

Södra's interim report 1 January – 31 March 2019

- Net sales amounted to SEK 6,318 million (5,717).
- Operating profit before depreciation, amortisation and impairment amounted to SEK 1,462 million (1,216).
- Operating profit totalled SEK 1,148 million (938).
- The operating margin was 18 percent (16).
- Cash flow after investments was SEK 892 million (1,010).

Key figures	2019 Jan-Mar	2018 Jan-Mar	2018 Jan-Dec
Net sales, SEK million	6,318	5,717	24,230
Operating profit before depreciation, amortisation and impairment, SEK million	1,462	1,216	5,654
Operating profit, SEK million	1,148	938	4,508
EBITDA margin, %	23	21	23
Operating margin, %	18	16	19
Return on capital employed, %	22	22	24
Equity ratio, %	60	58	59
Cash flow after investments, SEK million	892	1,010	-142
No. of employees	3,117	3,271	3,141
CO ₂ fossil from production, ktonnes ¹⁾	17	—	103
CO ₂ fossil from transportation, ktonnes ²⁾	—	—	196
Rate of forest growth, m ³ fo/ha per year ²⁾	—	—	6.7
Occupational injuries with absence (LTA ³⁾), no.	13	24	77
Lost-time-accident rate (LTAR ⁴⁾)	11	18	15

¹⁾ 2019 is the first year with quarterly reporting.

²⁾ These key figures are not calculated quarterly.

³⁾ LTA (lost-time-accident): occupational injury with absence.

⁴⁾ LTAR (lost-time-accident rate): the number of occupational injuries with absence per million hours worked.

Strong start to the year

The market was stronger than expected in the first quarter. Continued positive demand and high prices for finished goods combined with a slightly weaker SEK compared with the year-earlier period contributed to strong operating profit of SEK 1,148 million (938). Södra has decided to invest in a completely new and large-scale production facility for cross-laminated timber at the bio-based combined plant in Värö.

Despite signs of a slowing global economy, Södra's first-quarter result was better than expected. Prices for the company's core products – market pulp and sawn timber – remained at a high level during the quarter, although a certain price decrease was foreseeable. Net sales rose to SEK 6,318 million (5,717) and operating profit improved to SEK 1,148 million (938), up 22 percent year-on-year. The operating margin was 18 percent. The equity ratio was further strengthened and return on capital employed was 22 percent.

Södra's comprehensive investment programme and restructuring in several parts of the Group over the past few years has led to a notable improvement in underlying profitability and competitiveness. Regardless of the economic climate, the positive effects of these measures have created a comparative advantage for Södra in the global market. All of Södra's production facilities delivered high and stable levels with high quality. Efforts to develop and adjust those parts of the operations in which Södra has carried out major investments continued during the quarter with positive results.

Södra is following its strategy for profitable and sustainable growth and continuing to invest in a higher degree of processing in the Södra Wood business area. Södra's Board has decided to invest in a production facility for cross-laminated timber with production capacity of about 100,000 m³. The facility will be part of the bio-based combined plant at Värö, which is currently the site of Sweden's largest and most advanced sawmill and the newly invested pulp mill. Production start-up is scheduled for the end of 2021/early 2022. The growing popularity of timber structures is also a key factor in the growing bioeconomy, where the forest industry can contribute with a wide variety of solutions and products. Timber building systems also offer major production and environmental benefits with positive climate effects.

The Board has also decided to invest in a new and modern production facility within Trivsels hus for volume house production using a higher degree of automation and robotics.

At the pulp mill in Mönsterås, work is proceeding as planned with the facility for green and sustainable methanol production for liquid biofuels, even though



the project has been slightly delayed. Since this will be the world's first facility of its kind, with totally new technology for methanol purification, adjustments and development will be required throughout the course of the project. Production start-up is scheduled for the end of 2019/early 2020.

One challenge facing the Swedish forest industry moving forward is management of the large-scale spruce bark beetle infestations that are affecting the quality of forest products, and placing high demands on forest management to remove the beetle-damaged trees from forests. Together with the forest owners, Södra has been able to meet these challenges successfully, despite major demands on field activities.

The ongoing cyclical slowdown will affect both demand and prices for Södra's finished products, albeit from favourable levels. The current Brexit negotiations and trade-related issues are creating short-term uncertainty, which may affect earnings during the year. At the same time, the long-term market outlook for both paper pulp and sawn and processed wood remains highly positive. Not least because the forest industry offers products that contribute towards the transition of society by reducing dependence on fossil-based products, and that promote the development of a growing and sustainable bioeconomy.

Lars Idermark
President and CEO

The period in brief

Operating profit for the first quarter totalled SEK 1,148 million, compared with SEK 938 million for the year-on-year period. Sales amounted to SEK 6,318 million (5,717), return on capital employed was 22 percent (22) and the equity ratio increased to 60 percent.

MARKET CONDITIONS

In the first quarter, economic indicators varied between continents. Growth was fragile in Europe, to say the least, while the US economy gave a more robust impression. In Europe, uncertainty was reflected in the Purchasing Managers Index (PMI) which has shown a negative trend since the end of 2017. The current index reading is below 50, which is normally considered the dividing line between economic upswings and downswings. The European Central Bank (ECB) responded to the economic weakness by signalling a continued expansionary monetary policy.

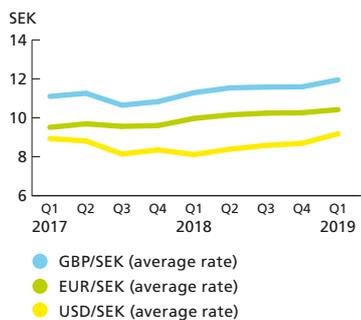
This economic uncertainty was also shared by the U.S. Federal Reserve, which paused its rate-hike cycle. Nor can it be ruled out that the rate hikes are over for now. The SEK remained weak against the USD, the EUR and the GBP. Expectations are low that the Swedish Riksbank will act differently from other central banks and announce further rate hikes this year. Forecasts for residential construction activity in Sweden have been revised downwards, which is expected to be reflected in weaker Swedish GDP growth. In the US, housing construction is still in a positive phase, but has shown signs of a slowdown over the past few months. In the UK, house price growth has ground to a halt and price rises have barely been seen to date this year.

The US economy has delivered positive signals for several months, but labour market data for February and March were on the weak side. Even if rising wages please the Federal Reserve, they weigh heavily on the global economy. Therefore, the Federal Reserve has recently signalled a more cautious approach to further rate hikes in 2019. Several market analysts instead predict possible interest rate cuts this year. Despite this, the USD is relatively strong compared with several other currencies. This is mainly due to the stability of the domestic economy and the continued expansionary monetary policy of major central banks around the world. Progress in the trade talks with China also benefited the USD exchange rate. On the negative side, the US economy as a whole is weighing heavily on the rising budget deficit and the relatively high level of interest rates in the US.

In response to concerns regarding China's economic growth, the Chinese government has gradually eased its monetary and credit policies. The Yuan has been allowed to weaken against the USD to boost exports. The latest macroeconomic announcements were a positive surprise, and could mean that the measures taken had the desired effect.

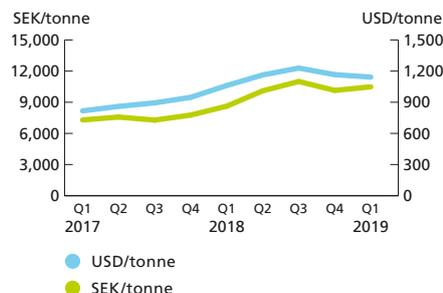
This year to date, the performance of Europe's major economies has been disappointing. In the fourth quarter of 2018, German growth rate was

Foreign exchange rates



Source: ECB

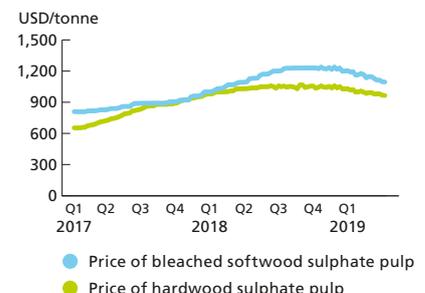
Pulp prices



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 and hardwood pulp declined slightly during the quarter. The diagram shows gross prices before discounts in the North European market.

Source: Foex PIX Pulp Index



virtually flat. At the same time, the Italian economy contracted following two straight quarters of declining GDP growth. France also cut its growth forecast for 2019. Economic uncertainty combined with continued low inflation in the Eurozone suggest that the ECB will continue its expansionary monetary policy.

In Sweden, the slowdown in the construction sector continued, while retail sales are facing an uphill struggle. Consumer spending also showed a gradual decline. All of these factors combined suggest a continued slowdown in the Swedish economy. The export-dependent Finnish economy showed more positive signs with high economic activity and the lowest unemployment rates in ten years. Due to strong GDP growth and an inflation rate around the targeted level, the Norwegian central bank raised its interest rates at end of March. Despite strong GDP growth in the Baltic countries, mainly driven by favourable domestic demand, growth forecasts were revised downwards due to expectations of weaker global demand.

During the quarter, the SEK weakened against the USD, EUR and 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 remained favourable. In the first quarter, contracting remained at a stable level. Moving forward, the damage caused by spruce bark beetles will continue to drive contracting. However, exactly how much damage the spruce bark beetle infestation will cause in 2019 is highly uncertain. Södra's total fresh fibre inventory is currently well-balanced.

In the first quarter, the sawn timber market weakened and prices subsequently declined. Uncertainty also increased around balance in the sawn timber market, caused by an increase in spruce production due to higher supplies of timber following the storms

and spruce bark beetle infestations in Europe. This was compounded by uncertainty around the UK market's development in connection with a possible Brexit.

In relation to uncertainty around Brexit, we expect to see a slight slowdown in deliveries to the UK in the short term, due to the subsequent accumulation of inventories.

However, deliveries to end customers are in line with the preceding year. Prices are still at a favourable level and consumption is generally strong in Europe. In Sweden, demand was lower than expected at the beginning of the year, mainly in house production. There were also signs of a slowdown in the building trade in the Stockholm region, and in the packaging industry. End-customer consumption is expected to remain favourable, whereby the market is also expected to remain favourable moving forward. In the Netherlands, Södra's third-largest core market, demand remained favourable. Other markets performed positively in terms of both price levels and demand.

Pulp prices (PIX) fell slightly, in line with expectations and, at the end of the quarter, were USD 1,104 per tonne of softwood sulphate pulp and USD 973 per tonne of hardwood sulphate pulp – compared with USD 1,200 and USD 1,026 respectively at the end of 2018. In Asia, the consumption of paper products decreased, which meant that smaller volumes were exported to the region and higher volumes therefore remained in Europe. While the supply of pulp increased in Europe, European demand slowed somewhat. The prevailing price level of USD 1,104 per tonne of softwood sulphate pulp is considered favourable. The corresponding price level at the end of 2017 was USD 1,000. The price of pulp will probably continue to fall slightly from the current level in the coming months. The price of dissolving pulp were stable at a favourable level during the quarter.



NET SALES

During the quarter, consolidated net sales amounted to SEK 6,318 million (5,717), up 11 percent. Growth was solely attributable to favourable price levels.

RESULT

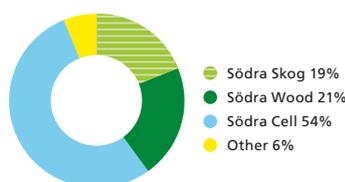
Operating profit for the quarter totalled SEK 1,148 million (938), representing an operating margin of 18

percent (16). Profit before tax was SEK 1,174 million (941). Tax expense for the period was SEK 164 million (117). The positive earnings trend was mainly attributable to continued stable market conditions and high price levels for both paper pulp and sawn timber, as well as a favourable USD exchange rate. Return on capital employed was 22 percent (22).

BUSINESS AREAS

SEK million	Net sales			Operating profit		
	2019 Jan–Mar	2018 Jan–Mar	2018 Jan–Dec	2019 Jan–Mar	2018 Jan–Mar	2018 Jan–Dec
Södra Skog	3,165	2,767	11,373	56	19	259
Södra Wood	1,498	1,279	5,474	147	100	608
Södra Cell	3,501	3,129	13,404	1,112	926	4,032
Other segments	356	431	1,869	-17	-2	-25
Intra-Group	—	2	3	-150	-105	-366
Eliminations	-2,202	-1,891	-7,893	—	—	—
Group	6,318	5,717	24,230	1,148	938	4,508

Sales per business area



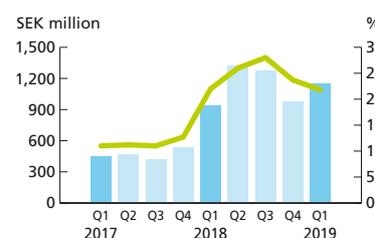
Total SEK 6,318 million, excluding internal deliveries.

Net sales and operating margin



● Net sales, SEK million
● Operating margin, %

Operating profit/loss and return on capital employed



● Operating profit/loss, SEK million
● Return on operating capital (acc.), %

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

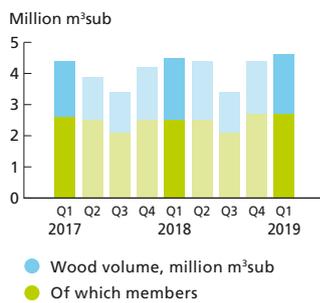
Business areas

Södra Skog

Södra Skog's operating profit for the period totalled SEK 56 million (19). The result was positively impacted by both higher volumes and improved margins. During the period, Södra Skog acquired

4.6 million m³sub, comprising 55 percent pulpwood and cellulose chips, 30 percent saw logs and 15 percent biofuels.

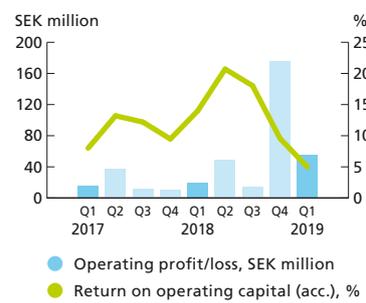
Wood volume



Net sales and operating margin



Operating profit/loss and return

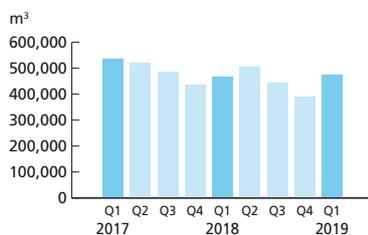


Södra Wood

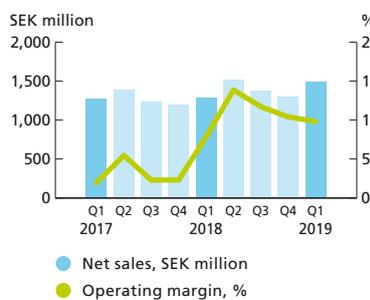
Södra Wood's operating profit for the period totalled SEK 147 million (100) and reflects the continued favourable price level for sawn timber. Sales amounted to SEK 1,498 million (1,279). During the quarter, Södra Wood delivered 475,752 m³ compared with 465,993 m³ in the year-earlier period. The

positive earnings trend was mainly driven by favourable market conditions combined with restructuring effects in Södra Wood, where a consistently implemented marketing and production strategy contributed to the positive outcome.

Sales volume sawn timber



Net sales and operating margin



Operating profit/loss and return



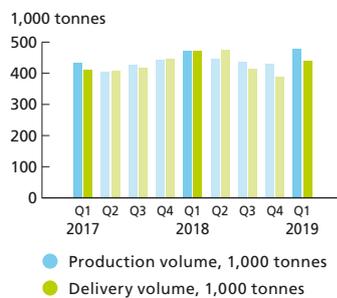
Södra Cell

Södra Cell's operating profit for the period totalled SEK 1,112 million (926). The earnings trend was mainly attributable to a sustained high price level and a favourable USD exchange rate. Sales amounted to SEK 3,501 million (3,129), generating an operating margin of 32 percent (30).

During the quarter, the production volume totalled 480,000 tonnes, comprising approximately 386,000 tonnes of softwood sulphate pulp, 53,000 tonnes of

hardwood sulphate pulp and 41,000 tonnes of dissolving pulp. The completed expansion investments are delivering as planned and, during the period, a production record was achieved within the existing production structure. During the quarter, electricity generated at the pulp mills was 447 GWh. Excess electricity of 120 GWh represented about 27 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

Loss for Other segments totalled SEK 17 million (loss: 2) for the period.

Operating loss for Trivselhus totalled SEK 8 million (loss: 4). The change in earnings was due to declining volumes and Trivselhus has taken steps to

adjust its cost base. Södra's participation in the associate SunPine's result for the period was a loss of SEK 9 million (profit: 8). The now divested interior wood business had a negative impact of SEK 10 million on the preceding year's result.

NET FINANCIAL ITEMS

The Group’s net financial items for the quarter amounted to SEK 26 million (3).

CASH FLOW

Cash flow before investments was SEK 1,140 million (1,275). Cash flow after investments was SEK 892 million (1,010). Due to high prices for Södra’s core products and a favourable currency trend (for Södra), liquidity is expected to remain strong. At the end of the quarter, cash and cash equivalents and current investments amounted to SEK 1,527 million (1,072 at 31 December 2018).

FINANCIAL POSITION

At 31 March 2019, equity amounted to SEK 17,101 million (16,011 at 31 December 2018), of which paid-up and issued contributed capital accounted for SEK 3,641 million (3,620 at 31 December 2018). Total assets increased to SEK 28,601 million (27,094 at 31 December 2018). At 31 March 2019, the equity ratio was 60 percent (59 at 31 December 2018). Södra’s borrowings comprised loans of SEK 3,044 million (3,529 at 31 December 2018) from members, a seven-year loan of SEK 1,000 million (1,000) from Nordic Investment Bank and a two-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 0.2 (0.3 at 31 December 2018).

INVESTMENTS, ACQUISITIONS AND DIVESTMENTS

Investments totalled SEK 270 million (261), of which SEK 33 million (8) pertained to Södra Skog, SEK 172 million (35) to Södra Wood of which 136 MSEK within the Group and SEK 158 million (201) to Södra Cell. The investments were mainly focused on expansion, productivity and the environment.

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 effects of Brexit on Södra are difficult to predict, the preliminary assessment is that they will be relatively limited. Otherwise, there were no significant events after the close of the period.

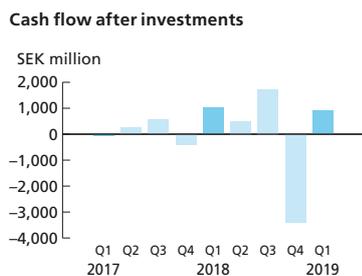
The Board has on 23 April 2019 decided to invest in a production facility for cross-laminated timber and in a modern facility for volume house production.

EMPLOYEES

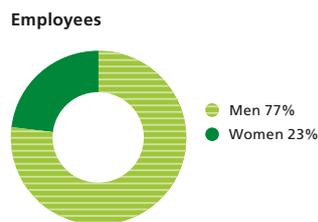
At 31 March, the number of employees was 3,117 (3,271), of whom 23 percent (22) were women. The decrease in number of employees was due to restructuring within the Group.

FUTURE OUTLOOK

Signs of a global slowdown could also impact Södra’s operations. At the end of the quarter, price levels for both market pulp and sawn timber remained favourable, which is also expected to continue over the coming months. Overall, it is difficult to make long-term assessments in a market environment that is currently uncertain, but the trend is expected to remain favourable in the months ahead, if not on par with the year-earlier period.



During the quarter, cash flow after investments was SEK 892 million.



At 31 March, the number of employees was 3,117, 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. In the first quarter of 2019, fossil CO₂ emissions from production, working machinery and internal transportation amounted to 17 ktonnes, of which direct emissions accounted for 6 ktonnes and indirect emissions for 11 ktonnes. During the quarter, SEK 20 million was set aside to cover the additional costs arising from the development of sustainable transport solutions. Södra is the first company in Sweden to test a large, electric wood yard truck. The project will run for six months and the truck is powered by own-generated green electricity. Fossil fuels have been phased out at Södra’s filling stations, and only fossil-free alternatives are now offered. At the pulp mill at Mörrum, charging stations were installed to facilitate commuting with electric vehicles. A study to determine the most sustainable form of freight transport for the Baltic Sea was completed and shows that the use of Södra’s own-generated biomethanol as marine fuel would offer the greatest environmental benefits, and that it would be possible to convert existing vessels to run on methanol.

Forest growth

Södra’s target is a 20 percent higher rate of forest growth by 2050 compared with 2015. At year-end, the “Kraftsamling tall” (pine mobilisation) project commenced. The aim is to prevent wildlife browsing damage and poor site adaptation, where dry soil is regenerated with the wrong type of tree species. The dry summer weather in 2018 created good conditions for flowering in the seed orchards, and hopefully for high seed production. For the first time, Södra will be conducting its own controlled pollination to produce superior seeds. In February 2019, the Board decided to allocate an additional SEK 50 million to forest management over a four-year period. The main focus of the research programme is forest management and forest management methods, with the aim of developing methods for higher yields from low-impact forestry for Södra’s members in line with Södra’s sustainability targets.

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 by 2020. In the first quarter of 2019, the number of lost-time accidents (LTAs) was 13 (24) and the lost-time-accident rate (LTAR) was 11 (18). During the quarter, a contractor at the pulp mill in Mönsterås suffered a fatal accident. The accident is being investigated.

Occupational injuries



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

** LTAR (lost-time-accident rate). Number of occupational injuries with absence from work per million hours worked.

On behalf of the Board of Directors

Växjö, 23 April 2019

Lars Idermark
President and CEO

ASSURANCE REPORT

This interim report has not been audited.



Condensed consolidated statement of comprehensive income

SEK million	2019 Jan–Mar	2018 Jan–Mar	2018 Jan–Dec
Net sales	6,318	5,717	24,230
Other revenue	72	62	415
Operating expenses	-4,928	-4,563	-18,991
Depreciation, amortisation and impairment	-314	-278	-1,146
Operating profit	1,148	938	4,508
Net financial items	26	3	-77
Profit before tax	1,174	941	4,431
Income tax	-164	-117	-701
Profit for the period	1,010	824	3,730
Other comprehensive income			
Items that will not be reclassified to profit or loss	—	—	-79
Items that will be reclassified to profit or loss	67	63	46
Other comprehensive income for the period	67	63	-33
Total comprehensive income for the period	1,077	887	3,697
Profit attributable to			
Owners of the Parent	1,010	824	3,730
Profit for the period	1,010	824	3,730
Comprehensive income attributable to			
Owners of the Parent	1,077	887	3,697
Comprehensive income for the period	1,077	887	3,697



Condensed consolidated statement of financial position

SEK million	31 Mar 2019	31 Mar 2018	31 Dec 2018
ASSETS			
Intangible assets	387	381	391
Property, plant and equipment	15,326	13,731	14,860
Biological assets	2,766	540	2,738
Shares and participations in associates	303	228	310
Financial investments	16	14	14
Other non-current receivables	61	49	90
Deferred tax assets	5	—	5
Total non-current assets	18,864	14,943	18,408
Inventories	3,844	3,186	3,649
Tax assets	33	21	23
Operating receivables	4,333	3,792	3,942
Current investments	215	250	199
Cash and cash equivalents	1,312	1,708	873
Total current assets	9,737	8,957	8,686
TOTAL ASSETS	28,601	23,900	27,094
EQUITY AND LIABILITIES			
Equity attributable to owners of the Parent	17,101	13,779	16,011
Total equity	17,101	13,779	16,011
Non-current interest-bearing liabilities	2,289	2,357	2,465
Provisions for pensions	411	323	414
Non-current provisions	138	156	141
Deferred tax liabilities	1,486	1,186	1,478
Non-current operating liabilities	343	—	—
Total non-current liabilities	4,667	4,022	4,498
Current interest-bearing liabilities	2,856	2,461	3,165
Income tax liabilities	110	48	91
Current operating liabilities	3,867	3,590	3,329
Total current liabilities	6,833	6,099	6,585
Total liabilities	11,500	10,121	11,083
TOTAL EQUITY AND LIABILITIES	28,601	23,900	27,094



Condensed consolidated statement of changes in equity

SEK million	Total equity
Opening balance, 1 January 2019	16,011
Effect of new accounting policy	-8
Adjusted opening balance 1 jan 2019	16 003
Comprehensive income for the year	1,077
Contributed capital, paid-up by members	21
Contributed capital, paid-out to members	0
Closing balance, 31 March 2019	17,101
Opening balance, 1 January 2018	12,884
Comprehensive income for the year	887
Contributed capital, paid-up by members	20
Contributed capital, paid-out to members	0
Other changes	-12
Closing balance, 31 March 2018	13,779

Condensed consolidated statement of cash flows

SEK million	2019 Jan-Mar	2018 Jan-Mar	2018 Jan-Dec
Profit before tax	1,174	941	4,431
Adjustment for non-cash items and change in provisions	262	219	1,044
Income tax paid	-140	-31	-261
Net cash flow from operating activities before change in working capital	1,296	1,129	5,214
Change in inventories (increase -)	-196	-132	-628
Change in operating receivables (increase -)	-370	3	-335
Change in operating liabilities (increase +)	410	275	19
Cash flow from operating activities	1,140	1,275	4,270
Cash flow from investing activities	-248	-265	-4,412
Cash flow after investing activities	892	1,010	-142
Change in contributed capital	21	20	94
Dividends paid	—	—	-652
Change in loans from members	-485	-395	423
Change in loans	—	—	-15
Change in current investments with maturity > 90 days	4	-9	0
Other changes	—	-52	33
Cash flow from financing activities	-460	-436	-117
CASH FLOW FOR THE PERIOD	432	574	-259
Cash and cash equivalents at beginning of period	873	1,122	1,122
Exchange gains/losses on cash and cash equivalents	7	12	10
Cash and cash equivalents at end of period	1,312	1,708	873



Parent Company

RESULT AND FINANCIAL POSITION

Net sales rose to SEK 5,584 million (5,114) and operating profit to SEK 1,112 million (897). Operating profit for the first quarter was in line with expectations and reflects continued favourable market conditions for both paper pulp and sawn timber.

Net financial items for the first quarter amounted to SEK 1 million (8).

Profit after net financial items for the period totalled SEK 1,113 million (905).

MEMBERS

The number of members was 51,792 (51,637 at year-end) and the affiliated membership area rose to 2.60 million hectares (2.59 at year-end), an increase of approximately 10,000 hectares.

Parent Company income statement, condensed

SEK million	2019 Jan–Mar	2018 Jan–Mar	2018 Jan–Dec
Net sales	5,584	5,114	21,402
Other revenue	74	54	216
Operating expenses	-4,274	-4,002	-16,459
Depreciation, amortisation and impairment	-272	-269	-1,090
Operating profit	1,112	897	4,069
Net financial items	1	8	4
Profit after financial items	1,113	905	4,073
Appropriations	—	—	-1,485
Profit before tax	1,113	905	2,588
Income tax	-145	-98	-377
Profit for the period	968	807	2,211



Parent Company balance sheet, condensed

SEK million	31 Mar 2019	31 Mar 2018	31 Dec 2018
ASSETS			
Intangible assets	2	5	3
Property, plant and equipment	13,102	13,296	13,160
Shares and participations in Group companies	4,567	1,236	4,561
Shares and participations in associates	245	167	246
Surplus in funded pension plans	36	40	36
Other non-current investments	16	14	14
Other non-current receivables	61	48	81
Deferred tax assets	46	56	47
Total non-current assets	18,075	14,862	18,148
Inventories	2,834	2,086	2,610
Current interest-bearing receivables from Group companies	832	935	846
Current receivables	3,832	3,372	3,475
Current financial investments	388	370	198
Cash and bank balances	1,019	1,424	742
Total current assets	8,905	8,187	7,871
TOTAL ASSETS	26,980	23,049	26,019
EQUITY AND LIABILITIES			
Restricted equity	5,054	4,743	5,033
Non-restricted equity	5,742	4,237	4,773
Total equity	10,796	8,980	9,807
Untaxed reserves	7,184	5,678	7,184
Provisions	166	191	168
Non-current interest-bearing liabilities from Group companies	8	8	8
Non-current interest-bearing liabilities	2,288	2,357	2,465
Total non-current liabilities	2,296	2,365	2,473
Current interest-bearing liabilities from Group companies	176	111	182
Current interest-bearing liabilities	2,857	2,455	3,165
Current tax liabilities	102	28	81
Current operating liabilities	3,403	3,241	2,959
Total current liabilities	6,538	5,835	6,387
TOTAL EQUITY AND LIABILITIES	26,980	23,049	26,019

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 2018 Annual Report, except for new standards and revisions of standards and interpretations applicable to annual periods beginning on or after 1 January 2019 and that have not already been applied in the preparation of the 2018 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 2019 are described below.

The introduction of IFRS 16 Leases entails that most of the Group's leases are recognised in the balance sheet, since the distinction between an operating lease and a finance lease no longer applies. Södra has elected to apply the modified retrospective approach, which means that the cumulative effect of applying IFRS 16 is recognised in opening retained earnings on 1 January 2019, with no restatement of comparative periods. The new standard's recognition and measurement principles are described on page 90 of the 2018 Annual Report. In transition to the new standard, Södra recognised lease liabilities of SEK 437 million and right-of-use assets of SEK 441 million. A negative effect of SEK 8 million was recognised in equity, mainly the result of 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. During the quarter, operating profit increased SEK 1 million due to the changed accounting policy.

IFRIC Interpretation 23, which applies when there is uncertainty over income tax treatments, did not lead to any transition effects or changes in accounting policies.

A number of new or amended 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 2019 financial year is planned, and none of these are expected to have any material impact on the consolidated financial statements.

The regulations for economic associations have been applied in the calculation of current tax. These mean that this year's 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.

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 2018 Annual Report. For a description of risks and uncertainties, refer to Södra's 2018 Annual Report under "Risks and risk management" on pages 76-77. 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 2018.



Note 4 | Revenue

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

SEK million	Jan-Mar									
	Södra Skog		Södra Wood		Södra Cell		Other segments		Group	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Wood raw material	520	423	—	—	—	—	—	—	520	423
Wood products	—	—	1,242	1,073	—	—	-5	111	1,236	1,184
Market pulp	—	—	—	—	3,205	3,003	—	—	3,205	3,003
Energy products	254	227	64	40	234	75	27	19	579	361
Houses and lots	—	—	—	—	—	—	136	175	136	175
Forestry services	333	329	—	—	—	—	—	—	333	329
Transportation	108	107	—	—	—	—	—	—	108	107
Construction contracts	—	—	—	—	—	—	196	133	196	133
Other	3	9	—	—	—	—	2	-7	5	2
Net sales, goods and services	1,218	1,095	1,306	1,113	3,439	3,078	356	430	6,318	5,717

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 March 2019		31 Dec 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial investments	16	16	14	14
Other non-current receivables	—	—	9	9
Operating receivables	3,226	3,226	2,802	2,802
Current investments	215	215	199	199
Cash and cash equivalents	1,312	1,312	873	873
Total assets, financial instruments	4,769	4,769	3,897	3,897
Other assets, non-financial instruments	23,832	—	23,197	—
Total assets	28,601	—	27,094	—
Non-current liabilities	2,289	2,385	2,465	2,575
Non-current operating liabilities	19	19	—	—
Current interest-bearing liabilities	2,856	2,879	3,165	3,191
Current operating liabilities	2,769	2,769	2,321	2,321
Total liabilities, financial instruments	7,933	8,052	7,951	8,087
Other liabilities, non-financial instruments	3,567	—	3,132	—
Total liabilities	11,500	—	11,083	—

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

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

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

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

Group 31 March 2019

SEK million	Level 1	Level 2	Level 3	Total
Assets	1,517	10	16	1,543
Liabilities	19	—	0	19

Group, 31 Dec 2018

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

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 | Standing timber

At 31 March 2019, the estimated fair value of Södra's standing timber was SEK 2,766 million (540). The change in the balance sheet since year-end was SEK 28 million (0) and pertained to exchange-rate effects. The parameters used to measure the fair value of standing timber are updated annually.

Note 7 | Business combinations

ACQUISITIONS

No acquisitions took place in the first quarters of 2019 or 2018.

DIVESTMENT

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.

Note 8 | 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. There were no scheduled maintenance shutdowns in the first quarters of 2019 and 2018.



Quarterly data and segment information

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

	Q1 2019	Q1 2018	Full-year 2018
NET SALES, SEK MILLION			
Södra Skog	3,165	2,767	11,373
of which external	(1,218)	(1,095)	(4,354)
Södra Wood	1,498	1,279	5,474
of which external	(1,306)	(1,113)	(4,792)
Södra Cell	3,501	3,129	13,404
of which external	(3,439)	(3,078)	(13,218)
Other segments	356	431	1,869
of which external	(356)	(430)	(1,866)
Intra-Group	—	2	3
Eliminations	-2,202	-1,891	-7,893
Group	6,318	5,717	24,230
OPERATING PROFIT/LOSS BEFORE DEPRECIATION, AMORTISATION AND IMPAIRMENT, SEK MILLION			
Södra Skog	73	30	302
Södra Wood	196	142	782
Södra Cell	1,342	1,138	4,894
Other segments	-6	6	21
Intra-Group	-143	-101	-345
Eliminations	—	1	—
Group	1,462	1,216	5,654
OPERATING PROFIT, SEK MILLION			
Södra Skog	56	19	259
Södra Wood	147	100	608
Södra Cell	1,112	926	4,032
Other segments	-17	-2	-25
Intra-Group	-150	-105	-366
Eliminations	—	—	—
Group	1,148	938	4,508
OPERATING MARGIN, %			
Södra Skog	2	1	2
Södra Wood	10	8	11
Södra Cell	32	30	30
Other segments	neg.	0	neg.
Intra-Group	—	—	—
Eliminations	—	—	—
Group	18	16	19
ASSETS, SEK MILLION			
Södra Skog	3,229	2,634	3,071
Södra Wood	2,915	2,296	2,658
Södra Cell	16,435	11,791	15,067
Other segments	1,578	1,764	1,601
Intra-Group	5,459	6,554	5,745
Eliminations	-1,015	-1,139	-1,048
Group	28,601	23,900	27,094



	Q1 2019	Q1 2018	Full-year 2018
OPERATING CAPITAL, SEK MILLION			
Södra Skog	4,319	439	4,720
Södra Wood	3,420	2,988	3,014
Södra Cell	13,219	12,993	13,015
Other segments	1,263	1,436	1,327
Intra-Group	—	—	—
Eliminations	—	—	—
Group, capital employed	21,114	16,948	20,969
RETURN ON OPERATING CAPITAL, %			
Södra Skog	5	14	10
Södra Wood	18	14	21
Södra Cell	34	29	31
Other segments	neg.	neg.	neg.
Intra-Group	—	—	—
Eliminations	—	—	—
Consolidated return on capital employed, %	22	22	24
CASH FLOW AFTER INVESTMENTS, SEK MILLION			
Södra Skog	471	280	-3,770
Södra Wood	-225	-8	430
Södra Cell	896	806	3,857
Other segments	62	-65	32
Intra-Group	-312	-3	-691
Eliminations	—	—	—
Group	892	1,010	-142
INVESTMENTS, SEK MILLION			
Södra Skog	33	8	3,348
Södra Wood	172	35	124
Södra Cell	158	201	770
Other segments	1	5	3
Intra-Group	42	12	135
Eliminations	-136	—	—
Group	270	261	4,380
AVERAGE NO. OF EMPLOYEES			
Södra Skog	595	525	561
Södra Wood	863	843	843
Södra Cell	1,179	1,167	1,171
Other segments	218	477	299
Intra-Group	249	233	248
Eliminations	—	—	—
Group	3,104	3,245	3,122



Alternative performance measures

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

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

NET SALES, CHANGE IN %

	Q1 2019	Q1 2018	2018
Opening net sales	5,717	5,098	20,518
Closing net sales	6,318	5,717	24,230
Change	11	12	18

Shows Södra's growth.

OPERATING PROFIT BEFORE DEPRECIATION, AMORTISATION AND IMPAIRMENT, SEK MILLION

	Q1 2019	Q1 2018	2018
Operating profit	1,148	938	4,508
Depreciation, amortisation and impairment of assets	314	278	1,146
Operating profit before depreciation, amortisation and impairment	1,462	1,216	5,654

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

EBITDA MARGIN, %

	Q1 2019	Q1 2018	2018
Operating profit before depreciation, amortisation and impairment	1,462	1,216	5,654
Net sales	6,318	5,717	24,230
EBITDA margin	23	21	23

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 measurement is used to produce an overall trend analysis of Södra's performance, and for comparison with other companies.

OPERATING PROFIT, SEK MILLION

	Q1 2019	Q1 2018	2018
Net sales	6,318	5,717	24,230
Other revenue	72	62	415
Operating expenses	-4,928	-4,563	-18,991
Depreciation, amortisation and impairment	-314	-278	-1,146
Operating profit	1,148	938	4,508

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, %

	Q1 2019	Q1 2018	2018
Operating profit	1,148	938	4,508
Net sales	6,318	5,717	24,230
Operating margin	18	16	19

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**

	Q1 2019	Q1 2018	2018
Interest-bearing provisions	—	—	—
Interest-bearing liabilities	5,145	4,818	5,630
Financial receivables	—	—	—
Current investments and cash and cash equivalents	-1,527	-1,958	-1,072
Net debt	3,618	2,860	4,558

Shows Södra's financial strength.

DEBT/EQUITY RATIO

	Q1 2019	Q1 2018	2018
Net debt, SEK million	3,618	2,860	4,558
Equity	17,101	13,779	16,011
Debt/equity ratio	0.2	0.2	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 by management to monitor the Group's financial leverage.

CAPITAL EMPLOYED, SEK MILLION

	Q1 2019	Q1 2018	2018
Assets	28,601	23,900	27,094
Financial assets	-1,543	-1,972	-1,086
Provisions*	-138	-156	-141
Income tax*	-1,596	-1,234	-1,569
Operating liabilities	-4,210	-3,590	-3,329
Capital employed	21,114	16,948	20,969
Average	21,042	17,019	19,029

* Not considered in the calculation of Operating capital.

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

RETURN ON CAPITAL EMPLOYED, %

	Q1 2019	Q1 2018	2018
Average capital employed	21,042	17,019	19,029
Operating profit	1,148	938	4,508
12-month operating profit	4,592	3,752	4,508
Return	22	22	24

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

EQUITY RATIO, %

	Q1 2019	Q1 2018	2018
Equity	17,101	13,779	16,011
Assets	28,601	23,900	27,094
Equity ratio	60	58	59

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, 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 April-June will be published on 16 July 2019.
- The interim report for July-September will be published on 24 October 2019.
- The interim report for October-December and the year-end report will be published in February 2020. Interim reports can be downloaded from sodra.com
- The Annual General Meeting will be held on 23 May 2019.

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 25 April 2019.

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This is Södra

Södra was founded in 1938 and is the largest forest-owner association in Sweden, with more than 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.