

Södra's year-end report with interim report 1 October-31 December 2019

1 OCTOBER-31 DECEMBER

- Net sales amounted to SEK 5,274 million (6,062).
- Operating profit before depreciation, amortisation and impairment amounted to SEK 408 million (1,264).
- Operating profit totalled SEK 62 million (974).
- The operating margin was 1 percent (16).
- Cash flow after investments was a negative SEK 73 million (neg: 3,383).

2019 IN BRIEF

- Net sales amounted to SEK 23,183 million (24,230).
- Operating profit before depreciation, amortisation and impairment amounted to SEK 3,897 million (5,654).
- Operating profit totalled SEK 2,582 million (4,508).
- The operating margin was 11 percent (19).
- Cash flow after investments was SEK 2,227 million (neg: 142).
- Return on capital employed was 12 percent (24).
- Proposed profit distribution of SEK 1,068 million.

Key figures	2019 Oct-Dec	2018 Oct-Dec	2019 Jan-Dec	2018 Jan-Dec
Net sales, SEK million	5,274	6,062	23,183	24,230
Operating profit before depreciation, amortisation and impairment, SEK million	408	1,264	3,897	5,654
Operating profit, SEK million	62	974	2,582	4,508
EBITDA margin, %	8	21	17	23
Operating margin, %	1	16	11	19
Return on capital employed, %*	—	—	12	24
Equity ratio, %*	—	—	59	59
Cash flow after investments, SEK million	-73	-3,383	2,227	-142
No. of employees*	—	—	3,150	3,141
CO ₂ fossil from production, ktonnes	19	—	70	103
CO ₂ fossil from transportation, ktonnes*	—	—	207	196
Rate of forest growth, m ³ fo/ha per year*	—	—	7.1	6.7
Lost-time-accidents (LTA**), no.	16	16	62	77
Lost-time-accident rate (LTAR***)	12	12	12	15

* These key figures are not calculated quarterly.

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

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



COMMENT BY THE PRESIDENT

Strong full-year result in a weaker market

Södra posted strong operating profit of SEK 2,582 million for 2019. Operating profit for the fourth quarter was SEK 62 million. The earnings trend was attributable to considerably lower price levels, while delivery volumes of both softwood sulphate pulp and sawn timber increased. The Board proposes a profit distribution of SEK 1,068 million.



SÖDRA STANDS STRONG AMIDST ECONOMIC UNCERTAINTY

In 2019, the positive economic trend for forestry turned downwards after several years of strong demand and upward price growth. The global economic slowdown became increasingly clearer after the first quarter, not least because of the lack of clarity surrounding the US/China trade war. Uncertainty surrounding Brexit and geopolitical tensions in the Middle East contributed to the market uncertainty. At the same time, global stock markets performed strongly during the year.

The economic uncertainty weakened prices for Södra's core products. During the year, prices for market pulp dropped more than 30 percent and about 20 percent for sawn timber. Accordingly, net sales for full-year 2019 declined 4 percent to SEK 23,183 million (24,230). Operating profit for the year totalled SEK 2,582 million (4,508).

Södra outperformed its financial targets with return on capital employed of 12 percent (24) and an equity ratio of 59 percent (59). The Board proposes a profit distribution of SEK 1,068 million.

Sales for the fourth quarter amounted to SEK 5,274 million (6,062) and operating profit was SEK 62 million (974). The lower result was in line with expectations and attributable to the weak price trend for Södra's core products – market pulp and sawn timber.

In 2019, full-year operating profit was robust from an historical perspective. Södra's strong financial key indicators also indicate resilience to weaker conditions. The forest industry has been, and will continue to be, a cyclical industry. Weak demand and low prices will always follow a period of strong economic growth with stable demand and high prices. During the year, handling the effects of the massive damage that the spruce bark beetle outbreak



caused for Södra's members also posed major challenges. The robust and necessary measures led to higher costs for Södra and the damaged timber had a negative impact on the quality of our products.

NEW GROUP STRATEGY FOR CONTINUED PROFITABLE GROWTH

In 2019, a new Group strategy was created for the years ahead. The core of the new Group strategy builds on the successful development of recent years with sharp improvements in growth and profitability due to extensive investment and operational restructuring. The goal is for Södra to be a sustainable, profitable, innovative and resource-efficient growth company. That will require continued investments and expansion of our core operations: paper pulp and sawn timber. We will also be focused on a higher rate of processing, not only of our core products, but also residual and by-products. The strategy also includes increased and accelerated digitisation to further strengthen our competitiveness. Our liquid biofuels venture will continue. The strategy also includes a broader focus on the development of family forestry in order to strengthen their competitiveness through, for example, faster technological development and forest tree breeding for faster growth. We will to continue to produce affordable homes from high-quality timber.

SUSTAINABLE INNOVATIONS, RESEARCH AND DEVELOPMENT

As part of Södra's strategy to strengthen competitiveness, we have increased our focus on innovation, research and development in recent years. In the fourth quarter, Södra

became the first company in the world to show how mixed textiles could be recycled by adding them to the production of dissolving pulp, which can be used to make new textiles. This is a major breakthrough and one example of how the textile industry is taking steps towards a more circular bioeconomy. Södra's cross-laminated timber (CLT) initiative is another example of how we are meeting society's demand for sustainable products that can reduce CO₂ emissions. In addition, Södra and IKEA have entered into a long-term and strategic collaboration with Linnaeus University around research and education in forestry and the forest products industry.

SÖDRA SHOWS THE WAY

2020 will be a weaker year financially due to uncertainty surrounding the economic forecast and price trends for market pulp and sawn timber. As a result, Södra will be focused on the areas that we can influence, such as productivity-enhancing measures, product development, innovation and the continued development of our customer relationships. There is every reason to feel optimistic about the future from a long-term perspective. The state of the economy is always changing, but the underlying demand for forest-based products will gradually increase, not least because of greater global prosperity and the rising population. Furthermore, the highly topical subject of climate change is also calling for major changes. The forest industry has a key role to play in the move towards a sustainable bioeconomy.

Lars Idermark
President and CEO



The period in brief

Södra posted a strong result for 2019, despite weak market conditions with falling prices. Net sales for the full-year amounted to SEK 23,183 million (24,230), with operating profit of SEK 2,582 million (4,508). Sales for the fourth quarter amounted to SEK 5,274 million (6,062) and operating profit was SEK 62 million (974). Return on capital employed was 12 percent (24) and the equity ratio was 59 percent (59).

MARKET CONDITIONS

The global slowdown is widespread, with negative trends in economic sentiment indicators in several countries. As a result, uncertainty surrounding the economic trend for Södra's core products remains unchanged. GDP forecasts have been revised downwards and global growth is expected to be about 3 percent in the coming years. Labour markets remain strong and continued expansionary monetary policy with low interest rates around the world is stimulating the global economy.

The forthcoming presidential election in the US is increasing the likelihood of progress in the trade war with China and, hopefully, encouraging the US to hold off on any new tariffs on other countries, including tariffs on European cars. Business investment in the US has remained weak but progress in the trade war could have positive effects on business investment growth.

The economic slowdown in China could be somewhat worse than expected. The signs are most evident in the industrial sector, which accounts for about 40 percent of the economy. The labour market also appears to be softening and China will probably stimulate the economy through both infrastructure investments and further measures to strengthen private consumption.

In Europe, Brexit continued to impede the UK economy. Weak global growth, especially in the EU, combined with political uncertainty is making it difficult to assess the effects of Brexit, even though a soft exit will be less disruptive. The Eurozone was also affected by the global slowdown, even though countries that are less dependent on the global industrial economy performed relatively well.

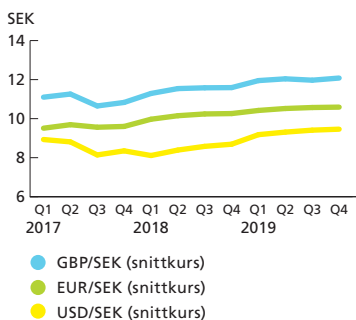
The Nordic economies have remained relatively resilient during the ongoing global slowdown. However, forward-looking indicators suggest weak prospects and growth is expected to cool in Denmark, Finland and Sweden in 2020. Weaker growth and a lower repo rate path from the Riksbank (Swedish central bank) suggest continued weakness for the SEK. The Norwegian economy is also expected to decline, despite a weaker NOK. GDP growth in the Baltic countries is forecast to slow substantially over the next two years.

During the quarter, the SEK weakened against the GBP, but strengthened against the EUR and the USD. The sustained weakness of the SEK boosted 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 favourable during the year. The supply of regeneration-felling forest was high, with a decline in the fourth quarter following strong contracting during the year. The supply was partly driven by the extensive spruce beetle infestation. Damaged forest was cleared according to plan but spruce bark beetles still pose a major threat to forestry in southern Sweden. Södra's total fresh fibre inventory is currently well-balanced.

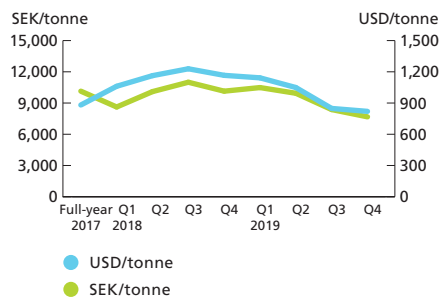
The sawn timber market declined sharply in 2019, but a shift towards market equilibrium in 2020 was discernible. Demand remained favourable, but a high rate of harvesting due to storms and spruce bark beetle infestation contributed to high levels of supply. Due to high inventories at the sawmills, several Scandinavian sawmills cut back their

Foreign exchange rates



Source: ECB

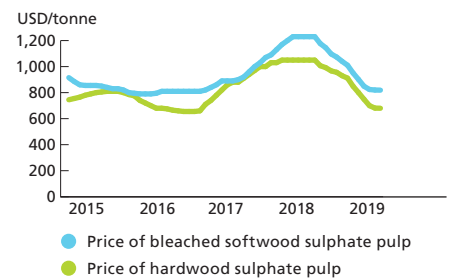
Pulp prices (PIX)



The price of bleached softwood sulphate pulp in USD declined slightly during the quarter. The diagram shows the average prices (PIX) for softwood sulphate pulp delivered to European customers.

Source: Foex PIX Pulp Index and Södra

List price for softwood and hardwood pulp (PIX)



The price of softwood pulp and hardwood pulp declined slightly during the quarter. The diagram shows gross prices (PIX) before discounts in the North European market.

Source: Foex PIX Pulp Index



production rates in December. In addition, strikes in Finland also helped to reduce sawn timber supplies.

Prices stabilised somewhat in line with a more positive market trend in both the US and Asia during the autumn. Combined with a stabilisation of the production rate, this could be a sign that the economic downturn is starting to bottom out. In Sweden, demand was favourable in several segments and the price formation stabilised. Brexit uncertainty affected the UK market, which was characterised by continued price turbulence and slightly lower demand. In the Netherlands, which is Södra's third-largest core market, demand remained favourable.

Improvements in non-European sawn timber markets combined with sustained levels of production created conditions for a more balanced sawn timber market moving forward.

Following a period with sharply declining pulp prices (PIX) in 2019, the downturn slowed in the fourth quarter and prices stabilised. At the end of the quarter, the price was USD 820 per tonne of softwood sulphate pulp and USD 680 per tonne of hardwood sulphate pulp, compared with USD 850 and USD 750 respectively, at the end of the preceding quarter. The depressed prices were mainly the result of high inventories due to increased production of market pulp. Underlying demand remained favourable globally, despite a slight weakening of European demand. The current price of USD 820 per tonne is considered weak, compared with USD 1,200 at the end of 2018. The assessment is that prices may have bottomed out and that a stabilisation can be expected before price levels return to normal.

The price of dissolving pulp declined during the quarter and was USD 650 per tonne at the end of the quarter.

NET SALES

In the fourth quarter, consolidated net sales amounted to SEK 5,274 million (6,062), down 13 percent. The negative sales growth was due to considerably lower price levels, given that delivery volumes increased for both softwood sulphate pulp and sawn timber increased. Cumulative net sales were SEK 23,183 million (24,230), down 4 percent, due to lower price levels for Södra's core products.

RESULT

Operating profit for the quarter totalled SEK 62 million (974), representing an operating margin of 1 percent (16). Loss before tax was SEK 22 million (profit: 935). The tax effect for the quarter was a positive SEK 11 million (neg: 364). Operating profit for the fourth quarter was in line with expectations and reflected the cooler market conditions for both market pulp and sawn timber.

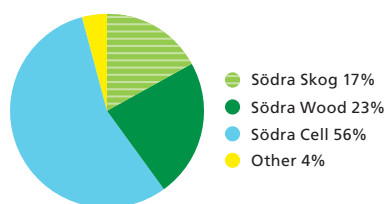
Return on capital employed was 12 percent (24). Cumulative operating profit was SEK 2,582 million (4,508), representing an operating margin of 11 percent (19). The earnings trend for 2019 was mainly a result of the sharply negative price trend for both market pulp and sawn timber. Due to well-invested industrial facilities, Södra delivered high-quality and stable volumes. Outbound deliveries of both market pulp and sawn timber increased year-on-year.

Profit before tax was SEK 2,495 million (4,431). Cumulative tax expense was SEK 323 million (701).

BUSINESS AREAS

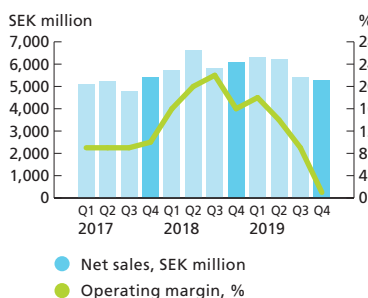
SEK million	Net sales				Operating profit/loss			
	2019 Oct-Dec	2018 Oct-Dec	2019 Jan-Dec	2018 Jan-Dec	2019 Oct-Dec	2018 Oct-Dec	2019 Jan-Dec	2018 Jan-Dec
Södra Skog	3,012	3,133	11,980	11,373	137	176	298	259
Södra Wood	1,271	1,297	5,756	5,474	-42	135	262	608
Södra Cell	2,790	3,261	12,594	13,404	95	770	2,511	4,032
Other segments	307	452	1,231	1,869	-23	6	-52	-25
Intra-Group	—	—	—	3	-105	-113	-437	-366
Eliminations	-2,106	-2,081	-8,378	-7,893	—	—	—	—
Group	5,274	6,062	23,183	24,230	62	974	2,582	4,508

Sales per business area

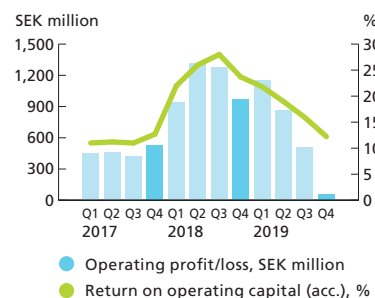


SEK 5,274 million in total, excluding internal deliveries.

Net sales and operating margin



Operating profit and return on capital employed



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



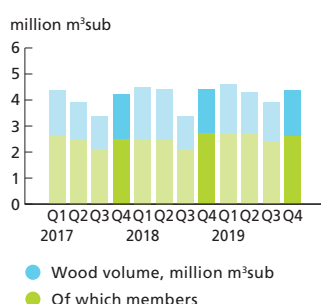
Business areas

Södra Skog

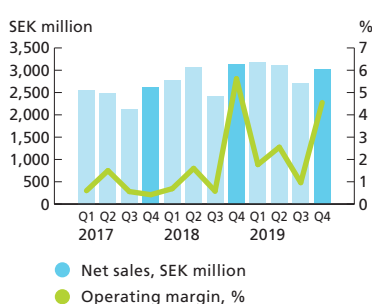
Södra Skog's operating profit for the period totalled SEK 12 million (18), excluding the remeasurement of biological assets. The remeasurement effect of the biological assets amounted to SEK 125 million (158) and was attributable to an increase in growing stock, higher prices for saw logs calculated on a 5-year average, and a stronger EUR. The remeasurement pertains to woodlands in both Sweden and the Baltic countries. Including this change in value,

operating profit for the period was SEK 137 million (176) for the business area. During the period, Södra Skog acquired 4.4 million m³sub, comprising 56 percent pulpwood and cellulose chips, 30 percent saw logs and 14 percent biofuels. Cumulative operating profit totalled SEK 298 million (259), including the remeasurement of biological assets.

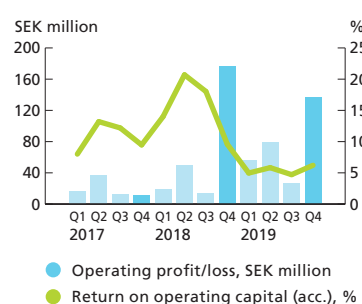
Wood volume



Net sales and operating margin



Operating profit/loss and return

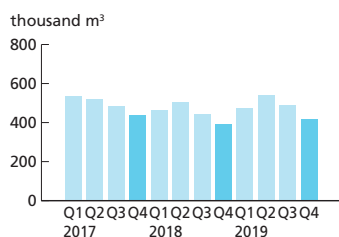


Södra Wood

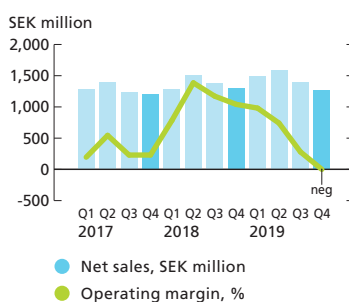
Södra Wood's operating loss for the period totalled SEK 42 million (profit: 135) and reflects the lower price level for sawn timber. Underlying demand for sawn timber remained favourable and deliveries from Södra Wood increased to 417 thousand m³SW, compared with 391 thousand m³SW in the year-earlier period. Sales for the quarter amounted to SEK 1,271 million (1,297).

Cumulative sales amounted to SEK 5,756 million (5,474). Cumulative operating profit totalled SEK 262 million (608). The change in earnings was attributable to a considerably lower price formation for sawn timber which was offset by continued favourable demand with increased deliveries year-on-year.

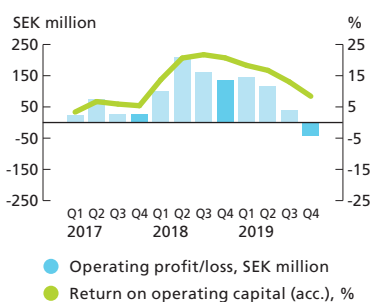
Sales volume, sawn timber



Net sales and operating margin



Operating profit/loss and return





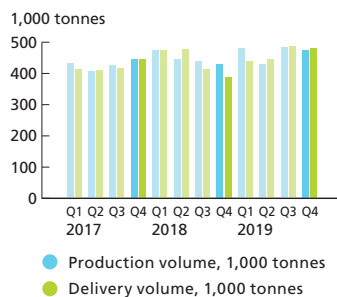
Södra Cell

Södra Cell's operating profit for the period totalled SEK 95 million (770). The earnings trend was attributable to a weaker price level, despite the positive impact of higher volumes and a favourable USD exchange rate. The quarter was adversely impacted by costs of SEK 93 million for the scheduled maintenance shutdowns at Mönsterås and Mörrum. Sales for the quarter amounted to SEK 2,790 million (3,261). During the quarter, the production volume totalled 476 ktonnes (429), comprising 404 ktonnes (359) of softwood sulphate pulp, 36 ktonnes (40) of hardwood sulphate pulp and 36 ktonnes (30) of dissolving pulp.

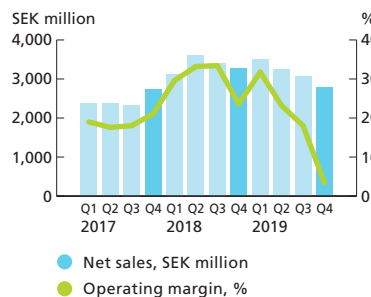
Cumulative sales amounted to SEK 12,594 million (13,404). Operating profit for the full-year totalled SEK 2,511 million (4,032), representing an operating margin of 20 percent (30).

During the quarter, electricity generated at the pulp mills was 483 GWh. Surplus electricity amounted to 152 GWh. The excess represented about 31 percent of the generated volume and was sold on the open market.

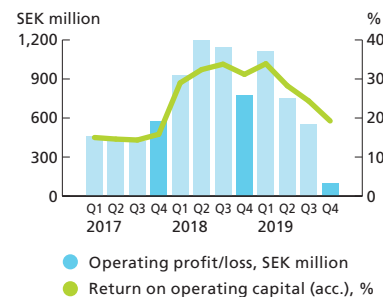
Production and delivery volume



Net sales and operating margin



Operating profit/loss and return



Other segments

Operating loss for Other segments totalled SEK 23 million (profit: 6) for the period. Trivselhus' operating loss amounted to SEK 35 million (loss: 9) for the period. The decline in earnings was due to weaker market conditions. During the quarter, 72 homes (79) were delivered.

Södra's participation in the SunPine associate's profit was SEK 4 million (10) for the period.

Cumulative operating loss for Other segments amounted to SEK 52 million (loss: 25).

**NET FINANCIAL ITEMS**

The Group's net financial items amounted to an expense of SEK 84 million (expense: 39) for the quarter.

CASH FLOW

Cash flow before investments was SEK 292 million (233) for the quarter. Cash flow after investments was a negative SEK 73 million (neg: 3,383). Cumulative cash flow before investments was SEK 3,343 million (4,270), and SEK 2,227 million (neg: 142) after investments. At the end of the quarter, cash and cash equivalents and current investments amounted to SEK 3,010 million (1,072).

FINANCIAL POSITION

At 31 December 2019, equity amounted to SEK 17,382 million (16,011), of which paid-up and issued contributed capital accounted for SEK 4,636 million (3,620). Total assets increased to SEK 29,337 million (27,094). At 31 December 2019, the equity ratio was 59 percent (59). Södra's borrowings comprised loans of SEK 4,086 million (3,529) from members, a seven-year loan of SEK 868 million (1,000) from the Nordic Investment Bank and a two-year green bond of SEK 1,000 million (1,000) listed on Nasdaq Stockholm. Södra has a credit agreement in the form of a club agreement, enabling Södra to borrow up to SEK 2,000 million over a period of just over four years. The debt/equity ratio was 0.2 percent (0.3)

INVESTMENTS, ACQUISITIONS AND DIVESTMENTS

Investments for the fourth quarter of 2019 totalled SEK 374 million (3,646), of which SEK 49 million (3,318) pertained to Södra Skog, SEK 129 million (34) to Södra Wood

and SEK 244 million (248) to Södra Cell. The investments were mainly focused on expansion, productivity and the environment.

EVENTS AFTER THE CLOSE OF THE PERIOD

After just over seven years as President and CEO, Lars Idermark informed the Board that he will be leaving Södra. The Board initiated a recruitment process for a new President and CEO immediately.

EMPLOYEES

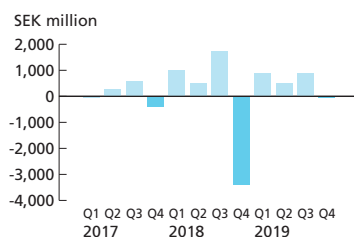
At 31 December, the number of employees was 3,150 (3,141), of whom 23 percent (22) were women.

PROPOSED APPROPRIATION OF PROFITS

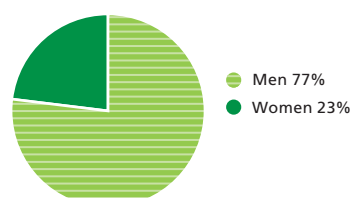
The Board proposes a profit distribution of SEK 1,068 million, representing a total dividend of SEK 371 million on contributed capital, a dividend of SEK 530 million on wood deliveries, and a bonus issue of SEK 167 million.

FUTURE OUTLOOK

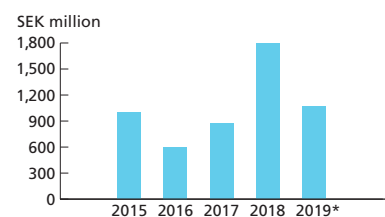
Södra's operations are significantly impacted by the global slowdown. At the end of 2019, the price levels for Södra's core products were considerably lower than at the beginning of the year. Uncertainty surrounding the economic forecast and future price trends is great. It is difficult to make long-term assessments, but the result for 2020 is expected to be weaker than the result for 2019. Due to favourable underlying demand for forest-based products in the ongoing transition towards a more sustainable bioeconomy, the medium and long-term outlooks are still considered excellent.

Cash flow after investments

Cash flow after investments was a negative SEK 73 million during the quarter.

Employees

At 31 December, the number of employees was 3,150, of whom 23 percent were women.

Profit distribution

* Proposed profit distribution

Overall long-term profit distribution should correspond to at least 50 percent of profit before tax. The proposed profit distribution corresponds to 43 percent. The profit distribution 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 target is fossil-free production by 2020 and fossil-free transportation by 2030. Fossil CO₂ emissions from production, working machinery and internal transportation amounted to 19 ktonnes in the fourth quarter of 2019, of which direct emissions accounted for 6 ktonnes and indirect emissions for 13 ktonnes. The outcome for full-year 2019 was 70 ktonnes (103), of which direct emissions accounted for 28 ktonnes (63) and indirect emissions for 42 ktonnes (40). For full-year 2019, fossil CO₂ emissions from transportation amounted to 207 ktonnes (196). In 2019, the consumption of fossil fuel oil in the pulp mills was low. Fossil CO₂ emissions from transportation were higher in 2019 due to higher volumes of pulp and sawn timber deliveries.

In the fourth quarter, Södra and seven other major transport buyers initiated a call for lower speeds for freight transportation in order to reduce fuel consumption. In order to increase the capacity for transporting paper pulp by rail between Södra Cell Värö and the Port of Varberg, specially designed train carriages were developed in partnership with Kiruna Wagon.

Other initiatives during the year included tests with a large electric-powered wood yard forklift, the phasing out of fossil fuels at Södra's own filling stations and external collaborations to reduce fossil CO₂ emissions from transportation. SEK 20 million was set aside to cover additional costs arising from the development of sustainable transport solutions.

Forest growth

Södra's target is a 20 percent higher rate of forest growth by 2050 compared with 2015. For full-year 2019, the average rate of forest growth on land owned by Södra members was 7.1 m³fo per hectare and year, which means that growth is now 8 percent higher than in 2015.

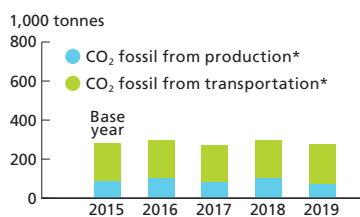
Key measures for the achievement of this target are effective forest management, fertilisation/nutrient recycling, forest tree breeding and damage reduction. During the year, there was a major focus on research into forest management, forest management methods and better tree breeding material. Södra's main focus during the year was on the control of spruce bark beetle damage – minimising this damage is very important for maintaining a high rate of forest growth. Seeds from controlled pollination were harvested in the Söregärde seed orchard. These seeds will be propagated by stem cuttings and eventually become forest reproductive material for Södra's members.

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 fourth quarter, the number of lost-time-accidents (LTA – occupational injuries with absence) was 16 (16) and the LTAR was 12 (12).

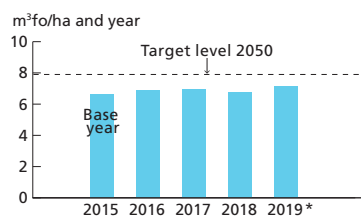
For full-year 2019, the outcome was 62 (77) lost-time-accidents and a lost-time-accident rate of 12 (15). The focus on preventive measures has continued, including risk analyses, risk observations and behaviour-based safety. The management is highly committed and cooperation with the trade unions works well. Both managers and employees participate in regular training programmes.

Fossil-fuel free



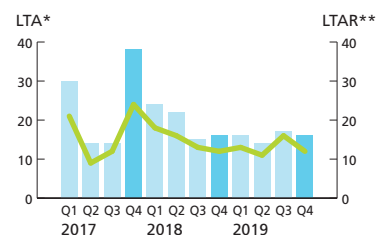
* The production target includes production, working machinery (including external harvesting contractors working on Södra's behalf) and internal transportation. The transportation target includes other transportation, including Södra's own haulage operations.

Forest growth



* 2019 relates to average growth during the 2013-2017 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). Number of occupational injuries with absence from work per million hours worked.



On behalf of the Board of Directors

Växjö, 12 February 2020

Lars Idermark
President and CEO

ASSURANCE REPORT

This interim report has not been audited.



Condensed consolidated statement of comprehensive income

SEK million	2019 Oct-Dec	2018 Oct-Dec	2019 Jan-Dec	2018 Jan-Dec
Net sales	5,274	6,062	23,183	24,230
Other revenue	150	209	354	415
Operating expenses	-5,016	-5,007	-19,640	-18,991
Depreciation, amortisation and impairment	-346	-290	-1,315	-1,146
Operating profit	62	974	2,582	4,508
Net financial items	-84	-39	-87	-77
Profit/loss before tax	-22	935	2,495	4,431
Income tax	11	-364	-323	-701
Profit/loss for the period	-11	571	2,172	3,730
Other comprehensive income				
Items that will not be reclassified to profit or loss	205	-79	-61	-79
Items that will be reclassified to profit or loss	-103	-22	43	46
Other comprehensive income for the period	102	-101	-18	-33
Total comprehensive income for the period	91	470	2,154	3,697
Profit/loss attributable to				
Owners of the Parent	-11	571	2,172	3,730
Profit/loss for the period	-11	571	2,172	3,730
Comprehensive income attributable to				
Owners of the Parent	91	470	2,154	3,697
Comprehensive income for the period	91	470	2,154	3,697



Condensed consolidated statement of financial position

SEK million	31 Dec 2019	31 Dec 2018
ASSETS		
Intangible assets	393	391
Property, plant and equipment	15,118	14,860
Biological assets	2,918	2,738
Shares and participations in associates	324	310
Financial investments	36	14
Other non-current receivables	12	90
Deferred tax assets	4	5
Total non-current assets	18,805	18,408
Inventories	3,835	3,649
Tax assets	142	23
Operating receivables	3,545	3,942
Current investments	938	199
Cash and cash equivalents	2,072	873
Total current assets	10,532	8,686
TOTAL ASSETS	29,337	27,094
EQUITY AND LIABILITIES		
Equity attributable to owners of the Parent	17,382	16,011
Total equity	17,382	16,011
Non-current interest-bearing financial liabilities	2,368	2,465
Non-current interest-bearing operating liabilities	210	—
Provisions for pensions	477	414
Non-current provisions	143	141
Deferred tax liabilities	1,554	1,478
Other non-current operating liabilities	35	—
Total non-current liabilities	4,787	4,498
Current interest-bearing financial liabilities	3,729	3,165
Current interest-bearing operating liabilities	118	—
Income tax liabilities	12	91
Current operating liabilities and provisions	3,309	3,329
Total current liabilities	7,168	6,585
Total liabilities	11,955	11,083
TOTAL EQUITY AND LIABILITIES	29,337	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	-5
Comprehensive income for the year	2,154
Contributed capital, paid-up by members	121
Contributed capital, paid-out to members	-38
Dividends to members	-861
Other changes	—
Closing balance, 31 December 2019	17,382
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

Condensed consolidated statement of cash flows

SEK million	2019 Jan-Dec	2018 Jan-Dec
Profit before tax	2,495	4,431
Adjustment for non-cash items and change in provisions	834	1,044
Income tax paid	-415	-261
Net cash flow from operating activities before change in working capital	2,914	5,214
Change in inventories (increase -)	-14	-628
Change in operating receivables (increase -)	497	-335
Change in operating liabilities (increase +)	-54	19
Cash flow from operating activities	3,343	4,270
Cash flow from investing activities	-1,116	-4,412
Cash flow after investing activities	2,227	-142
Change in contributed capital	83	94
Dividends paid	-861	-652
Change in loans from members	557	423
Change in loans	-105	-15
Change in current investments with maturity > 90 days	-711	0
Other changes	1	33
Cash flow from financing activities	-1,036	-117
CASH FLOW FOR THE PERIOD	1,191	-259
Cash and cash equivalents at beginning of period	873	1,122
Exchange gains/losses on cash and cash equivalents	8	10
Cash and cash equivalents at end of period	2,072	873



Parent Company

RESULT AND FINANCIAL POSITION

In the fourth quarter, net sales declined to SEK 4,611 million (5,275) and operating loss to SEK 96 million (profit: 735). Operating loss for the fourth quarter was in line with expectations and reflects the market conditions for both paper pulp and sawn timber.

Net financial items for the fourth quarter amounted to an expense of SEK 146 million (income: 13).

Loss after net financial items for the period amounted to SEK 242 million (profit: 748).

MEMBERS

The number of members was 52,192 (51,637 at year-end) and the affiliated membership area rose to 2.64 million hectares (2.59 at year-end), an increase of approximately 50,000 hectares.

Parent Company income statement, condensed

SEK million	2019 Oct-Dec	2018 Oct-Dec	2019 Jan-Dec	2018 Jan-Dec
Net sales	4,611	5,275	20,453	21,402
Other revenue	-25	41	191	216
Operating expenses	-4,399	-4,302	-17,289	-16,459
Depreciation, amortisation and impairment	-283	-279	-1,098	-1,090
Operating profit/loss	-96	735	2,256	4,069
Net financial items	-146	13	-103	4
Profit/loss after financial items	-242	748	2,153	4,073
Appropriations	-317	-1,485	-317	-1,485
Profit/loss before tax	-559	-737	1,836	2,588
Income tax	101	-7	-196	-377
Profit/loss for the period	-458	-744	1,640	2,211



Parent Company balance sheet, condensed

SEK million	31 Dec 2019	31 Dec 2018
ASSETS		
Intangible assets	1	3
Property, plant and equipment	12,978	13,160
Shares and participations in Group companies	4,604	4,561
Interest-bearing receivables from Group companies	31	—
Shares and participations in associates	99	246
Surplus in funded pension plans	40	36
Other non-current investments	35	14
Other non-current receivables	12	81
Deferred tax assets	60	47
Total non-current assets	17,860	18,148
Inventories	2,906	2,610
Current interest-bearing receivables from Group companies	710	846
Current receivables	3,373	3,475
Current financial investments	1,329	198
Cash and bank balances	1,482	742
Total current assets	9,800	7,871
TOTAL ASSETS	27,660	26,019
EQUITY AND LIABILITIES		
Restricted equity	6,049	5,033
Non-restricted equity	4,619	4,773
Total equity	10,669	9,807
Untaxed reserves	7,483	7,184
Provisions	183	168
Non-current interest-bearing liabilities from Group companies	8	8
Non-current interest-bearing liabilities	2,368	2,465
Non-current operating liabilities	8	—
Total non-current liabilities	2,384	2,473
Current interest-bearing liabilities from Group companies	154	182
Current interest-bearing liabilities	3,687	3,165
Current tax liabilities	—	81
Current operating liabilities and provisions	3,100	2,959
Total current liabilities	6,941	6,387
TOTAL EQUITY AND LIABILITIES	27,660	26,019



Notes

Note 1 | Accounting policies

Södra applies International Financial Reporting Standards (IFRSs), 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 the transition to the new standard, Södra recognised lease liabilities of SEK 443 million and right-of-use assets of SEK 452 million. A negative effect of SEK 5 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 0 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 such as anti-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 financial position or 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-Dec									
	Södra Skog		Södra Wood		Södra Cell		Other segments		Group	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Wood raw material	1,784	1,763	—	—	—	—	—	—	1,784	1,763
Wood products	—	—	4,791	4,623	—	—	3	314	4,794	4,937
Market pulp	—	—	—	—	11,805	12,710	—	—	11,805	12,710
Energy products	755	654	215	169	578	508	60	81	1,608	1,412
Houses and lots	—	—	—	—	—	—	563	736	563	736
Forestry services	1,621	1,501	—	—	—	—	—	—	1,621	1,501
Transportation	378	410	—	—	—	—	—	—	378	410
Construction contracts	—	—	—	—	—	—	592	730	592	730
Other	27	26	—	—	—	—	11	5	38	31
Net sales, goods and services	4,565	4,354	5,006	4,792	12,383	13,218	1,229	1,866	23,183	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 2019		31 Dec 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial investments	36	36	14	14
Other non-current receivables	—	—	9	9
Operating receivables	2,494	2,494	2,802	2,802
Current investments	938	938	199	199
Cash and cash equivalents	2,072	2,072	873	873
Total assets, financial instruments	5,540	5,540	3,897	3,897
Other assets, non-financial instruments	23,797		23,197	
Total assets	29,337		27,094	
Non-current liabilities	2,605	2,700	2,465	2,575
Current interest-bearing liabilities	3,847	3,890	3,165	3,191
Current operating liabilities	2,390	2,390	2,321	2,321
Total liabilities, financial instruments	8,842		7,951	8,087
Other liabilities, non-financial instruments	3,113		3,132	
Total liabilities	11,955		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 Dec 2019

SEK million	Level 1	Level 2	Level 3	Total
Assets	3,010	—	37	3,047
Liabilities	27	—	1	28

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 December 2019, the estimated fair value of Södra's standing timber was SEK 2,918 million (2,738). The change in the balance sheet since year-end was SEK 180 million (2,198) and pertained to acquisitions of standing timber in the amount of SEK 55 million, and remeasurement to fair value, including exchange-rate effects, in the amount of SEK 125 million. The parameters used to measure the fair value of standing timber are updated annually.

Note 7 | Business combinations

On 14 November 2019, Södra acquired all outstanding shares in the former associated companies of Södra Timber A/S and SW Project AB. Information about the consideration, net assets acquired and goodwill are presented below.

SEK million	Södra Timber A/S	SW Project AB
Consideration paid	18	6
Additional previous non-controlling interests	18	6
Total consideration	36	12
Cash paid	9	6
Contingent consideration	9	—
<i>Carrying amounts, identifiable assets and assumed liabilities:</i>		
Goodwill	12	2
Other fixed assets	4	0
Inventories	66	7
Current receivables	37	12
Cash and cash equivalents	8	1
Provisions	—	-1
Interest-bearing liabilities	-47	-1
Non-interest-bearing liabilities	-53	-8
Identifiable net assets acquired	27	12
Cash and cash equivalents in acquired entities	-8	-1
Net effect on cash and cash equivalents	1	5

The total consideration amounted to SEK 24 million, while the net effect on cash and cash equivalents was SEK 6 million. The previous participation was remeasured at fair value due to the acquisition of all outstanding shares. The acquisition accounting is still preliminary.

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. In the fourth quarter, costs for scheduled maintenance shutdowns amounted to SEK 93 million (139).



Quarterly data and segment information

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

	2019 Oct-Dec	2018 Oct-Dec	2019 Jan-Dec	2018 Jan-Dec
NET SALES, SEK MILLION				
Södra Skog	3,012	3,133	11,980	11,373
of which external	(1,175)	(1,308)	(4,565)	(4,354)
Södra Wood	1,271	1,297	5,756	5,474
of which external	(1,065)	(1,096)	(5,006)	(4,792)
Södra Cell	2,790	3,261	12,594	13,404
of which external	(2,729)	(3,208)	(12,383)	(13,218)
Other segments	307	452	1,231	1,869
of which external	(305)	(452)	(1,229)	(1,866)
Intra-Group	—	—	—	3
Eliminations	-2,106	-2,081	-8,378	-7,893
Group	5,274	6,062	23,183	24,230
OPERATING PROFIT BEFORE DEPRECIATION, AMORTISATION AND IMPAIRMENT, SEK MILLION				
Södra Skog	154	187	366	302
Södra Wood	10	179	462	782
Södra Cell	335	990	3,432	4,894
Other segments	5	15	3	21
Intra-Group	-96	-107	-366	-345
Eliminations	—	—	—	—
Group	408	1,264	3,897	5,654
OPERATING PROFIT/LOSS, SEK MILLION				
Södra Skog	137	176	298	259
Södra Wood	-42	135	262	608
Södra Cell	95	770	2,511	4,032
Other segments	-23	6	-52	-25
Intra-Group	-105	-113	-437	-366
Eliminations	—	—	—	—
Group	62	974	2,582	4,508
OPERATING MARGIN, %				
Södra Skog	4	6	2	2
Södra Wood	neg.	10	5	11
Södra Cell	3	24	20	30
Other segments	neg.	1	neg.	neg.
Intra-Group	—	—	—	—
Eliminations	—	—	—	—
Group	1	16	11	19
ASSETS, SEK MILLION				
Södra Skog	—	—	3,772	3,071
Södra Wood	—	—	3,017	2,658
Södra Cell	—	—	17,484	15,067
Other segments	—	—	1,269	1,601
Intra-Group	—	—	4,869	5,745
Eliminations	—	—	-1,074	-1,048
Group	—	—	29,337	27,094
OPERATING CAPITAL, SEK MILLION				
Södra Skog	—	—	4,871	4,720
Södra Wood	—	—	3,207	3,014
Södra Cell	—	—	13,074	13,015
Other segments	—	—	1,141	1,327
Intra-Group	—	—	—	—
Eliminations	—	—	—	—
Group, capital employed	—	—	21,238	20,969



	2019 Oct-Dec	2018 Oct-Dec	2019 Jan-Dec	2018 Jan-Dec
RETURN ON OPERATING CAPITAL, %				
Södra Skog	—	—	6	10
Södra Wood	—	—	8	21
Södra Cell	—	—	19	31
Other segments	—	—	neg.	neg.
Intra-Group	—	—	—	—
Eliminations	—	—	—	—
Consolidated return on capital employed, %	—	—	12	24
CASH FLOW AFTER INVESTMENTS, SEK MILLION				
Södra Skog	–451	–4,010	129	–3,770
Södra Wood	–1	41	131	430
Södra Cell	455	654	2,653	3,857
Other segments	–13	152	137	32
Intra-Group	–63	–220	–823	–691
Eliminations	—	—	—	—
Group	–73	–3,383	2,227	–142
INVESTMENTS, SEK MILLION				
Södra Skog	49	3,318	145	3,348
Södra Wood	129	34	384	124
Södra Cell	244	248	684	770
Other segments	1	1	11	3
Intra-Group	–49	45	40	135
Eliminations	—	—	–136	—
Group	374	3,646	1,128	4,380
AVERAGE NO. OF EMPLOYEES				
Södra Skog	—	—	599	561
Södra Wood	—	—	902	843
Södra Cell	—	—	1,177	1,171
Other segments	—	—	197	299
Intra-Group	—	—	251	248
Eliminations	—	—	—	—
Group	—	—	3,126	3,122



Alternative performance measures

Södra manages its operations by analysing key figures. 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 %

	2019 Jan-Dec	2018 Jan-Dec
Opening net sales	24,230	20,518
Closing net sales	23,183	24,230
Change	-4	18

Shows Södra's growth.

OPERATING PROFIT BEFORE DEPRECIATION, AMORTISATION AND IMPAIRMENT, SEK MILLION

	2019 Jan-Dec	2018 Jan-Dec
Operating profit	2,582	4,508
Depreciation, amortisation and impairment	1,315	1,146
Operating profit before depreciation, amortisation and impairment	3,897	5,654

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

EBITDA MARGIN, %

	2019 Jan-Dec	2018 Jan-Dec
Operating profit before depreciation, amortisation and impairment	3,897	5,654
Net sales	23,183	24,230
EBITDA margin	17	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

	2019 Jan-Dec	2018 Jan-Dec
Net sales	23,183	24,230
Other revenue	319	372
Operating expenses	-19,605	-18,948
Depreciation, amortisation and impairment	-1,315	-1,146
Operating profit/loss	2,582	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, %

	2019 Jan-Dec	2018 Jan-Dec
Operating profit	2,582	4,508
Net sales	23,183	24,230
Operating margin	11	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 measurement is used to produce an overall trend analysis of Södra's performance, and for comparison with other companies.

**NET DEBT, SEK MILLION**

	2019 Jan-Dec	2018 Jan-Dec
Interest-bearing provisions	—	—
Interest-bearing liabilities	6,425	5,630
Financial receivables	—	—
Current investments and cash and cash equivalents	-3,010	-1,072
Net debt	3,415	4,558

Shows Södra's financial strength through the relationship between current investments and cash and cash equivalents compared with borrowings.

DEBT/EQUITY RATIO, TIMES

	2019 Jan-Dec	2018 Jan-Dec
Net debt, SEK million	3,415	4,558
Equity	17,382	16,011
Debt/equity ratio	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

	2019 Jan-Dec	2018 Jan-Dec
Assets	29,337	27,094
Financial assets	-3,046	-1,086
Provisions*	-143	-141
Income tax*	-1,566	-1,569
Operating liabilities	-3,344	-3,329
Capital employed	21,238	20,969
Average	21,104	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, %

	2019 Jan-Dec	2018 Jan-Dec
Average capital employed	21,104	19,029
Operating profit	2,582	4,508
Return	12	24

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

EQUITY RATIO, %

	2019 Jan-Dec	2018 Jan-Dec
Equity	17,382	16,011
Assets	29,337	27,094
Equity ratio	59	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 January-March will be published on 23 April 2020 at 11:00 a.m.
 - The Annual General Meeting will be held on 3 June 2020.
- 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 13 February 2020.

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This is Södra

Founded in 1938, Södra is Sweden's largest forest-owner association, 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 2019, sales amounted to SEK 23 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.