

Södra's year-end report with interim report 1 October–31 December 2018

1 OCTOBER–31 DECEMBER

- Net sales amounted to SEK 6,062 million (5,413).
- Operating profit before depreciation, amortisation and impairment amounted to SEK 1,264 million (835).
- Operating profit totalled SEK 974 million (530).
- The operating margin was 16 percent (10).
- Cash flow after investments amounted to a negative SEK 3,383 million (neg: 412).

2018 IN BRIEF

- Net sales amounted to SEK 24,230 million (20,518).
- Operating profit before depreciation, amortisation and impairment amounted to SEK 5,654 million (3,009).
- Operating profit totalled SEK 4,508 million (1,917).
- The operating margin was 19 percent (9).
- Cash flow after investments amounted to a negative SEK 142 million (pos: 356).
- Return on capital employed was 24 percent (12).

Key figures	2018	2017	2018	2017
	Oct-Dec	Oct-Dec	Jan-Dec	Jan-Dec
Net sales, SEK million	6,062	5,413	24,230	20,518
Operating profit before depreciation, amortisation and impairment, SEK million	1,264	835	5,654	3,009
Operating profit, SEK million	974	530	4,508	1,917
EBITDA margin, %	21	15	23	15
Operating margin, %	16	10	19	9
Return on capital employed, %*	—	—	24	12
Equity ratio, %*	—	—	59	56
Cash flow after investments, SEK million	-3,383	-412	-142	356
No. of employees*	—	—	3,141	3,402
CO ₂ fossil from production, ktonnes*	—	—	103	80
CO ₂ fossil from transportation, ktonnes*	—	—	196	191
Rate of forest growth, m ³ fo/ha per year*	—	—	6.7	6.9
Occupational injuries with absence (LTA**), no.	16	36	77	94
Lost-time-accident rate (LTAR***)	12	24	15	17

* These key indicators 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.



Anniversary year with the best profit in Södra's history

Operating profit for the fourth quarter of 2018 totalled SEK 974 million. Net sales for full-year 2018 rose 18 percent to SEK 24,230 million, with an historical record-high result of SEK 4,508 million. The Board proposes a dividend of SEK 1,795 million. Södra acquired forest land in Latvia and is investing an additional SEK 100 million in forestry research and development.

Growth in the fourth quarter was also strong, but uncertainty increased with some signs of a slowing global economy and turbulence in financial markets. Consolidated net sales amounted to SEK 6,062 million, up 12 percent, with operating profit of SEK 974 million (530). During the quarter, Södra acquired Bergviks Skog's forest holding in Latvia for EUR 324 million. Access to fibre is crucial for our industry. We also see a growing demand for forest products as the bioeconomy evolves. The acquisition of forest land is also a good capital investment.

Net sales for full-year 2018 rose 18 percent to SEK 24,230 million. Operating profit of SEK 4,508 million for full-year 2018 is the best in Södra's history and the Board proposes a dividend of SEK 1,795 million. The excellent result was due to a favourable global economy with strong demand in our key markets, and positive price trends for both paper pulp and sawn timber products. The strong demand was met by our extensive investments of approximately SEK 11 billion in pulp mills, sawmills and new innovations over the past four years. The interior wood business was completely discontinued during the year. The full-year result for 2018 should also be viewed against the background of weather-related challenges. In autumn, we could also confirm extensive spruce bark beetle damage across much of Södra's forest operations area.

The forest industry is in an ideal position to support the transition to a bioeconomy – forest raw materials have unique properties as a renewable resource, growing forests absorb CO₂ and forest-based products can replace products based on fossil fuels. Södra is working hard to seize the opportunities that forests provide. The Board has therefore decided to invest SEK 100 million in research related to forest growth and productivity.

Sustainability has acquired a much greater focus in recent years, alongside of raised alarms about climate change and global warming. Our progressive approach is reflected in our 15 ambitious sustainability targets, which we are gradually achieving. However, some of these targets can only be achieved if



society and other industries also contribute to the necessary transition.

Södra has been working in the best interests of forest owners since 1938 by promoting a competitive industry and developing services and products that our members need to conduct sustainable and responsible forestry. Strong ownership rights and freedom with responsibility are cornerstones, and will also ensure future forest growth and biodiversity. Sweden's continued future as a leading forest nation must therefore be based on common sense and long-term business-policy rules for individual forest owners.

In the long term, the market outlook for paper pulp and sawn and processed wood products is expected to remain bright. The short-term perspective is overshadowed by geopolitical concerns including threats to free trade, Brexit and the rise of populism. Uncertainty always slows global economic growth and we see some signs that global growth projections have been revised downwards. Södra holds a strong business and financial position, and has strengthened its competitiveness in recent years. We will continue to show the way to the future and become a next-generation forest company by taking advantage of the ongoing transition towards a more sustainable bioeconomy.

Lars Idermark
President and CEO

The period in brief

2018 was a record year for Södra. After yet another strong quarter, net sales for the full-year amounted to SEK 24,230 million (20,518) with operating profit of SEK 4,508 million (1,917). Sales for the fourth quarter amounted to SEK 6,062 million (5,413). Operating profit totalled SEK 974 million, compared with SEK 530 million in the year-earlier period. Return on capital employed was 24 percent (12), and the equity ratio 59 percent (56).

MARKET CONDITIONS

While the global economy remained favourable in the fourth quarter, a slight slowdown was discernible. Despite downward revisions of GDP projections in general, the global growth rate is still projected to exceed 3 percent in the coming years. Employment rates and wages are still rising, which is driving inflation and will probably lead to a normalisation of monetary policy by central banks.

There are some concerns, however, primarily the threat of an escalated trade dispute between the US and China, which will not only affect these two countries but also several emerging economies. Political instability in Europe could also have negative effects on economic growth.

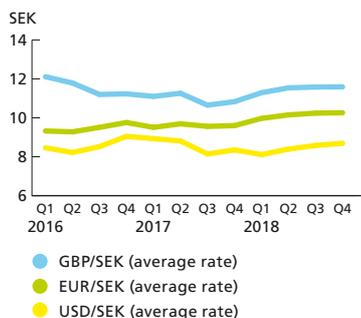
In the US, the recent stock market turmoil has had a negative impact on economic optimism. One consequence of this is that the Federal Reserve, following four rate hikes in 2018, is now signalling a more cautious approach to rate hikes in 2019. Further to this, the political stalemate on the US federal budget has led to the shutdown of many federal services.

Chinese economic growth continued to slow during the quarter due to the ongoing trade dispute with the US, but also because of the Chinese government's structural measures to reduce the country's dependence on credit. In recent months, China's central bank has eased its monetary and credit policy, and has allowed the Yuan to weaken against the USD to boost its export industry.

Europe is dominated by Brexit talks and the situation in Italy. The growth rate has slowed, partly the result of temporary factors such as the German automotive industry having to adapt to new emissions regulations. At the same time, capacity utilisation is the highest since 2007 and companies are reporting a shortage of both labour and machine capacity.

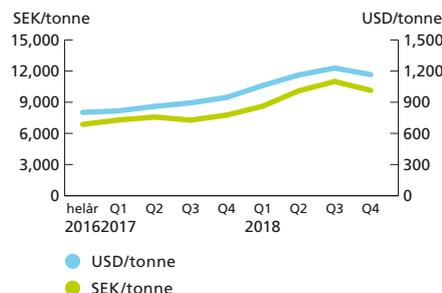
In the Nordic region, Sweden is continuing to grapple with a weaker housing market and an uncertain parliamentary situation. The export-dependent Finnish economy has slowed slightly but is still growing. Oil investments will give the Norwegian economy a short-term boost in 2019, but this is not expected to persist. The Baltic countries continue to

FOREIGN EXCHANGE RATES



Source: ECB

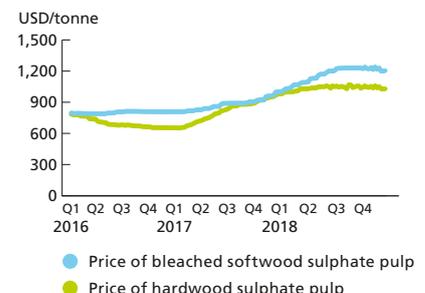
PULP PRICES



The price of bleached softwood sulphate pulp in USD declined slightly 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 declined slightly during the quarter, while the price of hardwood pulp remained stable. The diagram shows gross prices before discounts in the North European market.

Source: Foex PIX Pulp Index



lead the Eurozone and growth rates are expected to be around 3–3.5 percent in the coming years.

During the quarter, the SEK weakened against the USD but strengthened slightly against the EUR and the GBP. The weak SEK continued to boost the Swedish export industry. 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.

Demand for saw logs and pulpwood was high during the year. Supplies of regeneration-felling forest were high with strong contracting in the second half of the year. Supplies were partly driven by the extensive spruce bark beetle infestation. At the time of writing, Södra's total fresh fibre inventory is well-balanced.

The market for sawn timber has stabilised at a high level following an unusually long period of rising prices. Overall, demand in Europe is largely favourable, partly due to continued low inventory levels. The situation is different outside Europe, with more variable demand and falling prices. In the US, prices have dropped sharply since June and are now lower than in Europe. In China, customers are more cautious and importers generally have high inventory levels. Prices have therefore stabilised at a lower level, which has also exerted significant downward pressure on prices in the North African market. Production in Central Europe increased due to a higher supply of saw logs in the wake of extensive spruce bark beetle infestation and storm damage.

In Sweden, demand was high in all market segments except for house production. There are signs that the building trade is slowing across the Stockholm region and in 2019, demand looks set to weaken for the packaging industry. Demand remained favourable in the UK, and several customers are planning to build up their inventories in the coming quarter in preparation for a possible hard Brexit. In Södra's third core market, the Netherlands, demand remained favourable.

After more than eight consecutive quarters with rising prices, the price of market pulp fell slightly during the final months of the year. At the end of the quarter, the price was USD 1,170 per tonne of softwood sulphate pulp and USD 1,034 per tonne of hardwood sulphate pulp compared with USD 1,230 and USD 1,050, respectively, at the end of the preceding quarter. High inventory levels in China's import chain, in particular, have led to sluggish demand and depressed prices. In addition, the supply of pulp increased in Europe while demand slowed somewhat. The current price level of USD 1,170 per tonne is highly favourable. The corresponding price level at the end of 2017 was USD 1,030.

Demand for paper products, and therefore market pulp, slowed in the fourth quarter, due to a slight slowdown in the global economy. The price of pulp will probably continue to fall from its current very high level in the coming months.

The price of dissolving pulp stabilised at a favourable level during the quarter and was USD 947 per tonne by the end of the quarter.

NET SALES

In the fourth quarter, consolidated net sales amounted to SEK 6,062 million (5,413), up 12 percent. Growth was solely attributable to favourable price levels.

Cumulative net sales amounted to SEK 24,230 million (20,518), corresponding to growth of 18 percent.

RESULT

Operating profit for the quarter totalled SEK 974 million (530), representing an operating margin of 16 percent (10). Profit before tax was SEK 935 million (503). Tax expense for the period was SEK 364 million (95). Operating profit for the fourth quarter was

in line with expectations and reflected continued favourable market conditions for both paper pulp and sawn timber.

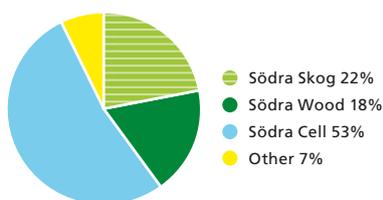
Return on capital employed was 24 percent (12). Cumulative operating profit amounted to SEK 4,508 million (1,917), representing an operating margin of 19 percent (9). The positive earnings trend in 2018 was mainly attributable to an upward price trend for both market pulp and sawn timber products, completed expansion investments and restructuring, and a favourable USD exchange rate.

Profit before tax was SEK 4,431 million (1,830). Cumulative tax expense was SEK 701 million (259).

BUSINESS AREAS

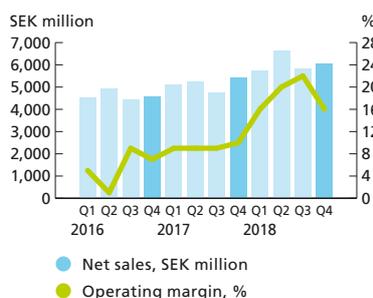
SEK million	Net sales				Operating profit			
	2018 Oct-Dec	2017 Oct-Dec	2018 Jan-Dec	2017 Jan-Dec	2018 Oct-Dec	2017 Oct-Dec	2018 Jan-Dec	2017 Jan-Dec
Södra Skog	3,133	2,609	11,373	9,774	176	11	259	76
Södra Wood	1,297	1,198	5,474	5,106	135	28	608	157
Södra Cell	3,261	2,739	13,404	9,822	770	577	4,032	1,924
Other segments	452	595	1,869	2,373	6	-5	-25	2
Intra-Group	—	3	3	9	-113	-89	-366	-275
Eliminations	-2,081	-1,731	-7,893	-6,566	—	8	—	33
Group	6,062	5,413	24,230	20,518	974	530	4,508	1,917

SALES PER BUSINESS AREA

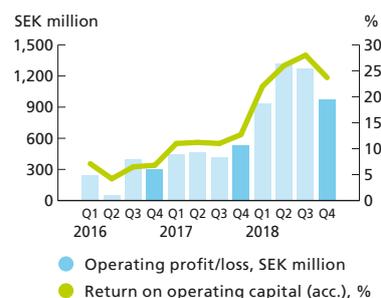


SEK 6,062 million in total, excluding internal deliveries.

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

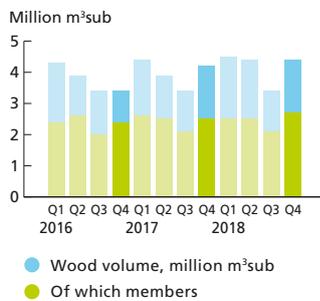
Södra Skog

Södra Skog's operating profit for the period totalled SEK 18 million (5) excluding the revaluation of biological assets mainly in the Baltic countries. Due to the sharp increase in saw log prices in the Baltics in 2017 and 2018 as well as a strong EUR, the effect of revaluating the biological assets amounted to SEK 158 million. Including the revaluation, operating profit for the period amounted to SEK 176 million (11) for the

business area. The revaluation pertains to previously owned woodlands in Sweden and the Baltics. During the period, Södra Skog purchased 4.1 million m³sub, comprising 56 percent pulpwood and cellulose chips, 35 percent saw logs and 9 percent biofuels.

Cumulative operating profit amounted to SEK 259 million (76).

WOOD VOLUME



NET SALES AND OPERATING MARGIN



OPERATING PROFIT/LOSS AND RETURN



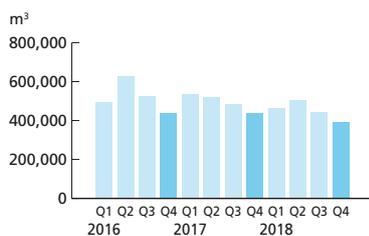
Södra Wood

Södra Wood's operating profit for the period totalled SEK 135 million (28) and reflects the stable and favourable price level of sawn timber products. Sales for the quarter amounted to SEK 1,297 million (1,198). During the quarter, Södra Wood delivered 391,111 m³ compared with 437,168 m³ in the year-earlier period.

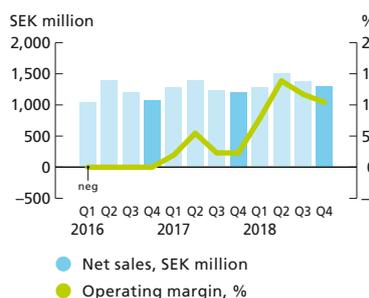
Cumulative sales amounted to SEK 5,474 million (5,106). Cumulative operating profit was SEK 608

million (157) and was Södra Wood's best-ever result. The positive earnings trend was mainly driven by favourable market conditions combined with a consistently implemented market strategy. Since the second quarter of 2018, Södra Wood only comprises the sawmill business. The comparative figures have been adjusted. The interior wood business has been discontinued and is recognised in Other segments.

SALES VOLUME SAWN TIMBER



NET SALES AND OPERATING MARGIN



OPERATING PROFIT/LOSS AND RETURN



Södra Cell

Södra Cell's operating profit for the period totalled SEK 770 million (577). The earnings trend was mainly due to the favourable price level and USD exchange rate. The quarter was negatively impacted by a non-recurring cost of SEK 155 million related to a provision for an anticipated bad debt loss, and costs of SEK 139 million for the scheduled maintenance shut-downs at Mönsterås and Mörrum in October. Sales for the quarter amounted to SEK 3,261 million (2,739).

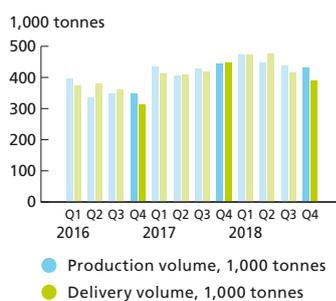
Cumulative sales amounted to SEK 13,404 million (9,822). Operating profit for the full-year totalled SEK 4,032 million (1,924) and represented an operating

margin of 30 percent (20), which is the best-ever result for Södra Cell.

During the quarter, the production volume totalled 429,000 tonnes, comprising approximately of 359,000 tonnes of softwood sulphate pulp, 40,000 tonnes of hardwood sulphate pulp and 30,000 tonnes of dissolving pulp.

During the quarter, electricity generated at the pulp mills was 416 GWh. Excess electricity amounted to 116 GWh. The excess represented about 28 percent of the generated volume and was sold on the open market.

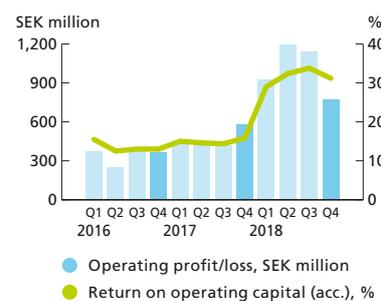
PRODUCTION AND DELIVERY VOLUME



NET SALES AND OPERATING MARGIN



OPERATING PROFIT/LOSS AND RETURN



Other segments

The result for Other segments for the period totalled SEK 6 million (loss: 5).

Operating loss for Trivselhus totalled SEK 9 million (profit: 17). The decline in earnings was due to lower volumes. New mortgage repayment requirements, among other factors, have led to a stagnation in orders, especially for duplexes. In view of the declining market, Trivselhus has taken measures to reduce costs. A total of 42 employees were given notice in 2018. During the quarter, 79 homes (115) were delivered. In addition to the effect of lower volumes, the quarter was also impacted by provisions of SEK 9 million for staff redundancies.

As of the second quarter, the interior wood business (previously part of the Södra Wood business area) is reported under Other segments. As previously announced, most of the interior wood business was divested on 7 June 2018, while the remaining business operations were divested during the quarter. Loss for the quarter totalled SEK 6 million (loss: 51). Södra's share of the associate SunPine's profit for the period was SEK 10 million (35).

Cumulative operating loss for Other segments was SEK 25 million (2).

NET FINANCIAL ITEMS

The Group’s net financial items for the quarter amounted to an expense of SEK 39 million (expense: 27).

CASH FLOW

Cash flow before investments for the quarter was SEK 233 million (20). Cash flow after investments was a negative SEK 3,383 million (neg: 412), due to the acquisition of Bergvik’s forest holding in Latvia in November 2018. Cumulative cash flow before investments was SEK 4,270 million (1,915) and a negative SEK 142 million (pos: 356) after investments. At the end of the quarter, cash and cash equivalents and current investments amounted to SEK 1,072 million (1,321).

FINANCIAL POSITION

At 31 December 2018, equity amounted to SEK 16,011 million (12,884), of which paid-up and issued contributed capital accounted for SEK 3,620 million (3,310). Total assets increased to SEK 27,094 million (23,104). At 31 December 2018, the equity ratio was 59 percent (56). Södra’s borrowings comprised loans of SEK 3,529 million from members (3,106), a eight-year loan of SEK 1,000 million (1,000) from the Nordic Investment Bank and a four-year green bond of SEK 1,000 million (1,000) 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 0.3 percent (0.3)

INVESTMENTS, ACQUISITIONS AND DIVESTMENTS

In the fourth quarter of 2018, investments totalled SEK 3,646 million (350), of which SEK 3,318 million (11) pertained to Södra Skog, SEK 34 million (45) to Södra Wood and SEK 248 million (164) to Södra Cell. Other than the acquisition of forest holdings in Latvia, the investments were mainly focused on expansion, productivity and the environment.

During the year, Södra’s interior wood business was discontinued. On 7 June, the operations in Kallinge and Umeå were sold to Sörnsen Grimslov AB and on 29 November, Berg & Berg (which was close to being discontinued) was sold to the Mor-Gerd Group. Discontinuation of the interior wood business generated a total non-recurring cost of SEK 63 million, which was charged to earnings in the second quarter and recognised in Other.

On 13 November, it was announced that Södra had acquired Bergvik’s forest holding in Latvia. The total purchase amount was EUR 324 million. The acquired area was 111,100 hectares, of which 80,300 is forest land.

EVENTS AFTER THE CLOSE OF THE PERIOD

The UK’s withdrawal from the EU (Brexit), could have financial implications for Södra, mainly in relation to trade with sawn and planed timber where a hard Brexit could have a short-term impact on consolidated net sales and capital employed. While the impact of Brexit on Södra is difficult to predict, the preliminary assessment is that it will be relatively limited. Otherwise, there were no significant events after the end of the reporting period.

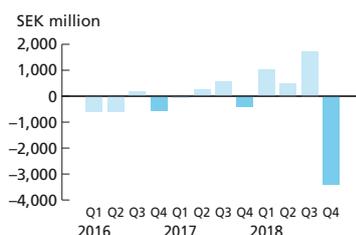
EMPLOYEES

At 31 December, the number of employees was 3,141 (3,402), of whom 22 percent (21) were women. The decrease in number of employees was due to restructuring within the Group.

FUTURE OUTLOOK

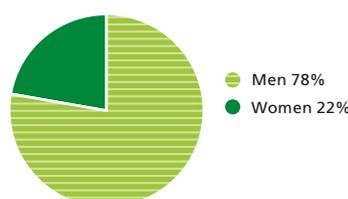
At year-end, price levels for both market pulp and sawn timber were favourable, which is expected to continue over the coming months. Signs of a global slowdown could also impact Södra’s operations. Overall, it is difficult to make long-term assessments in a market environment that is currently uncertain, but the trend for the first months of 2019 is expected to remain favourable.

CASH FLOW AFTER INVESTMENTS



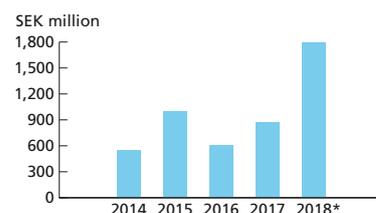
During the quarter, cash flow after investments was a negative SEK 3,383 million.

EMPLOYEES



At 31 December, the number of employees was 3,141, of whom 22 percent were women.

DIVIDEND



* Proposed dividend

Overall long-term dividend should correspond to at least 50 percent of profit before tax. The proposed dividend corresponds to 41 percent. The dividend rate for the past five years is 45 percent.

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 targets are fossil-free production by 2020 and fossil-free transportation by 2030. In 2018, fossil CO₂ emissions from production, working machinery and internal transport were 103 ktonnes (80). The consumption of fossil fuel oil at the pulp mills was higher in 2018 compared with 2017 due to lower access to bio-oil in the market. Södra’s pulp mills are fossil-free during normal operation. During the year, seedling production became fossil-free when natural gas was replaced by wood pellets to heat greenhouses and offices. Biogas replaced natural gas in one wood impregnation unit. In 2018, fossil-fuel CO₂ emissions from transportation were 196 ktonnes, which is slightly higher compared with 2017. The proportion of renewable fuel at Södra’s filling stations remains high. Charging stations for electric cars were installed at the head office and one pulp mill to facilitate commuting by electric car. During the year, Södra launched a unique partnership with KLM airlines to enable fossil-free air travel. The partnership includes both air travel with bio-based jet fuel, and a feasibility study of local production of bio-based aviation fuel. The feasibility study is co-financed by the Swedish Energy Agency.

Forest growth

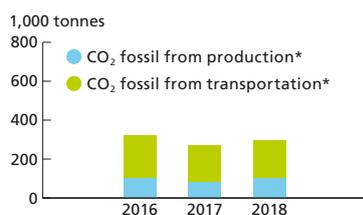
Södra’s target is a 20 percent higher rate of forest growth by 2050 compared with 2015. In 2018, the

rate of forest growth on Södra members’ land was 6.7 m³fo per hectare and year, up 2 percent compared with 2015. Södra’s analysis shows that effective advisory services in relation to forest management and damage control in forests are important measures to increase forest production. Södra also invests in research and development, such as forest tree breeding to provide better spruce reproductive material, and the nutrient recycling of bio-ash to forest land. Efforts are ongoing to develop strategies to achieve better regeneration stands and higher intensity cleaning. In 2018, the summer was hot with less precipitation than normal. Many forest stands were negatively impacted and the combination of heat and drought led to widespread spruce bark beetle damage. The dry and hot summer of 2018 will affect forest production in the coming years, the exact scope is partly dependent on weather conditions in 2019.

Occupational health and safety (OHS)

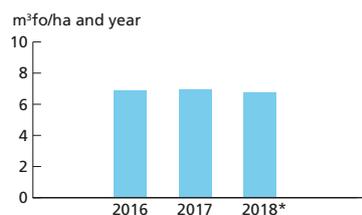
Södra has a zero accident vision and the lost-time-accident rate (LTAR – number of occupational injuries with absence per million hours worked) is to decrease 15 percent per year until 2020. In the fourth quarter, the number of lost-time-accidents (LTA – occupational injuries with absence) was 16 (36) and the LTAR was 12 (24). For 2018, the outcome was 77 (94) lost-time-accidents and a lost-time accident rate of 15 (17). During the quarter a contractor at the Långasjö sawmill suffered a fatal accident. The accident is being investigated. Initiatives during the year included behaviour-based safety (BBS) training, safety inspections and safety walks in line with Södra’s safety action plan. The focus lies on preventive measures, including risk analyses, risk observations and behaviour-based safety.

FOSSIL-FUEL FREE



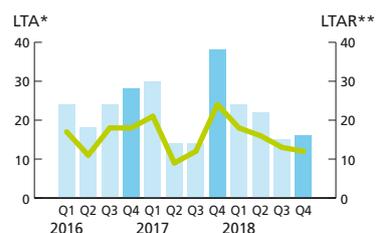
* The production target includes production, working machinery (including external harvesting contractors working on Södra’s behalf) and internal transport. The transportation target includes other transport, including Södra’s own haulage operations.

FOREST GROWTH



* 2018 relates to average growth in the 2012–2016 period, the most recent value available. The rate of forest growth is based on the National Forest Inventory’s data for land owned by Södra members.

OCCUPATIONAL INJURIES



● LTA*
● LTAR**
* LTA (lost-time-accident). Occupational injury with absence.
** LTAR (lost-time-accident rate). No. of occupational injuries with absence from work per million hours worked.

On behalf of the Board of Directors

Växjö, 13 February 2019

Lars Idermark
President and CEO

ASSURANCE REPORT

This interim report has not been audited.



Condensed consolidated statement of comprehensive income

SEK million	2018 Oct-Dec	2017 Oct-Dec	2018 Jan-Dec	2017 Jan-Dec
Net sales	6,062	5,413	24,230	20,518
Other revenue	209	85	415	264
Operating expenses	-5,007	-4,663	-18,991	-17,773
Depreciation, amortisation and impairment	-290	-305	-1,146	-1,092
Operating profit	974	530	4,508	1,917
Net financial items	-39	-27	-77	-87
Profit before tax	935	503	4,431	1,830
Tax	-364	-95	-701	-259
Profit for the period	571	408	3,730	1,571
Other comprehensive income				
Items that will not be reclassified to profit or loss	-79	-61	-79	-61
Items that will be reclassified to profit or loss	-22	14	46	8
Other comprehensive income for the period	-101	-47	-33	-53
Total comprehensive income for the period	470	361	3,697	1,518
Profit attributable to				
Owners of the Parent	571	408	3,730	1,571
Profit for the period	571	408	3,730	1,571
Comprehensive income attributable to				
Owners of the Parent	470	361	3,697	1,518
Comprehensive income for the period	470	361	3,697	1,518



Condensed consolidated statement of financial position

SEK million	31 Dec 2018	31 Dec 2017
ASSETS		
Intangible assets	391	384
Property, plant and equipment	14,860	13,720
Biological assets	2,738	540
Shares and participations in associates	310	222
Financial investments	14	20
Other non-current receivables	90	39
Deferred tax assets	5	7
Total non-current assets	18,408	14,932
Inventories	3,649	3,036
Tax assets	23	66
Operating receivables	3,942	3,749
Current investments	199	199
Cash and cash equivalents	873	1,122
Total current assets	8,686	8,172
TOTAL ASSETS	27,094	23,104
EQUITY AND LIABILITIES		
Equity attributable to owners of the Parent	16,011	12,884
Total equity	16,011	12,884
Non-current interest-bearing liabilities	2,465	2,482
Provisions for pensions	414	324
Non-current provisions	141	160
Deferred tax liabilities	1,478	1,188
Total non-current liabilities	4,498	4,154
Current interest-bearing liabilities	3,165	2,740
Income tax liabilities	91	13
Current operating liabilities	3,329	3,313
Total current liabilities	6,585	6,066
Total liabilities	11,083	10,220
TOTAL EQUITY AND LIABILITIES	27,094	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	3,697
Contributed capital, paid-up by members	128
Contributed capital, paid-out to members	-34
Dividends to members	-652
Other changes	-12
Closing balance, 31 December 2018	16,011
Opening balance, 1 January 2017	11,766
Comprehensive income for the year	1,518
Contributed capital, paid-up by members	108
Contributed capital, paid-out to members	-41
Dividends to members	-467
Closing balance, 31 December 2017	12,884

Condensed consolidated statement of cash flows

SEK million	2018 Jan-Dec	2017 Jan-Dec
Profit before income tax	4,431	1,830
Adjustment for non-cash items and change in provisions	1,044	959
Income tax paid	-261	-92
Net cash flow from operating activities before change in working capital	5,214	2,697
Change in inventories (increase -)	-628	15
Change in operating receivables (increase -)	-335	-620
Change in operating liabilities (increase +)	19	-177
Cash flow from operating activities	4,270	1,915
Cash flow from investing activities	-4,412	-1,559
Cash flow after investing activities	-142	356
Change in contributed capital	94	67
Dividends paid	-652	-467
Change in loans from members	423	324
Change in loans	-15	-18
Change in current investments with maturity > 90 days	0	77
Other changes	33	29
Cash flow from financing activities	-117	12
CASH FLOW FOR THE PERIOD	-259	368
Cash and cash equivalents at beginning of period	1,122	758
Exchange gains/losses on cash and cash equivalents	10	-4
Cash and cash equivalents at end of period	873	1,122



Parent Company

RESULT AND FINANCIAL POSITION

In the fourth quarter, net sales rose to SEK 5,275 million (4,668) and operating profit to SEK 735 million (512). Operating profit for the fourth quarter was in line with expectations and reflects continued favourable market conditions for both paper pulp and sawn timber.

Net financial items for the fourth quarter amounted to SEK 13 million (73).

Profit after net financial items for the period totalled SEK 748 million (585).

MEMBERS

The number of members was 51,637 (51,009 at year-end) and the affiliated membership area rose to 2.59 million hectares (2.52 at year-end), an increase of approximately 70,000 hectares.

Parent Company income statement, condensed

SEK million	2018 Oct-Dec	2017 Oct-Dec	2018 Jan-Dec	2017 Jan-Dec
Net sales	5,275	4,668	21,402	17,649
Other revenue	41	37	216	129
Operating expenses	-4,302	-4,066	-16,459	-15,099
Depreciation, amortisation and impairment	-279	-127	-1,090	-1,028
Operating profit	735	512	4,069	1,651
Net financial items	13	73	4	66
Profit after financial items	748	585	4,073	1,717
Appropriations	-1,485	-743	-1,485	-743
Profit before tax	-737	-158	2,588	974
Tax	-7	81	-377	-49
Profit/loss for the period	-744	-77	2,211	925



Parent Company balance sheet, condensed

SEK million	31 Dec 2018	31 Dec 2017
ASSETS		
Intangible assets	3	6
Property, plant and equipment	13,160	13,320
Shares and participations in Group companies	4,561	1,238
Shares and participations in associates	246	166
Surplus in funded pension plans	36	40
Other non-current investments	14	20
Other non-current receivables	81	39
Deferred tax assets	47	57
Total non-current assets	18,148	14,886
Inventories	2,610	2,075
Current interest-bearing receivables from Group companies	846	872
Current receivables	3,475	3,406
Current financial investments	198	279
Cash and bank balances	742	866
Total current assets	7,871	7,498
TOTAL ASSETS	26,019	22,384
EQUITY AND LIABILITIES		
Restricted equity	5,033	4,723
Non-restricted equity	4,773	3,431
Total equity	9,807	8,154
Untaxed reserves	7,184	5,678
Provisions	168	194
Non-current interest-bearing liabilities from Group companies	8	8
Non-current interest-bearing liabilities	2,465	2,482
Total non-current liabilities	2,473	2,490
Current interest-bearing liabilities from Group companies	182	132
Current interest-bearing liabilities	3,165	2,725
Current tax liabilities	81	—
Current operating liabilities	2,959	3,011
Total current liabilities	6,387	5,868
TOTAL EQUITY AND LIABILITIES	26,019	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 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 recognition 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 new interpretations will take effect in the coming financial years 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 Leases was published in January 2016 and entails that most of the Group's leases will be recognised in the balance sheet, since the distinction between an operating and a finance lease no longer applies. The standard came into effect on 1 January 2019 and the Group does not, at this stage, intend to adopt IFRS 16 in advance. Södra will apply the modified retrospective approach, which means that the cumulative impact of applying IFRS 16 will be recognised at the start of the current accounting period on 1 January 2019, with no restatement of comparative periods. On transition, Södra will apply the exemption, whereby all leases signed prior to 1 January 2019 will be recognised under IFRS 16. Södra also plans to apply the exemptions for low-value leases and leases of less than 12 months, whereby these will continue to be recognised on a straight-line basis over the lease term. Based on the information available, additional lease liabilities of SEK 443 million, additional right-of-use assets of SEK 458 million and deferred tax of SEK 0 million are expected to be recognised on transition. A negative effect of SEK 1 million arises in equity, mainly due to translation differences on contracts denominated in a foreign currency and because interest rates are higher at the beginning of the payment period than at the end according to the annuity method, while depreciation is calculated using the straight-line method. Operating profit is expected to increase by about SEK 1 million compared with application of the previous accounting policies, since some of the lease payment will be recognised as interest expense. The effect on profit after tax is expected to be negligible. The application of IFRS 16 is not assessed to affect Södra's ability to fulfil the Group's loan covenants.

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 rules for economic associations have been applied in the calculation of current tax. This means that the dividend proposal for the current financial year (which will be paid out in the following year) is already 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.

All figures in the report have been rounded off to the nearest million, unless otherwise stated. As a result, some percentages and figures in the report may not correspond with the total shown, and may also differ from previously published information.

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 Oct-Dec				Group
	Södra Skog	Södra Wood	Södra Cell	Other segments	
Wood raw material	1,763	—	—	—	1,763
Wood products	—	4,403	—	314	4,717
Market pulp	—	—	12,710	—	12,710
Energy products	654	169	508	81	1,412
Houses and lots	—	—	—	736	736
Forestry services	1,501	—	—	—	1,501
Transportation	410	—	—	—	410
Construction contract	—	—	—	730	730
Other	26	220	—	5	251
Net sales, goods and services	4,354	4,792	13,218	1,866	24,230

Note 5 | Financial instruments

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

Group, SEK million	31 Dec 2018		31 Dec 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial investments	14	14	20	20
Other non-current receivables	9	9	—	—
Operating receivables	2,802	2,802	2,843	2,843
Current investments	199	199	199	199
Cash and cash equivalents	873	873	1,122	1,122
Total assets, financial instruments	3,897	3,897	4,184	4,184
Other assets, non-financial instruments	23,197	—	18,920	—
Total assets	27,094	—	23,104	—
Non-current liabilities	2,465	2,575	2,482	2,590
Current interest-bearing liabilities	3,165	3,191	2,740	2,764
Current operating liabilities	2,321	2,321	2,339	2,339
Total liabilities, financial instruments	7,951	8,087	7,561	7,693
Other liabilities, non-financial instruments	3,132	—	2,659	—
Total liabilities	11,083	—	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 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 Dec 2018

SEK million	Level 1	Level 2	Level 3	Total
Assets	1,071	10	14	1,095
Liabilities	—	—	0	0

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 combinations

ACQUISITIONS

On 13 November 2018, Södra acquired Bergvik Skog AB's forest holding in Latvia. The total area acquired is 111,100 hectares, of which 80,300 hectares is forest land. The acquisition is classified as an asset acquisition, since the acquisition essentially consist of forest land and biological assets. The determination of whether an acquisition represents a business combination or an asset acquisition is based on assumptions and assessments made by management on the acquisition date. A critical factor for the determination is whether the return from the acquisition is substantially generated by the acquired business or the acquired assets. Information about the purchase amount and net assets acquired is presented below.

SEK million	
Compensation paid	3,324
Cash paid	3,324
Contingent consideration	—
<i>Carrying amounts, identifiable assets and assumed liabilities:</i>	
Non-current assets	4
Forest land and biological assets	3,285
Current receivables	15
Cash and cash equivalents	39
Provisions	-6
Interest-bearing liabilities	—
Non-interest-bearing liabilities	-13
Identifiable net assets acquired	3,324
Cash and cash equivalents in acquired entities	-39
Net effect on cash and cash equivalents	3,285

The total purchase amount was SEK 3,324 million, while the net effect on cash and cash equivalents was SEK 3,285 million. The acquisition analysis is preliminary.

DIVESTMENT

On 1 February 2018, Södra Wood AS was divested to Sörnsen Holzeisten. 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 was 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 operation, 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 shutdowns. The cost comprises lost revenue due to lost production, and the direct costs of the maintenance. In the fourth quarter, costs for scheduled maintenance shutdowns amounted to SEK 139 million (127).



Quarterly data and segment information

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

	2018 Oct-Dec	2017 Oct-Dec	2018 Jan-Dec	2017 Jan-Dec
NET SALES, SEK MILLION				
Södra Skog	3,133	2,609	11,373	9,774
of which external	(1,308)	(1,101)	(4,354)	(3,995)
Södra Wood	1,297	1,198	5,474	5,106
of which external	(1,096)	(1,014)	(4,792)	(4,450)
Södra Cell	3,261	2,739	13,404	9,822
of which external	(3,208)	(2,703)	(13,218)	(9,703)
Other segments	452	595	1,869	2,373
of which external	(452)	(594)	(1,866)	(2,368)
Intra-Group	—	3	3	9
Eliminations	-2,081	-1,731	-7,893	-6,566
Group	6,062	5,413	24,230	20,518
OPERATING PROFIT/LOSS BEFORE DEPRECIATION, AMORTISATION AND IMPAIRMENT, SEK MILLION				
Södra Skog	187	22	302	121
Södra Wood	179	71	782	323
Södra Cell	990	784	4,894	2,721
Other segments	15	34	21	65
Intra-Group	-107	-85	-345	-254
Eliminations	—	9	—	33
Group	1,264	835	5,654	3,009
OPERATING PROFIT, SEK MILLION				
Södra Skog	176	11	259	76
Södra Wood	135	28	608	157
Södra Cell	770	577	4,032	1,924
Other segments	6	-5	-25	2
Intra-Group	-113	-89	-366	-275
Eliminations	—	8	—	33
Group	974	530	4,508	1,917
OPERATING MARGIN, %				
Södra Skog	6	0	2	1
Södra Wood	10	2	11	3
Södra Cell	24	21	30	20
Other segments	1	neg.	neg.	0
Intra-Group	—	—	—	—
Eliminations	—	—	—	—
Group	16	10	19	9
ASSETS, SEK MILLION				
Södra Skog	—	—	3,071	2,573
Södra Wood	—	—	2,658	2,148
Södra Cell	—	—	15,067	10,969
Other segments	—	—	1,601	1,763
Intra-Group	—	—	5,745	6,799
Eliminations	—	—	-1,048	-1,148
Group	—	—	27,094	23,104



	2018 Oct-Dec	2017 Oct-Dec	2018 Jan-Dec	2017 Jan-Dec
OPERATING CAPITAL, SEK MILLION				
Södra Skog	—	—	4,720	682
Södra Wood	—	—	3,014	2,860
Södra Cell	—	—	13,015	12,841
Other segments	—	—	1,327	1,406
Intra-Group	—	—	—	—
Eliminations	—	—	—	—
Group, capital employed	—	—	20,969	17,089
RETURN ON OPERATING CAPITAL, %				
Södra Skog	—	—	10	9
Södra Wood	—	—	21	5
Södra Cell	—	—	31	16
Other segments	—	—	neg.	0
Intra-Group	—	—	—	—
Eliminations	—	—	—	—
Consolidated return on capital employed, %	—	—	24	12
CASH FLOW AFTER INVESTMENTS, SEK MILLION				
Södra Skog	-4,010	-187	-3,770	317
Södra Wood	41	12	430	208
Södra Cell	654	-83	3,857	467
Other segments	152	-38	32	-141
Intra-Group	-220	-116	-691	-495
Eliminations	—	—	—	—
Group	-3,383	-412	-142	356
INVESTMENTS, SEK MILLION				
Södra Skog	3,318	11	3,348	60
Södra Wood	34	45	124	132
Södra Cell	248	164	770	1,249
Other segments	1	68	3	60
Intra-Group	45	74	135	105
Eliminations	—	-12	—	—
Group	3,646	350	4,380	1,606
AVERAGE NO. OF EMPLOYEES				
Södra Skog	—	—	561	527
Södra Wood	—	—	843	839
Södra Cell	—	—	1,171	1,176
Other segments	—	—	299	621
Intra-Group	—	—	248	233
Eliminations	—	—	—	—
Group	—	—	3,122	3,396



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–Dec	2017 Jan–Dec
Opening net sales	20,518	18,482
Closing net sales	24,230	20,518
Change	18	11

Shows Södra's growth.

OPERATING PROFIT BEFORE DEPRECIATION, AMORTISATION AND IMPAIRMENT, SEK MILLION

	2018 Jan–Dec	2017 Jan–Dec
Operating profit	4,508	1,917
Depreciation, amortisation and impairment	1,146	1,092
Operating profit before depreciation, amortisation and impairment	5,654	3,009

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

EBITDA MARGIN, %

	2018 Jan–Dec	2017 Jan–Dec
Operating profit before depreciation, amortisation and impairment	5,654	3,009
Net sales	24,230	20,518
EBITDA margin	23	15

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

OPERATING PROFIT, SEK MILLION

	2018 Jan–Dec	2017 Jan–Dec
Net sales	24,230	20,518
Other revenue	415	264
Operating expenses	-18,991	-17,773
Depreciation, amortisation and impairment	-1,146	-1,092
Operating profit	4,508	1,917

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

OPERATING MARGIN, %

	2018 Jan–Dec	2017 Jan–Dec
Operating profit	4,508	1,917
Net sales	24,230	20,518
Operating margin	19	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 expenses and tax, and to provide acceptable dividends. The measure is used to produce an overall trend analysis of Södra's performance, and for comparison with other companies.

**NET DEBT, SEK MILLION**

	2018 Jan–Dec	2017 Jan–Dec
Interest-bearing provisions	—	—
Interest-bearing liabilities	5,630	5,222
Financial receivables	—	—
Current investments and cash and cash equivalents	–1,072	–1,321
Net debt	4,558	3,901

Shows Södra's financial strength.

DEBT/EQUITY RATIO

	2018 Jan–Dec	2017 Jan–Dec
Net debt, SEK million	4,558	3,901
Equity	16,011	12,884
Debt/equity ratio	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 measure most frequently used to monitor financial leverage.

CAPITAL EMPLOYED, SEK MILLION

	2018 Jan–Dec	2017 Jan–Dec
Assets	27,094	23,104
Financial assets	–1,086	–1,341
Provisions*	–141	–160
Income tax*	–1,569	–1,201
Operating liabilities	–3,329	–3,313
Capital employed	20,969	17,089
Average	19,029	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–Dec	2017 Jan–Dec
Average capital employed	19,029	16,493
Operating profit	4,508	1,917
Return	24	12

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

EQUITY RATIO, %

	2018 Jan–Dec	2017 Jan–Dec
Equity	16,011	12,884
Assets	27,094	23,104
Equity ratio	59	56

An established and key measure 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.

EBITDA 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/loss, SEK million
Net sales and other revenue less 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
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 January–March will be published on 25 April 2019.
- The Annual General Meeting will be held on 23 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 14 February 2019.

Contact information and address

Lars Idermark
President and CEO
Phone: +46 (0)470-894 35
lars.idermark@sodra.com

Anna Belfrage
CFO
Phone: +46 (0)470-890 40
anna.belfrage@sodra.com

Södra Skogsägarna ekonomisk förening

ADDRESS Skogsudden, SE-351 89 Växjö, Sweden
PHONE +46 (0)470 890 00
E-MAIL info@sodra.com, medlemsinfo@sodra.com
WEBSITE sodra.com

This is Södra

Founded in 1938, Södra is Sweden's largest forest-owner association, with nearly 52,000 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 2018, sales amounted to SEK 24 billion and the number of employees was just over 3,100. Through value-generating relationships and a long-term approach, Södra shows the way for the next generation of forestry.