidents (LTA – occupational injuries with absence) was 15 (14) and the LTAR was 13 (12). During the quarter, training in behaviour-based safety (BBS), safety inspections and safety walks continued in accordance with Södra’s safety 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.

THE BOARD AND PRESIDENT’S ASSURANCE

The Board of Directors and the President assure that this interim report provides a true and fair view of the Parent Company’s and the Group’s operations, position and results and describes the principal risks and uncertainties faced by the Parent Company and the companies included in the Group.

Växjö, 23 October 2018

Lena Ek <i>Chairman</i>	Paul Christensson <i>Deputy Chairman</i>	Dan Andersson <i>Employee representative</i>	Karin Andersson <i>Board member</i>
Hans Berggren <i>Board member</i>	Pål Börjesson <i>Board member</i>	Ylva op den Velde Hammargren <i>Board member</i>	Ola Hildingsson <i>Board member</i>
Pontus Johansson <i>Employee representative</i>	Ulf Johansson <i>Board member</i>	Lars Nilsson <i>Employee representative</i>	Anders Roman <i>Board member</i>

Lars Idermark
President and CEO



Auditor's report

Södra Skogsägarna ekonomisk förening, corporate identity number 729500-3789

INTRODUCTION

We have reviewed the condensed interim financial information (interim report) of Södra Skogsägarna ekonomisk förening as of 30 September 2018 and the nine-month period then ended. The Board of Directors and the President are responsible for the preparation and presentation of the interim financial information in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

SCOPE OF REVIEW

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410, *Review of Interim Report Performed by the Independent Auditor of the Entity*. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying

analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, ISA, and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and the Swedish Annual Accounts Act, regarding the Group, and with the Swedish Annual Accounts Act, regarding the Parent Company.

Växjö, 23 October 2018

Martin Johansson
Authorised Public Accountant
PricewaterhouseCoopers AB

Madeleine Larsson
Authorised Public Accountant
PricewaterhouseCoopers AB

Mats Löfgren
Member Representative Auditor

Dick Stagmo
Member Representative Auditor



Condensed consolidated statement of comprehensive income

SEK million	2018 Jul-Sep	2017 Jul-Sep	2018 Jan-Sep	2017 Jan-Sep	2017 Jan-Dec
Net sales	5,826	4,763	18,168	15,105	20,518
Other revenue	36	64	206	180	264
Operating expenses	-4,304	-4,125	-13,985	-13,110	-17,773
Depreciation, amortisation and impairment	-281	-265	-856	-787	-1,092
Operating profit	1,277	437	3,533	1,388	1,917
Net financial items	-32	-19	-38	-60	-87
Profit before tax	1,245	418	3,495	1,328	1,830
Income tax	-149	-47	-336	-153	-259
Profit for the period	1,096	371	3,159	1,175	1,571
Other comprehensive income					
Items that will not be reclassified to profit or loss	—	—	—	—	-61
Items that will be reclassified to profit or loss	-16	6	68	-6	8
Other comprehensive income for the period	-16	6	68	-6	-53
Total comprehensive income for the period	1,080	377	3,227	1,169	1,518
Profit attributable to					
Owners of the Parent	1,096	371	3,159	1,175	1,571
Profit for the period	1,096	371	3,159	1,175	1,571
Comprehensive income attributable to					
Owners of the Parent	1,080	377	3,227	1,169	1,518
Comprehensive income for the period	1,080	377	3,227	1,169	1,518



Condensed consolidated statement of financial position

SEK million	30 Sep 2018	30 Sep 2017	31 Dec 2017
ASSETS			
Intangible assets	391	413	384
Property, plant and equipment	13,586	13,612	13,720
Biological assets	540	524	540
Shares and participations in associates	300	192	222
Financial investments	14	17	20
Other non-current receivables	94	39	39
Deferred tax assets	4	10	7
Total non-current assets	14,929	14,807	14,932
Inventories	3,123	3,055	3,036
Tax assets	36	32	66
Operating receivables	4,316	3,373	3,749
Current investments	1,351	154	199
Cash and cash equivalents	2,665	1,224	1,122
Total current assets	11,491	7,838	8,172
TOTAL ASSETS	26,420	22,645	23,104
EQUITY AND LIABILITIES			
Equity attributable to owners of the Parent	15,486	12,494	12,884
Total equity	15,486	12,494	12,884
Non-current interest-bearing liabilities	2,438	2,363	2,482
Provisions for pensions	318	247	324
Non-current provisions	157	178	160
Deferred tax liabilities	1,116	1,021	1,188
Total non-current liabilities	4,029	3,809	4,154
Current interest-bearing liabilities	2,802	2,545	2,740
Income tax liabilities	283	19	13
Current operating liabilities	3,820	3,778	3,313
Total current liabilities	6,905	6,342	6,066
Total liabilities	10,934	10,151	10,220
TOTAL EQUITY AND LIABILITIES	26,420	22,645	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	3,227
Contributed capital, paid-up by members	73
Contributed capital, paid-out to members	-34
Dividends to members	-652
Other changes	-12
Closing balance, 30 September 2018	15,486
Opening balance, 1 January 2017	11,766
Comprehensive income for the year	1,169
Contributed capital, paid-up by members	27
Contributed capital, paid-out to members	0
Dividends to members	-468
Closing balance, 30 September 2017	12,494

Condensed consolidated statement of cash flows

SEK million	2018 Jan-Sep	2017 Jan-Sep	2017 Jan-Dec
Profit before income tax	3,495	1,328	1,830
Adjustment for non-cash items and change in provisions	808	620	959
Income tax paid	-104	-130	-92
Net cash flow from operating activities before change in working capital	4,199	1,818	2,697
Change in inventories (increase -)	-106	12	15
Change in operating receivables (increase -)	-544	-248	-620
Change in operating liabilities (increase +)	488	313	-177
Cash flow from operating activities	4,037	1,895	1,915
Cash flow from investing activities	-796	-1,127	-1,559
Cash flow after investing activities	3,241	768	356
Change in contributed capital	39	27	67
Dividends paid	-652	-468	-467
Change in loans from members	34	21	324
Change in loans	-15	-28	-18
Change in current investments with maturity > 90 days	-1,153	122	77
Other changes	33	28	29
Cash flow from financing activities	-1,714	-298	12
CASH FLOW FOR THE PERIOD	1,527	470	368
Cash and cash equivalents at beginning of period	1,122	758	758
Exchange gains/losses on cash and cash equivalents	16	-4	-4
Cash and cash equivalents at end of period	2,665	1,224	1,122



Parent Company

RESULT AND FINANCIAL POSITION

In the third quarter, net sales rose to SEK 5,139 million (4,062) and operating profit to SEK 1,195 million (381). Operating profit for the third quarter was in line with expectations and reflects continued favourable market conditions for both paper pulp and sawn timber.

Net financial items for the third quarter amounted to an expense of SEK 29 million (expense: 10).

Profit after net financial items for the period amounted to SEK 1,166 million (371).

MEMBERS

The number of members was 51,485 (51,009 at year-end) and the affiliated membership area rose to 2.58 million hectares (2.52 at year-end), an increase of approximately 0.06 million hectares.

Parent Company income statement, condensed

SEK million	2018 Jul-Sep	2017 Jul-Sep	2018 Jul-Sep	2017 Jan-Sep	2017 Jan-Dec
Net sales	5,139	4,062	16,127	12,981	17,649
Other revenue	-79	47	175	93	129
Operating expenses	-3,596	-3,432	-12,157	-11,034	-15,099
Depreciation, amortisation and impairment	-269	-296	-811	-901	-1,028
Operating profit	1,195	381	3,334	1,139	1,651
Net financial items	-29	-10	-9	-7	66
Profit after financial items	1,166	371	3,325	1,132	1,717
Appropriations	—	—	—	—	-743
Profit before tax	1,166	371	3,325	1,132	974
Income tax	-127	-42	-370	-130	-49
Profit for the period	1,039	329	2,955	1,002	925



Parent Company balance sheet, condensed

SEK million	30 Sep 2018	30 Sep 2017	31 Dec 2017
ASSETS			
Intangible assets	4	5	6
Property, plant and equipment	13,142	13,233	13,320
Shares and participations in Group companies	1,236	1,238	1,238
Shares and participations in associates	246	126	166
Surplus in funded pension plans	40	38	40
Other non-current investments	14	17	20
Other non-current receivables	93	39	39
Deferred tax assets	52	62	57
Total non-current assets	14,827	14,758	14,886
Inventories	2,071	2,060	2,075
Current interest-bearing receivables from Group companies	959	697	872
Current receivables	3,678	2,825	3,406
Current financial investments	2,533	418	279
Cash and bank balances	1,427	782	866
Total current assets	10,668	6,782	7,498
TOTAL ASSETS	25,495	21,540	22,384
EQUITY AND LIABILITIES			
Restricted equity	4,978	4,682	4,723
Non-restricted equity	5,517	3,508	3,431
Total equity	10,495	8,190	8,154
Untaxed reserves	5,678	4,858	5,678
Provisions	191	215	194
Non-current interest-bearing liabilities from Group companies	7	8	8
Non-current interest-bearing liabilities	2,438	2,363	2,482
Non-current operating liabilities	—	3	—
Total non-current liabilities	2,445	2,374	2,490
Current interest-bearing liabilities from Group companies	173	1	132
Current interest-bearing liabilities	2,804	2,541	2,725
Current operating liabilities	3,709	3,361	3,011
Total current liabilities	6,686	5,903	5,868
TOTAL EQUITY AND LIABILITIES	25,495	21,540	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 applied accounting policies are consistent with those presented 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.

The regulations for economic associations have been applied in the calculation of current tax. These mean that dividend proposal for the financial year (which will be paid out in the following year) is tax deductible in the current year and has been treated as

a deduction in the calculation of current tax. The deduction has affected the tax expense recognised in net profit or loss.

Note 2 | Risks and uncertainties

No additional material risks have been identified since the 2017 Annual Report. 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 Jul-Sep				Group
	Södra Skog	Södra Wood	Södra Cell	Other segments	
Wood raw material	1,231	—	—	—	1,231
Wood products	—	3,139	—	278	3,417
Market pulp	—	—	9,652	—	9,652
Energy products	442	119	358	58	977
Houses and lots	—	—	—	558	558
Forestry services	1,055	—	—	—	1,055
Transportation	303	271	—	—	574
Construction contract	—	—	—	518	518
Other	15	168	—	3	186
Net sales, goods and services	3,046	3,697	10,010	1,415	18,168

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	30 Sep 2018		31 Dec 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial investments	14	14	20	20
Operating receivables	3,060	3,060	2,843	2,843
Current investments	1,351	1,351	199	199
Cash and cash equivalents	2,665	2,665	1,122	1,122
Total assets, financial instruments	7,090	7,090	4,184	4,184
Other assets, non-financial instruments	19,330		18,920	
Total assets	26,420		23,104	
Non-current liabilities	2,438	2,553	2,482	2,590
Current interest-bearing liabilities	2,802	2,826	2,740	2,764
Current operating liabilities	2,824	2,824	2,339	2,339
Total liabilities, financial instruments	8,064	8,203	7,561	7,693
Other liabilities, non-financial instruments	2,870		2,659	
Total liabilities	10,934		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, 30 Sep 2018

SEK million	Level 1	Level 2	Level 3	Total
Assets	1,480	2,536	15	4,031
Liabilities	—	—	1	1

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 Holzleisten. In 2017, Södra Wood AS generated sales of SEK 363 million and loss for the year totalled SEK 39 million.

In May, Södra entered into an agreement with Sörnsen Grimslov AB to transfer the Interior Wood operations in Kallinge and Umeå. The transfer took place on 1 September 2018. The value of the assets transferred amounted to approximately SEK 90 million. In 2017, the Swedish Interior Wood segment generated sales of SEK 514 million with an operating loss of SEK 56 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. In the third quarter, the cost of scheduled maintenance shutdowns was SEK 81 million (25).



Quarterly data and segment information

The figures reported for Södra Wood refer only to the sawmill operations.

	2018 Jul-Sep	2017 Jul-Sep	2018 Jan-Sep	2017 Jan-Sep	Full-year 2017
NET SALES, SEK MILLION					
Södra Skog	2,415	2,128	8,239	7,165	9,774
of which external	(802)	(801)	(3,046)	(2,894)	(3,995)
Södra Wood	1,382	1,238	4,178	3,908	5,106
of which external	(1,240)	(1,107)	(3,697)	(3,436)	(4,450)
Södra Cell	3,411	2,334	10,144	7,083	9,822
of which external	(3,368)	(2,313)	(10,010)	(7,000)	(9,703)
Other segments	418	543	1,418	1,778	2,373
of which external	(416)	(542)	(1,415)	(1,774)	(2,368)
Intra-Group	1	3	3	6	9
Eliminations	-1,801	-1,483	-5,814	-4,835	-6,566
Group	5,826	4,763	18,168	15,105	20,518
OPERATING PROFIT/LOSS BEFORE DEPRECIATION, AMORTISATION AND IMPAIRMENT, SEK MILLION					
Södra Skog	25	22	114	99	121
Södra Wood	206	69	603	252	323
Södra Cell	1,353	636	3,904	1,939	2,721
Other segments	16	10	6	31	65
Intra-Group	-42	-41	-238	-165	-254
Eliminations		6		19	33
Group	1,558	702	4,389	2,175	3,009
OPERATING PROFIT, SEK MILLION					
Södra Skog	14	12	82	65	76
Södra Wood	162	28	473	129	157
Södra Cell	1,140	436	3,262	1,348	1,924
Other segments	8	2	-31	6	2
Intra-Group	-47	-46	-253	-180	-275
Eliminations	—	5	—	20	33
Group	1,277	437	3,533	1,388	1,917
OPERATING MARGIN, %					
Södra Skog	1	1	1	1	1
Södra Wood	12	2	11	3	3
Södra Cell	33	19	32	19	20
Other segments	2	0	-2	7	0
Intra-Group	neg.	neg.	neg.	neg.	neg.
Eliminations	—	—	—	—	—
Group	22	9	19	9	9
ASSETS, SEK MILLION					
Södra Skog	—	—	3,010	2,569	2,573
Södra Wood	—	—	2,533	2,110	2,148
Södra Cell	—	—	14,276	10,584	10,969
Other segments	—	—	1,770	1,820	1,763
Intra-Group	—	—	5,975	6,452	6,799
Eliminations	—	—	-1,144	-890	-1,148
Group	—	—	26,420	22,645	23,104
OPERATING CAPITAL, SEK MILLION					
Södra Skog	—	—	535	488	682
Södra Wood	—	—	2,947	2,864	2,860
Södra Cell	—	—	12,901	12,243	12,841
Other segments	—	—	1,507	1,501	1,406
Intra-Group	—	—	—	—	—
Eliminations	—	—	—	—	—
Group, capital employed	—	—	17,014	16,254	17,089



	2018 Jul-Sep	2017 Jul-Sep	2018 Jan-Sep	2017 Jan-Sep	Full-year 2017
RETURN ON OPERATING CAPITAL, %					
Södra Skog	—	—	18	12	9
Södra Wood	—	—	22	6	5
Södra Cell	—	—	34	15	16
Other segments	—	—	neg.	1	0
Intra-Group	—	—	neg.	neg.	—
Eliminations	—	—	—	—	—
Consolidated return on capital employed, %	—	—	28	12	12
CASH FLOW AFTER INVESTMENTS, SEK MILLION					
Södra Skog	96	201	240	504	317
Södra Wood	355	205	389	195	208
Södra Cell	1,531	305	3,203	550	467
Other segments	-15	-13	-120	-104	-141
Intra-Group	-236	-123	-471	-377	-495
Eliminations	—	—	—	—	—
Group	1,731	575	3,241	768	356
INVESTMENTS, SEK MILLION					
Södra Skog	0	21	30	49	60
Södra Wood	27	37	90	87	132
Södra Cell	143	201	523	996	1,249
Other segments	0	11	2	-8	60
Intra-Group	43	-1	167	42	105
Eliminations	—	—	—	—	—
Group	213	269	812	1,166	1,606
AVERAGE NO. OF EMPLOYEES					
Södra Skog	—	—	556	563	527
Södra Wood	—	—	829	860	839
Södra Cell	—	—	1,166	1,168	1,176
Other segments	—	—	329	598	587
Intra-Group	—	—	237	229	233
Eliminations	—	—	—	—	—
Group	—	—	3,117	3,418	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 %

	2018 Jan-Sep	2017 Jan-Sep	2017 Jan-Dec
Opening net sales	15,105	13,915	18,482
Closing net sales	18,168	15,105	20,518
Change	20	9	11

Shows Södra's growth.

OPERATING PROFIT BEFORE DEPRECIATION, AMORTISATION AND IMPAIRMENT, SEK MILLION

	2018 Jan-Sep	2017 Jan-Sep	2017 Jan-Dec
Operating profit	3,533	1,388	1,917
Depreciation, amortisation and impairment	856	787	1,092
Operating profit before depreciation, amortisation and impairment	4,389	2,175	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, %

	2018 Jan-Sep	2017 Jan-Sep	2017 Jan-Dec
Operating profit before depreciation, amortisation and impairment	4,389	2,175	3,009
Net sales	18,168	15,105	20,518
EBITDA margin	24	14	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 PROFIT, SEK MILLION

	2018 Jan-Sep	2017 Jan-Sep	2017 Jan-Dec
Net sales	18,168	15,105	20,518
Other revenue	206	180	264
Operating expenses	-13,985	-13,110	-17,773
Depreciation, amortisation and impairment	-856	-787	-1,092
Operating profit	3,533	1,388	1,917

Operating profit/loss shows the surplus on net sales less operating costs, including depreciation, amortisation and impairment. This is an essential measurement for producing a trend analysis of Södra's performance, and for comparison with other companies.

OPERATING MARGIN, %

	2018 Jan-Sep	2017 Jan-Sep	2017 Jan-Dec
Operating profit	3,533	1,388	1,917
Net sales	18,168	15,105	20,518
Operating margin	19	9	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**

	2018 Jan-Sep	2017 Jan-Sep	2017 Jan-Dec
Interest-bearing provisions	—	—	—
Interest-bearing liabilities	5,240	4,908	5,222
Financial receivables	—	—	—
Current investments and cash and cash equivalents	-4,016	-1,378	-1,321
Net debt	1,224	3,530	3,901

Shows Södra's financial strength.

DEBT/EQUITY RATIO

	2018 Jan-Sep	2017 Jan-Sep	2017 Jan-Dec
Net debt, SEK million	1,224	3,530	3,901
Equity	15,486	12,494	12,884
Debt/equity ratio	0.1	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

	2018 Jan-Sep	2017 Jan-Sep	2017 Jan-Dec
Assets	26,420	22,645	23,104
Financial assets	-4,030	-1,395	-1,341
Provisions*	-157	-178	-160
Income tax*	-1,399	-1,040	-1,201
Operating liabilities	-3,820	-3,778	-3,313
Capital employed	17,014	16,254	17,089
Average	17,052	16,075	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, %

	2018 Jan-Sep	2017 Jan-Sep	2017 Jan-Dec
Average capital employed	17,052	16,075	16,493
Operating profit	3,533	1,388	1,917
12-month operating profit	4,711	1,851	1,917
Return	28	12	12

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

EQUITY RATIO, %

	2018 Jan-Sep	2017 Jan-Sep	2017 Jan-Dec
Equity	15,486	12,494	12,884
Assets	26,420	22,645	23,104
Equity ratio	59	55	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 expressed as a percentage of net sales.

Operating profit, SEK million
Net sales and other revenue reduced with operating costs including depreciation, amortisation and impairment.

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 October-December and the year-end report will be published on 14 February 2019 at 12 noon.
- The Annual General Meeting will be held in May 2019.
Interim reports can be downloaded from sodra.com

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 24 October 2018 at 8:00 a.m. (CEST).

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This is Södra

Founded in 1938, Södra is Sweden's largest forest-owner association, with more than 51,000 forest owners as its members. We engage in modern and responsible forestry, and operate state-of-the-art mills in which we process our raw material. In 2017, sales amounted to SEK 20.5 billion and employees totalled 3,400. Through value-generating relationships and a long-term approach, Södra shows the way for the next generation of forestry.