

Södra's interim report

1 January-31 March 2020

- Net sales amounted to SEK 5,576 million (6,318).
- Operating profit before depreciation, amortisation and impairment amounted to SEK 548 million (1,462).
- Operating profit totalled SEK 227 million (1,148).
- The operating margin was 4 percent (18).
- Cash flow after investments was SEK 113 million (892).

Key indicators	2020 Jan-Mar	2019 Jan-Mar	2019 Jan-Dec
Net sales, SEK million	5,576	6,318	23,183
Operating profit before depreciation, amortisation and impairment, SEK million	548	1,462	3,897
Operating profit, SEK million	227	1,148	2,582
EBITDA margin, %	10	23	17
Operating margin, %	4	18	11
Return on capital employed, %	4	22	12
Equity ratio, %	60	60	59
Cash flow after investments, SEK million	113	892	2,227
No. of employees	3,178	3,117	3,150
CO ₂ fossil from production, ktonnes	19	17	70
CO ₂ fossil from transportation, ktonnes ¹⁾	—	—	207
Rate of forest growth, m ³ fo/ha per year ¹⁾	—	—	7.1
Lost-time-accidents (LTA ²⁾), no.	8	16	62
Lost-time-accident rate (LTAR ³⁾)	7	13	12

¹⁾ These key indicators are not calculated quarterly.

²⁾ LTA (lost-time-accident): occupational injury with absence.

³⁾ LTAR (lost-time-accident rate): the number of occupational injuries with absence per million hours worked.



Result in line with expectations but the future is difficult to predict

Despite dramatically changed conditions and a range of measures taken in the wake of the COVID-19 pandemic, production rates at Södra's facilities remained high and stable in the first quarter. Sales amounted to SEK 5,576 million (6,318). Operating profit for the quarter totalled SEK 227 million (1,148).

In the wake of the ongoing global spread of COVID-19, conditions changed dramatically towards the end of the first quarter. Södra has taken a number of measures to protect our employees, customers and suppliers in the first instance, but also any others that we come into contact with in order to save lives and protect health. It is with great gratitude that I see how we are working together to slow the spread of the virus and to mitigate the negative effects of the ongoing crisis.

The economic slowdown from 2019 bottomed out and had begun to pick up, but was then replaced by a general decline in supply and demand. The consequences are difficult to predict in the current situation, due to the outbreak of COVID-19. Nonetheless, the first quarter result was in line with expectations. Net sales amounted to SEK 5,576 million (6,318) and operating profit totalled SEK 227 million (1,148). The change in earnings was due to lower price levels for Södra's core products. The operating margin was 4 percent. The equity ratio is strong at 60 percent. Demand for paper pulp and sawn timber was favourable, although prices remained low during the quarter, albeit slightly higher at the end of the quarter compared with the beginning of the year. Both production levels and product quality were high and stable.

In recent years, Södra has carried out extensive investment and restructuring to strengthen the company's long-term competitiveness. Notwithstanding the economic situation, these investments have strengthened our relative competitiveness. During the quarter, the Board adopted a new Group strategy that builds on the successful development of recent years. The strategy involves continued investment and expansion of our core business, but also a higher level of processing for our existing products, as well as our residual and by-products.

In the coming quarters, we will be focused on stopping the spruce bark beetle outbreak. The outbreak is affecting the quality of forest products and placing high demands on forest management to remove the damaged trees from forests. Södra, together with our owners and operational employees, are well prepared to continue controlling and containing the effects of this outbreak, but also to deal with the storm-damaged trees in Södra's catchment area.



At the pulp mill in Mönsterås, Södra has built the world's first plant for commercial biomethanol, a sustainable fuel from forest biomass. During the quarter, we made the first pilot delivery to a customer that will be using the biomethanol for biodiesel production. The transition to a sustainable bioeconomy requires efficient use of wood raw material. By producing biomethanol from the crude methanol recovered from the manufacturing process in Södra's pulp mills, it becomes part of the circular process that already exists at Södra's pulp mills. Södra is hereby showing the way to a fossil-free society and the initiative is totally in line with Södra's target of fossil-free transportation by 2030.

Södra is continuously adapting its operations to the preventive measures recommended by authorities to help slow the spread of coronavirus. Steps have also been taken to adapt Södra to the supply and demand effects of the



COVID-19 pandemic. At the end of the quarter, we temporarily laid-off sawn timber employees due to declining demand, mainly the result of measures in the UK and Ireland to reduce the risk of spreading coronavirus. In addition, due to the prevailing market situation, we also temporarily laid-off Trivselhus employees. We are also prepared to make further adjustments at short notice, given the changing market conditions.

The necessary adjustment to these changed market conditions has been handled impressively by all employees in our respective operations. It is gratifying to see how smoothly the cooperation works between various functions and business areas. Without this commitment from our employees, we would not be so well-equipped to meet the future. So, although the global economy is now slowing down and we are heading for a recession, it is important that we maintain a long-term approach. All economic cycles bring different market conditions, but underlying demand for forest-based products will eventually rise. This demand will be driven by greater prosperity combined with higher population growth, and the transition to a sustainable bioeconomy. The forest industry has a key role to play here.

Peter Karlsson

Interim President and CEO



The period in brief

In the first quarter of 2020, operating profit developed in line with expectations. During the period, the effects of the COVID-19 pandemic on deliveries were only minor. Sales amounted to SEK 5,576 million (6,318), and operating profit totalled SEK 227 million (1,148). Return on capital employed was 4 percent (22), and the equity ratio increased to 60 percent.

MARKET CONDITIONS

The sharp slowdown of the global economy in 2019 was replaced by a dramatic supply-demand shock due to the outbreak of the COVID-19 pandemic. No geographic region is unaffected, from either a humanitarian or economic aspect, and the eurozone is particularly hard hit.

The sudden halt in the global economy in March will have a major impact on GDP growth in the second quarter. The expansionary monetary policy around the world appears to be growing in magnitude, as are the fiscal stimulus measures introduced by governments to provide the necessary support and promote the rapid recovery of both businesses and self-employed people.

In the US, President Trump declared a national emergency due to the spread of the coronavirus disease. The number of jobseekers has reached new heights and the coming reporting season will reveal the financial performance of listed companies. The Federal Reserve responded quickly by slashing interest rates and conducting other monetary policy measures. At the time of writing, extra fiscal stimulus is currently being discussed in a bid to boost economic growth.

China's lockdown will probably result in an historical GDP decline in the first quarter. Despite signs of some recovery towards the end of the quarter, the country's economic growth will be impacted by the global slowdown. Large stimulus packages for the industrial sector can be expected. The Chinese authorities' previous focus

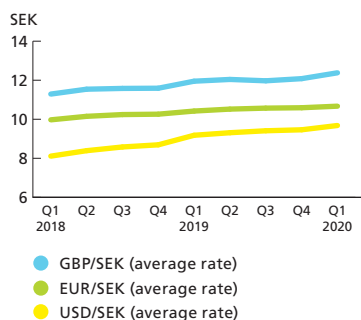
on greater financial stability will have to stand back, in favour of further steps to increase credit growth.

Given the disrupted supply chains, travel bans and social distancing due to the pandemic, a recession in Europe is inevitable. Demand in the service sector is virtually non-existent, as evidenced by the plunging Purchasing Managers Index in Italy and Spain in March. Governments across Europe have not been slow to offer bailout funding, although the scope and content varies from country to country. Stimulus packages amounting to 1-2 percent of GDP have been standard, while Germany has topped the list with packages corresponding to 4 percent of GDP. People in the UK have been ordered to stay at home with only a few exceptions. A survey by the British Chamber of Commerce at the end of March indicates that nearly half of all UK businesses are expected to temporarily lay-off 50 percent or more of their total employees.

Coronavirus is currently posing an 'acid test' for several sectors of the Swedish economy. Demand has ground to a halt for many businesses in the service sector, and the manufacturing industry is grappling with broken supply chains.

The number of lay-off notices has soared in recent weeks and is approaching levels not seen since the 2008 financial crash. In addition to the Swedish government's crisis package for businesses and self-employed people, the Riksbank has moved to calm stressed financial markets and keep credit flowing smoothly.

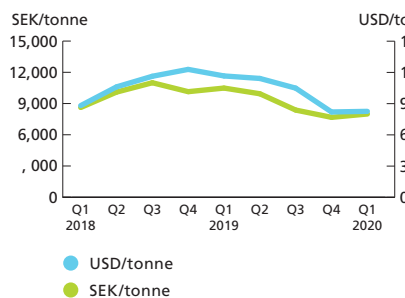
Foreign exchange rates



The SEK weakened against the USD, EUR and GBP.

Source: ECB

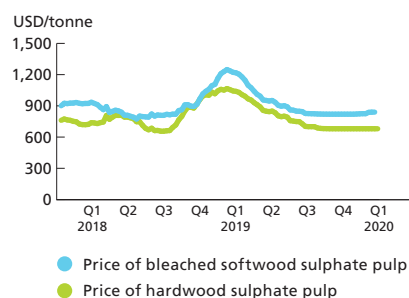
Pulp prices



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

Source: Foex PIX Pulp Index and Södra

List price for softwood and hardwood pulp



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

Source: Foex PIX Pulp Index



In addition to the COVID-19 pandemic, Norway has also been hit by sharply falling oil prices, which is affecting the country's economy in several ways. There are also dark clouds over Denmark, which is heavily dependent on international trade, while the domestic economy has been almost completely shut down. In Finland, economic growth had begun to slow before the pandemic, which indicates more difficult times ahead.

In the first quarter, the SEK weakened against the USD, EUR and GBP. A sustained weak SEK is providing some support for the Swedish export industry in the prevailing market conditions. 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 quarter but a slowdown was discernible towards the end of the quarter due to the COVID-19 pandemic. During the quarter, a storm hit south-east Sweden and both contracting and the clearing of storm-damaged trees began immediately. Forest supplies in other parts of Södra's catchment area were low in March. The outlook is uncertain, especially in light of expected spruce bark beetle outbreaks and the effects of the COVID-19 pandemic.

The sawn timber market showed clear signs of improvement in the first quarter. The impact of the COVID-19 pandemic subsequently created major uncertainty about the market trend. At present, the effects of COVID-19 are confined to markets in the UK and Ireland. This has led to temporary lay-offs in Södra Wood's facilities that produce for these markets. Several sawmill companies have adapted their production to the changed market conditions. In Södra Wood's other markets, demand for sawn timber remained at a favourable level.

Following a sharp decline in pulp prices (PIX) in 2019, they stabilised at the beginning of the first quarter. The price of softwood sulphate pulp rose slightly in March. At the end of the quarter, the price was USD 840 per tonne of softwood sulphate pulp and USD 680 per tonne of hardwood sulphate pulp, compared with USD 820 and USD 680 respectively, at the end of the preceding quarter. Underlying demand remained at a favourable level. The current price level of USD 840 per tonne is considered weak. The ongoing COVID-19 pandemic is causing major uncertainty, with varying degrees of impact on market demand and pulp producers around the world. The price of dissolving pulp remained stable, albeit lower than in preceding years, and amounted to USD 635 per tonne (according to CCFGroup) at the end of the quarter.

NET SALES

During the quarter, consolidated net sales amounted to SEK 5,576 million (6,318), down 12 percent. The negative sales trend was attributable to considerably lower price levels, while delivery volumes increased for both softwood sulphate pulp and sawn timber.

RESULT

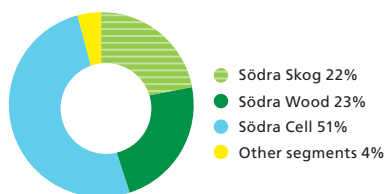
Operating profit for the quarter totalled SEK 227 million (1,148), representing an operating margin of 4 percent (18). The change in earnings was due to lower price levels for Södra's core products. Profit before tax was SEK 190 million (1,174). Tax expense for the period was SEK 32 million (164). Operating profit for the quarter was in line with expectations and reflects the continued relatively weak price formation for both market pulp and sawn timber. Södra's well-invested facilities continued to deliver high volumes at a stable level with high quality. Outbound deliveries of both market pulp and sawn timber increased year-on-year. Return on capital employed was 4 percent (22).



BUSINESS AREAS

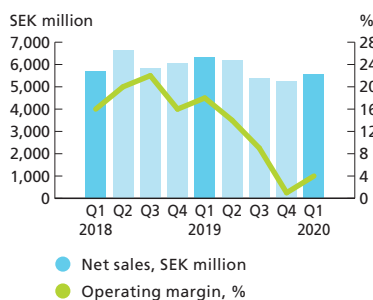
SEK million	Net sales			Operating profit		
	2020 Jan-Mar	2019 Jan-Mar	2019 Jan-Dec	2020 Jan-Mar	2019 Jan-Mar	2019 Jan-Dec
Södra Skog	3,131	3,165	11,980	1	56	298
Södra Wood	1,507	1,498	5,756	22	147	262
Södra Cell	2,867	3,501	12,594	302	1,112	2,511
Other segments	241	356	1,231	-26	-17	-52
Intra-Group	—	—	—	-72	-150	-437
Eliminations	-2,170	-2,202	-8,378	—	—	—
Group	5,576	6,318	23,183	227	1,148	2,582

Sales per business area

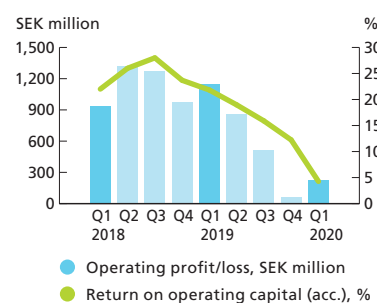


SEK 5,576 million in total, excluding internal deliveries.

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.



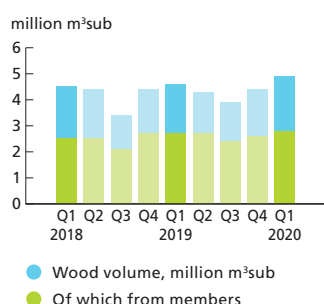
Business areas

Södra Skog

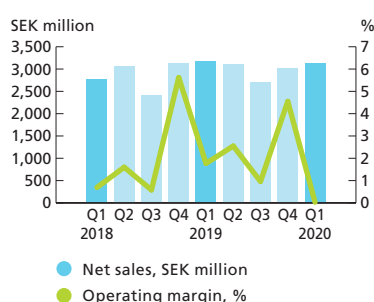
Södra Skog's operating profit for the period totalled SEK 1 million (56). The result was due to weaker margins. During the period, Södra Skog acquired 4.9 million m³sub,

comprising 54 percent pulpwood and cellulose chips, 32 percent saw logs and 14 percent biofuels.

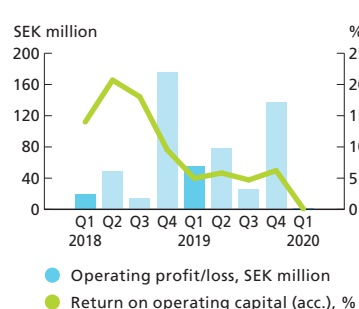
Wood volume



Net sales and operating margin



Operating profit/loss and return

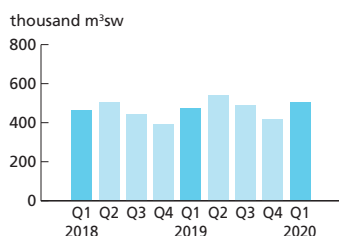


Södra Wood

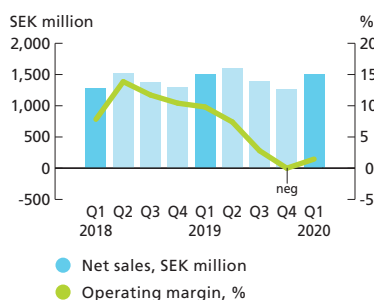
Södra Wood's operating profit for the period totalled SEK 22 million (147) and reflects the considerably lower price level for sawn timber. Underlying demand for sawn timber also remained favourable. The delivery volume

from Södra Wood increased to 519 thousand m³sw, compared with 476 thousand m³sw in the year-earlier period. Sales for the quarter amounted to SEK 1,507 million (1,498).

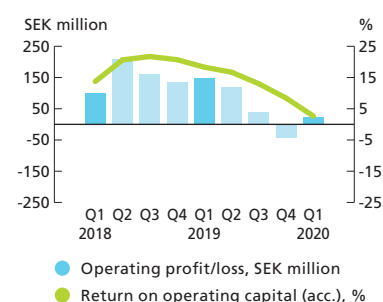
Sales volume, sawn timber



Net sales and operating margin



Operating profit/loss and return



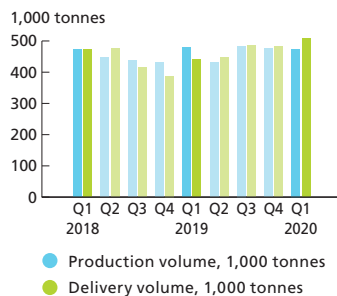


Södra Cell

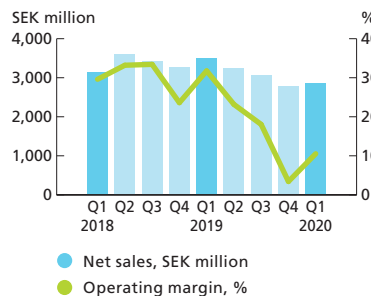
Södra Cell's operating profit for the period totalled SEK 302 million (1,112). The earnings decline was due to a weaker price level, while higher volumes and a more favourable USD exchange rate had a positive impact. Sales for the quarter amounted to SEK 2,867 million (3,501). The production volume totalled 474 ktonnes, comprising 402 ktonnes of softwood sulphate pulp, 34 ktonnes of hardwood sulphate pulp and 38 ktonnes of dissolving pulp.

During the quarter, electricity generated at the pulp mills was 493 GWh. Excess electricity amounted to 155 GWh. The excess represented about 31 percent of the generated volume and was sold on the open market.

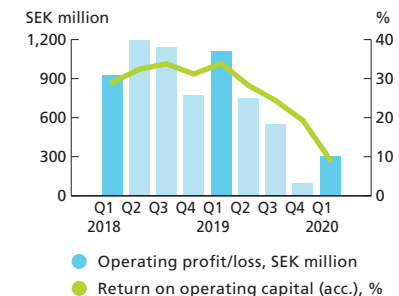
Production and delivery volume



Net sales and operating margin



Operating profit/loss and return



Other segments

Other segments reported a loss of SEK -26 million (-17) for the period. Operating loss for Trivselhus totalled SEK -13 million (-8). The decline in earnings was due to weaker market conditions. During the quarter, 72 homes (78) were delivered.

Södra's share of SunPine's profit for the period was SEK 9 million (-9).

**NET FINANCIAL ITEMS**

The Group's net financial items amounted to an expense of SEK –37 million (income: 26) for the quarter.

CASH FLOW

Cash flow before investments was SEK 396 million (1,140) for the quarter. Cash flow after investments was SEK 113 million (892). At the end of the quarter, cash and cash equivalents and current investments amounted to SEK 2,627 million (1,527).

FINANCIAL POSITION

At 31 March 2020, equity amounted to SEK 17,715 million (17,382 at 31 December 2019), of which paid-up and issued contributed capital accounted for SEK 4,659 million (4,636 at 31 December 2019). Total assets increased to SEK 29,549 million (29,337 at 31 December 2019). At 31 March 2020, the equity ratio was 60 percent (59 at 31 December 2019). At the end of the quarter, Södra's borrowings comprised loans of SEK 3,591 million (4,086 at 31 December 2019) from members, a six-year loan of SEK 867 million (1,000) from the Nordic Investment Bank and a just over one-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 five years. At 31 March 2020, the debt/equity ratio was 0.2 times (0.2 at 31 December 2019).

INVESTMENTS, ACQUISITIONS AND DIVESTMENTS

Investments for the quarter totalled SEK 292 million (270), of which SEK 200 million (158) pertained to Södra Cell, SEK 44 million (172) to Södra Wood and SEK 32 million (33) to Södra Skog. The investments were mainly focused on expansion, productivity and the environment.

EVENTS AFTER THE CLOSE OF THE PERIOD

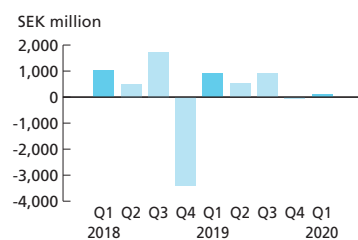
The ongoing COVID-19 pandemic will have effects on Södra moving forward. These effects are difficult to predict at present, but both sales and results will be adversely impacted in 2020. The Group has subsequently analysed the impact of various scenarios, and taken a range of measures to reduce the effects of COVID-19.

EMPLOYEES

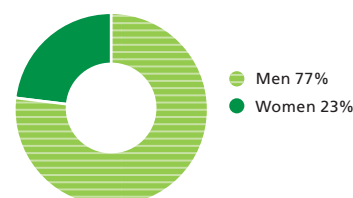
At 31 March, the number of employees was 3,178 (3,117), of whom 23 percent (23) were women.

FUTURE OUTLOOK

The effects of the ongoing pandemic will impact Södra. These effects are difficult to predict and will be influenced by the policy measures introduced to slow the spread of infection and to mitigate the economic impact. The lead time for returning to a 'new normal' is highly significant, as well as how demand will change in the future's new normal. The effects of the stimulus packages to protect businesses and demand are also important and difficult to estimate. Uncertainty in short-term forecasts of economic growth and price trends is therefore high. While it is clear that the result for 2020 will be adversely impacted by the ongoing pandemic, Södra is taking all necessary steps to mitigate the negative effects. At the same time, underlying demand for forest-based products remains favourable in the ongoing transition towards a sustainable bioeconomy, which means that medium and long-term outlooks are still considered favourable.

Cash flow after investments

During the quarter, cash flow after investments was SEK 113 million.

Employees

At 31 March, the number of employees was 3,178, of whom 23 percent were women.

**SUSTAINABILITY****Sustainability targets**

Active efforts with the Group's sustainability targets have continued unabated. 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 2020, fossil carbon dioxide emissions from production, working machinery and internal transportation amounted to 19 ktonnes (17), of which direct emissions accounted for 6 ktonnes (6) and indirect emissions for 13 ktonnes (11). The indirect emissions of fossil carbon dioxide were higher compared with the corresponding period in 2019 mainly on account of increased harvesting volumes. In the first quarter, Södra commenced deliveries of fossil-free biometanol to Emmelev A/S, a Danish biodiesel producer. The biometanol will replace fossil-based methanol and reduce the climate impact of the biodiesel. Since year-end, Trivselhus' working machinery has been running on pure biodiesel, instead of petrodiesel blended with a low concentration of biodiesel. Since the beginning of the year, Södra has been involved in a project with Scania, Volvo and other partners to evaluate various value chains for liquid biofuels from forest biomass from an overall perspective in terms of cost and climate change mitigation.

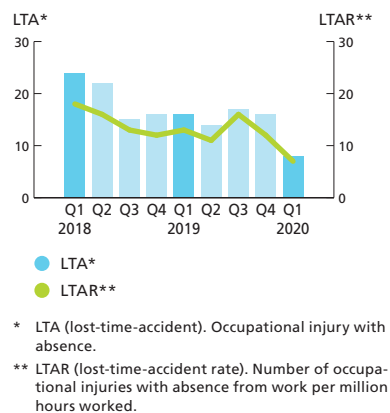
Forest growth

Södra's target is a 20 percent higher rate of forest growth by 2050 compared with 2015. In the first quarter, the focus for 2019 continued – taking care of forest damaged by spruce bark beetles. In addition, storms during the quarter caused extensive damage and fresh spruce windthrows required attention. Despite high levels of selective spruce seed harvesting from the seed orchards in 2019, these seeds will be in short supply in upcoming breeding seasons and an action programme has been established. A project to improve forest regeneration was initiated. The project will include a focus on site preparation

and mechanical planting. The construction of a pilot plant for seedling production based on somatic embryogenesis is progressing as planned.

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 2020, the number of lost-time-accidents (LTA) was 8 (16) and the lost-time-accident rate (LTAR) was 7 (13). The focus on preventive measures such as risk observations and risk analyses has continued within the framework of Lean, behaviour-based safety (BBS), and Man-Technology-Organisation (MTO). The measures implemented led to positive results in the first quarter. As of 1 January, the requirement for personal protective equipment was extended and now applies to all employee categories in all areas of Södra Wood's facilities. In 2020, Group-wide efforts to ensure safer delivery sites at all of Södra's mills will continue. A key element here is that incident reporting has now been opened up for reporting between Södra's business areas.

Occupational injuries

On behalf of the Board of Directors

Växjö, 22 April 2020

Peter Karlsson
Interim President and CEO

ASSURANCE REPORT

This interim report has not been audited.



Condensed consolidated statement of comprehensive income

SEK million	2020 Jan-Mar	2019 Jan-Mar	2019 Jan-Dec
Net sales	5,576	6,318	23,183
Other revenue	130	72	354
Operating expenses	-5,158	-4,928	-19,640
Depreciation, amortisation and impairment	-321	-314	-1,315
Operating profit	227	1,148	2,582
Net financial items	-37	26	-87
Profit before tax	190	1,174	2,495
Income tax	-32	-164	-323
Profit for the period	158	1,010	2,172
Other comprehensive income			
Items that will not be reclassified to profit or loss	—	—	-61
Items that will be reclassified to profit or loss	152	67	43
Other comprehensive income for the period	152	67	-18
Total comprehensive income for the period	310	1,077	2,154
Profit attributable to			
Owners of the Parent	158	1,010	2,172
Profit for the period	158	1,010	2,172
Comprehensive income attributable to			
Owners of the Parent	310	1,077	2,154
Comprehensive income for the period	310	1,077	2,154



Condensed consolidated statement of financial position

SEK million	31 March 2020	31 March 2019	31 Dec 2019
ASSETS			
Intangible assets	392	387	393
Property, plant and equipment	15,183	15,326	15,118
Biological assets	3,053	2,766	2,918
Shares and participations in associates	300	303	324
Financial investments	36	16	36
Other non-current receivables	21	61	12
Deferred tax assets	0	5	4
Total non-current assets	18,985	18,864	18,805
Inventories	3,704	3,844	3,835
Tax assets	203	33	142
Operating receivables	4,030	4,333	3,545
Current investments	1,012	215	938
Cash and cash equivalents	1,615	1,312	2,072
Total current assets	10,564	9,737	10,532
TOTAL ASSETS	29,549	28,601	29,337
EQUITY AND LIABILITIES			
Equity attributable to owners of the Parent	17,715	17,101	17,382
Total equity	17,715	17,101	17,382
Non-current interest-bearing financial liabilities	2,198	2,289	2,368
Non-current interest-bearing operating liabilities	185	324	210
Provisions for pensions	476	411	477
Non-current provisions	135	138	143
Deferred tax liabilities	1,528	1,486	1,554
Other non-current operating liabilities	160	19	35
Total non-current liabilities	4,682	4,667	4,787
Current interest-bearing financial liabilities	3,393	2,856	3,729
Current interest-bearing operating liabilities	112	117	118
Income tax liabilities	6	110	12
Other current operating liabilities	3,641	3,750	3,309
Total current liabilities	7,152	6,833	7,168
Total liabilities	11,834	11,500	11,955
TOTAL EQUITY AND LIABILITIES	29,549	28,601	29,337



Condensed consolidated statement of changes in equity

SEK million	Total equity
Opening balance, 1 January 2020	17,382
Comprehensive income for the year	310
Contributed capital, paid-up by members	23
Contributed capital, paid-out to members	0
Closing balance, 31 March 2020	17,715
Opening balance, 1 January 2019	16,011
Comprehensive income for the year	1,077
Contributed capital, paid-up by members	21
Contributed capital, paid-out to members	0
Other changes	-8
Closing balance, 31 March 2019	17,101

Condensed consolidated statement of cash flows

SEK million	2020 Jan-Mar	2019 Jan-Mar	2019 Jan-Dec
Profit before tax	190	1,174	2,495
Adjustment for non-cash items and change in provisions	196	262	834
Income tax paid	-97	-140	-415
Net cash flow from operating activities before change in working capital	289	1,296	2,914
Change in inventories (increase -)	144	-196	-14
Change in operating receivables (increase -)	-368	-370	497
Change in operating liabilities (increase +)	331	410	-54
Cash flow from operating activities	396	1,140	3,343
Cash flow from investing activities	-283	-248	-1,116
Cash flow after investing activities	113	892	2,227
Change in contributed capital	23	21	83
Dividends paid	—	—	-861
Change in loans from members	-496	-485	557
Change in loans	-12	—	-105
Change in current investments with maturity > 90 days	-88	4	-711
Other changes	—	—	1
Cash flow from financing activities	-573	-460	-1,036
CASH FLOW FOR THE PERIOD	-460	432	1,191
Cash and cash equivalents at beginning of period	2,072	873	873
Exchange gains/losses on cash and cash equivalents	3	7	8
Cash and cash equivalents at end of period	1,615	1,312	2,072



Parent Company

RESULT AND FINANCIAL POSITION

Net sales declined to SEK 4,945 million (5,584) and operating profit to SEK 231 million (1,112). The negative sales trend was attributable to considerably lower price levels, while delivery volumes increased for both softwood sulphate pulp and sawn timber. Operating profit for the quarter was in line with expectations and reflects the continued relatively weak price levels for both market pulp and sawn timber. The result was boosted by Södra's well-invested facilities, which continued to deliver high volumes at a stable level with high quality. Net financial items amounted to an expense of SEK –46 million (income: 1) for the quarter.

Profit after net financial items was SEK 185 million (1,113) for the period.

MEMBERS

The number of members increased to 52,463 (52,192 at year-end) and the affiliated membership area increased approximately 10,000 hectares to 2.65 million hectares (2.64 at year-end).

Parent Company income statement, condensed

SEK million	2020 Jan-Mar	2019 Jan-Mar	2019 Jan-Dec
Net sales	4,945	5,584	20,453
Other revenue	135	74	191
Operating expenses	–4,570	–4,274	–17,290
Depreciation, amortisation and impairment	–279	–272	–1,098
Operating profit	231	1,112	2,256
Net financial items	–46	1	–103
Profit after financial items	185	1,113	2,153
Appropriations	—	—	–317
Profit before tax	185	1,113	1,836
Income tax	–31	–145	–196
Profit for the period	154	968	1,640



Parent Company balance sheet, condensed

SEK million	31 March 2020	31 March 2019	31 Dec 2019
ASSETS			
Intangible assets	1	2	1
Property, plant and equipment	12,917	13,102	12,978
Shares and participations in Group companies	4,609	4,567	4,604
Interest-bearing receivables from Group companies	—	—	31
Shares and participations in associates	99	245	99
Surplus in funded pension plans	40	36	40
Other non-current investments	35	16	35
Other non-current receivables	21	61	12
Deferred tax assets	57	46	60
Total non-current assets	17,779	18,075	17,860
Inventories	2,713	2,834	2,906
Current interest-bearing receivables from Group companies	751	832	710
Current receivables	3,792	3,832	3,373
Current financial investments	1,521	388	1,329
Cash and bank balances	919	1,019	1,482
Total current assets	9,696	8,905	9,800
TOTAL ASSETS	27,475	26,980	27,660
EQUITY AND LIABILITIES			
Restricted equity	6,072	5,054	6,049
Non-restricted equity	4,774	5,742	4,619
Total equity	10,846	10,796	10,669
Untaxed reserves	7,483	7,184	7,483
Provisions	175	166	183
Non-current interest-bearing liabilities from Group companies	8	8	8
Non-current interest-bearing liabilities	2,197	2,288	2,368
Non-current operating liabilities	23	—	8
Total non-current liabilities	2,228	2,296	2,384
Current interest-bearing liabilities from Group companies	119	176	154
Current interest-bearing liabilities	3,361	2,857	3,687
Current tax liabilities	—	102	—
Current operating liabilities and provisions	3,263	3,403	3,100
Total current liabilities	6,743	6,538	6,941
TOTAL EQUITY AND LIABILITIES	27,475	26,980	27,660



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 2019 Annual Report, except for new standards and revisions of standards and interpretations applicable to annual periods beginning on or after 1 January 2020 and that have not already been applied in the preparation of the 2019 Annual Report. The standards with impact on the consolidated financial statements and that have been applied for the first time in the financial year commencing 1 January 2020 are described below.

Definition of Material – Amendments to IAS 1 and IAS 8. IASB has issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors) to align the definition of ‘material’ across all IFRS standards, and in Framework for the Preparation and Presentation of Financial Statements clarifies its definition of material and incorporates some of the existing guidance in IAS 1 on immaterial information.

Definition of a Business (Amendments to IFRS 3). Under the changed definition of a business, an acquisition must include a set of activities and assets that significantly contribute to the ability to continue producing outputs. The definition of outputs has been narrowed to goods or services provided to customers that generate returns or other income. Outputs were previously defined as returns in the form of lower costs or other economic benefits. These changes will probably mean that more acquisitions are recognised as asset acquisitions.

A number of new or amended standards and interpretations have not yet come into effect, 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 2020 financial year has been 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 the current year’s dividend proposal for the financial year (which will be paid out in the following year) is already tax deductible in the current year and has been treated as a deduction in the calculation of current tax.

The deduction has affected the tax expense recognised in net profit or loss for the year.

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 2019 Annual Report, except that WHO has declared the outbreak of COVID-19 a pandemic. For a description of risks and uncertainties, refer to Södra’s 2019 Annual Report under “Risks and risk management” on pages 48-49, and to “Events after the close of the period” on page 9 of this report. 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 2019.



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	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Wood raw material	517	520	—	—	—	—	—	—	517	520
Wood products	—	—	1,245	1,242	—	—	—	-5	1,245	1,236
Market pulp	—	—	—	—	2,777	3,205	—	—	2,777	3,205
Energy products	257	254	50	64	45	234	11	27	363	579
Houses and lots	—	—	—	—	—	—	124	136	124	136
Forestry services	329	333	—	—	—	—	—	—	329	333
Transportation	108	108	—	—	—	—	—	—	108	108
Construction contracts	—	—	—	—	—	—	104	196	104	196
Other	8	3	—	—	—	—	2	2	10	5
Net sales, goods and services	1,219	1,218	1,295	1,306	2,822	3,439	241	356	5,576	6,318

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 2020		31 Dec 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial investments	36	36	36	36
Operating receivables	3,042	3,042	2,494	2,494
Current investments	1,012	1,013	938	938
Cash and cash equivalents	1,615	1,615	2,072	2,072
Total assets, financial instruments	5,705	5,706	5,540	5,540
Other assets, non-financial instruments	23,844		23,797	
Total assets	29,549		29,337	
Non-current liabilities	2,521	2,603	2,605	2,700
Current interest-bearing liabilities	3,505	3,543	3,847	3,890
Current operating liabilities	2,732	2,733	2,390	2,390
Total liabilities, financial instruments	8,758	8,879	8,842	8,980
Other liabilities, non-financial instruments	3,076		3,113	
Total liabilities	11,834		11,955	

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 unobservable inputs for which there is no market information available.

Group, 31 March 2020

SEK million	Level 1	Level 2	Level 3	Total
Assets	2,627	—	36	2,663
Liabilities	138	—	—	138

Group, 31 Dec 2019

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

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 2020, the estimated fair value of Södra's standing timber was SEK 3,053 million (2,766). The change in the balance sheet since year-end was SEK 135 million (28), and pertained to exchange-rate effects and an asset acquisition of SEK 14 million via the acquisition of Alfredsson Latvia SIA. The parameters used to measure the fair value of standing timber are updated annually.

Note 7 | Business combinations

No acquisitions or divestments were carried out during the reporting period.

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 2020 and 2019.



Quarterly data and segment information

	2020 Jan-Mar	2019 Jan-Mar	Full-year 2019
NET SALES, SEK MILLION			
Södra Skog	3,131	3,165	11,980
of which external	(1,219)	(1,218)	(4,565)
Södra Wood	1,507	1,498	5,756
of which external	(1,295)	(1,306)	(5,006)
Södra Cell	2,867	3,501	12,594
of which external	(2,822)	(3,439)	(12,383)
Other segments	241	356	1,231
of which external	(241)	(356)	(1,229)
Intra-Group	—	—	—
Eliminations	-2,170	-2,202	-8,378
Group	5,576	6,318	23,183
OPERATING PROFIT/LOSS BEFORE DEPRECIATION, AMORTISATION AND IMPAIRMENT, SEK MILLION			
Södra Skog	18	73	366
Södra Wood	72	196	462
Södra Cell	540	1,342	3,432
Other segments	-18	-6	3
Intra-Group	-64	-143	-366
Eliminations	—	—	—
Group	548	1,462	3,897
OPERATING PROFIT/LOSS, SEK MILLION			
Södra Skog	1	56	298
Södra Wood	22	147	262
Södra Cell	302	1,112	2,511
Other segments	-26	-17	-52
Intra-Group	-72	-150	-437
Eliminations	—	—	—
Group	227	1,148	2,582
OPERATING MARGIN, %			
Södra Skog	0	2	2
Södra Wood	1	10	5
Södra Cell	11	32	20
Other segments	neg.	neg.	neg.
Intra-Group	—	—	—
Eliminations	—	—	—
Group	4	18	11
ASSETS, SEK MILLION			
Södra Skog	4,064	3,229	3,772
Södra Wood	3,145	2,915	3,017
Södra Cell	17,529	16,435	17,484
Other segments	1,389	1,578	1,269
Intra-Group	4,459	5,459	4,869
Eliminations	-1,037	-1,015	-1,074
Group	29,549	28,601	29,337
AVERAGE OPERATING CAPITAL, SEK MILLION			
Södra Skog	4,704	4,534	4,795
Södra Wood	3,358	3,223	3,111
Södra Cell	13,176	13,279	13,044
Other segments	1,084	1,329	1,234
Intra-Group	—	—	—
Eliminations	—	—	—
Group, average capital employed	21,327	21,262	21,104



	2020 Jan-Mar	2019 Jan-Mar	Full-year 2019
RETURN ON OPERATING CAPITAL, %			
Södra Skog	0	5	6
Södra Wood	3	18	8
Södra Cell	9	34	19
Other segments	neg.	neg.	neg.
Intra-Group	—	—	—
Eliminations	—	—	—
Consolidated return on capital employed, %	4	22	12
CASH FLOW AFTER INVESTMENTS, SEK MILLION			
Södra Skog	483	471	129
Södra Wood	–210	–225	131
Södra Cell	84	896	2,653
Other segments	–48	62	137
Intra-Group	–196	–312	–823
Eliminations	—	—	—
Group	113	892	2,227
INVESTMENTS, SEK MILLION			
Södra Skog	32	33	145
Södra Wood	44	172	384
Södra Cell	200	158	684
Other segments	18	1	11
Intra-Group	0	42	40
Eliminations	–2	–136	–136
Group	292	270	1,128
AVERAGE NO. OF EMPLOYEES			
Södra Skog	611	595	599
Södra Wood	915	863	902
Södra Cell	1,191	1,179	1,177
Other segments	198	218	197
Intra-Group	244	249	251
Eliminations	—	—	—
Group	3,159	3,104	3,126



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 %

	2020 Jan-Mar	2019 Jan-Mar	2019 Jan-Dec
Opening net sales	6,318	5,717	24,230
Closing net sales	5,576	6,318	23,183
Change	-12	11	-4

Shows Södra's growth.

OPERATING PROFIT/LOSS BEFORE DEPRECIATION, AMORTISATION AND IMPAIRMENT, SEK MILLION

	2020 Jan-Mar	2019 Jan-Mar	2019 Jan-Dec
Operating profit	227	1,148	2,582
Depreciation, amortisation and impairment	321	314	1,315
Operating profit before depreciation, amortisation and impairment	548	1,462	3,897

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

EBITDA MARGIN, %

	2020 Jan-Mar	2019 Jan-Mar	2019 Jan-Dec
Operating profit before depreciation, amortisation and impairment	548	1,462	3,897
Net sales	5,576	6,318	23,183
EBITDA margin	10	23	17

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

	2020 Jan-Mar	2019 Jan-Mar	2019 Jan-Dec
Net sales	5,576	6,318	23,183
Other revenue	130	72	319
Operating expenses	-5,158	-4,928	-19,605
Depreciation, amortisation and impairment	-321	-314	-1,315
Operating profit	227	1,148	2,582

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, %

	2020 Jan-Mar	2019 Jan-Mar	2019 Jan-Dec
Operating profit	227	1,148	2,582
Net sales	5,576	6,318	23,183
Operating margin	4	18	11

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

	2020 Jan-Mar	2019 Jan-Mar	2019 Jan-Dec
Interest-bearing provisions	—	—	—
Interest-bearing liabilities	5,888	5,145	6,425
Financial receivables	0	—	—
Current investments and cash and cash equivalents	-2,627	-1,527	-3,010
Net debt	3,261	3,618	3,415

Shows Södra's financial strength.

DEBT/EQUITY RATIO

	2020 Jan-Mar	2019 Jan-Mar	2019 Jan-Dec
Net debt, SEK million	3,261	3,618	3,415
Equity	17,715	17,101	17,382
Debt/equity ratio	0.2	0.2	0.2

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

	2020 Jan-Mar	2019 Jan-Mar	2019 Jan-Dec
Assets	29,549	28,601	29,337
Financial assets	-2,663	-1,543	-3,046
Provisions*	-135	-138	-143
Income tax*	-1,534	-1,596	-1,566
Non-interest-bearing current liabilities	-3,801	-3,769	-3,344
Capital employed	21,416	21,555	21,238
Average	21,327	21,262	21,104

* 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, %

	2020 Jan-Mar	2019 Jan-Mar	2019 Jan-Dec
Average capital employed	21,327	21,262	21,104
Operating profit	227	1,148	2,582
12-month operating profit	908	4,592	2,582
Return	4	22	12

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

EQUITY RATIO, %

	2020 Jan-Mar	2019 Jan-Mar	2019 Jan-Dec
Equity	17,715	17,101	17,382
Assets	29,549	28,601	29,337
Equity ratio	60	60	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 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 23 April 2020.

Contact information and address

Peter Karlsson
Interim President and CEO
Phone: +46 (0)470-890 28
peter.ma.karlsson@sodra.com

Södra Skogsägarna ekonomisk förening

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

This is Södra

Founded in 1938, Södra is Sweden's largest forest-owner association, with 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 employees totalled 3,150. Through value-generating relationships and a long-term approach, Södra shows the way for the next generation of forestry.