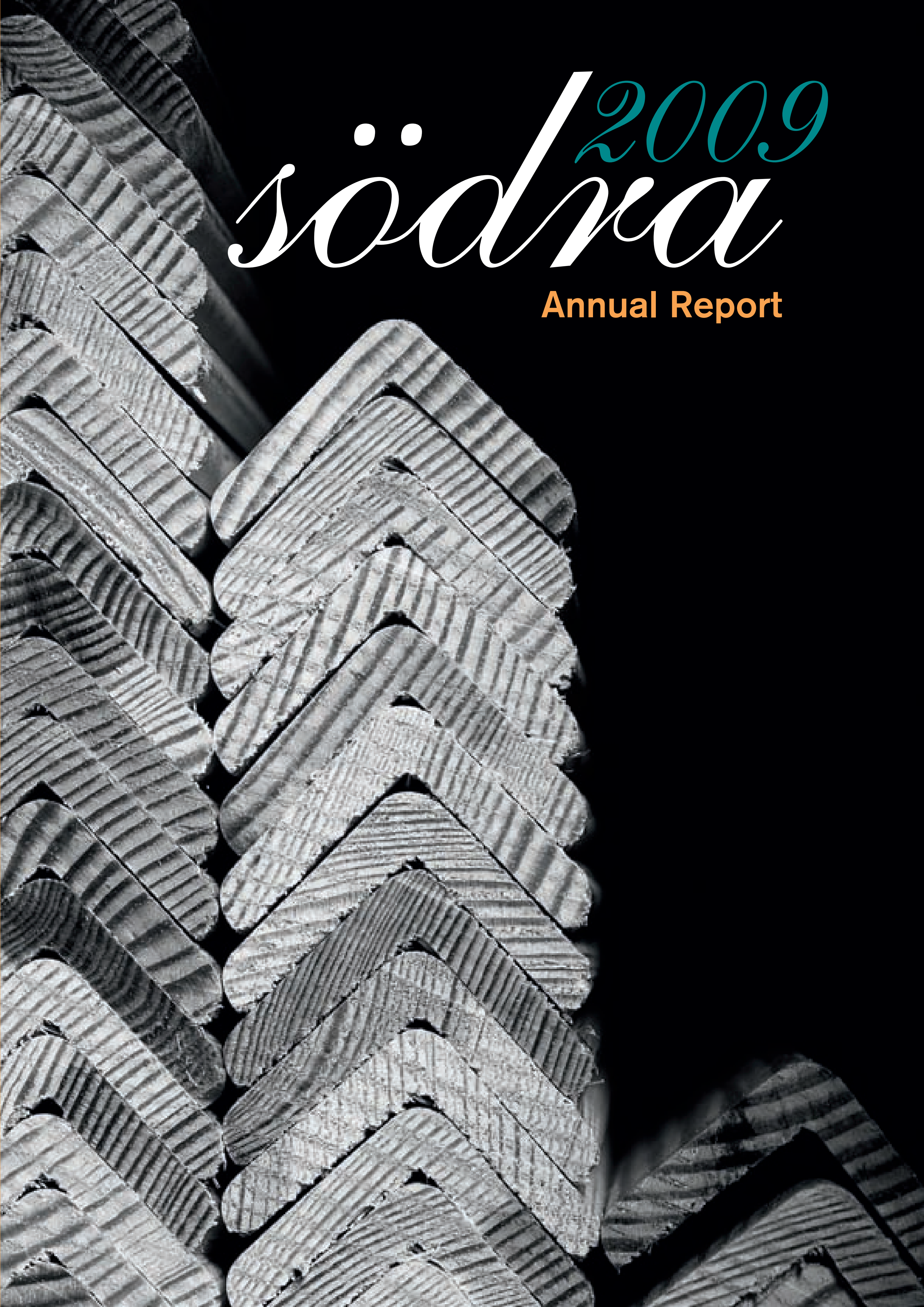
södra 2009

Annual Report



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This is a translation of the annual report for the 2009 financial year as presented in original by the Board on 26 February 2010. This translation does not replace the original annual report. In the event of any lack of clarity or disparity between this translation and the annual report, the annual report will always take precedence.

Directors' Report

The Board of Directors and President of Södra Skogsägarna Economic Association (corporate identity number 729500-3789) hereby submit the Annual Report and Consolidated Financial Statements for the 2009 financial year. The Group and Parent Company's development, income and financial position are presented in the following consolidated statement of income and consolidated statement of financial position and the Parent Company's income statement and balance sheet including notes and comments.

Purpose of the organisation

The purpose of Södra is to promote the economic interests of its members through trading in and processing forest products; securing a market for its members' forest products at market prices; promoting high-value, advanced forest production while respecting cultural and natural values; supporting and developing individual forestry; monitoring and promoting the economic policy interests of members; and running operations otherwise compatible with the above.

Market

A contracting global credit market in the wake of the finance and credit crises resulted in a substantial weakening of economic activity and rapidly rising unemployment. For the first time since the Second World War the global economy contracted and global GDP is estimated to have decreased by almost one per cent in 2009. Massive governmental stimulation packages, record-low central interest rates and stabilisation of activities in the Asian economies resulted in the extreme pessimism of the winter gradually being replaced with growing optimism in the first half-year. The US recession ended mid-year and GDP started to increase again in the third quarter. The global recovery that started in the second half-year is expected to be slow as it is based on stimulation measures and a GDP recovery to pre-finance crisis is likely to take time.

The financial instability strongly affected global capital flows during the year. At the peak of the turbulence there was a flight from small cyclical currencies to the USD and EUR, which weakened the SEK significantly against these currencies. The USD strengthened from SEK 7.75 at the start of the year to a peak of SEK 9.22 in the first quarter. Improving stability helped normalise capital flows and strengthen smaller currencies, and led to the USD gradually weakening to a level of SEK 7.18 at the end of the year.

The pulp market weakened in the first four months of the year. Low delivery levels and record-high inventories pressed prices to low levels. The softwood sulphate price in Europe declined to a low of USD 580 per tonne in April. The equivalent price for hardwood sulphate pulp was USD 470 per tonne. The low prices necessitated widespread production shutdowns amongst pulp suppliers, particularly in North America and Europe. In combination with strong demand primarily in China, the shutdowns contributed to pulp market recovery in the second quarter. In June, the price of softwood sulphate rose in Europe to USD 600 per tonne and hardwood sulphate to USD 480 per tonne. The second half-year was characterised by a strong recovery, primarily as demand in China remained strong. In Europe, the printing and writing paper market remained weak with capacity utilisation at around 80 per cent. In addition to the recession-based weakening, a structural decline in demand is also evident as paper loses ground to digital media. The price of bleached softwood sulphate reached USD 800 per tonne at the end of the year and the price of bleached hardwood sulphate USD 700 per tonne.

The first quarter of 2009 was characterised by continued oversupply and falling demand for sawn timber. The market stabilised in the second quarter, primarily due to substantial production cutbacks in Finland and Central Europe. Prices rose rapidly in the second and third quarters and there was a shortage of certain products. In late 2009, production increased slightly in Sweden and Germany and helped stabilise market balance. The favourable exchange rate enabled Sweden to gain significant market share in Europe during the year. Markets outside Europe were very weak, with the exception of the Middle East and North Africa where demand remained strong due to reduced export from Finland and Russia. In the US and Japan, building construction declined to a very low level at the end of the year.

The finance crisis negatively affected order intake for Trivselhus. The company, which was acquired by Södra Timber during the year, was forced to adapt its organisation to the weaker market. The substantial interest rate cuts during the year stabilised the market and order intake increased.

The market for wood products from Södra Interiör was weak early in the year but strengthened during the autumn in Norway and Sweden. Development in Denmark remained weak however.

The timber market was also affected by the economic downturn with many producers making major production cutbacks during the first half-year. Remaining inventories of storm-felled wood were however still large. Realisation of this inventory combined with limited consumption resulted in a wood surplus in the first half-year. Price reductions in spring held back supply and the wood market regained balance in early summer. Södra reduced its prices in February and April. In the second half-year, demand for wood increased as a result of high sawmill and pulp mill production and decreased or depleted terminal inventories. Södra introduced a premium on saw logs of SEK 25 per m^3fub at the end of May. At the end of September the saw log price was raised by SEK 50 per m^3fub and soft pulpwood price by SEK 25 per m^3fub.

Income

Consolidated net revenue decreased by SEK 297 million to SEK 16,696 million (16,993). Operating income declined by SEK 216 million to SEK 593 million (809). Operating income includes income effects from currency derivatives and fixed-price contracts totalling SEK 415 million (–261) and from sales of electricity certificates of SEK 935 million (648). Depreciation, amortisation and impairment of assets include reversal of previous impairment losses at Södra Timber Mönsterås of SEK 80 million. Figures for the previous financial year include impairment of asset values at the Folla pulp mill of SEK 43 million.

The decline in income was primarily attributable to Södra Cell, as the weak market in the first half-year resulted in widespread market-related production shutdowns at the company's Norwegian pulp mills. The pulp market recovered in the second half-year and Södra Cell's income improved accordingly. At Södra Cell Värö, a breakdown in the recovery boiler occurred in conjunction with startup after the mill's planned maintenance shutdown. The breakdown caused an extra production loss of 26 days. Operating income for Södra Cell totalled SEK 406 million (902).

Södra Interiör's operating profit also weakened from SEK 46 million to a breakeven level. This was primarily due to a weak market position for interior products in Sweden and Denmark and restructuring costs for the hardwood operations acquired during the year. Södra Skog and Södra Timber improved their operating profit during the year.

Finance income and expenses improved to SEK 69 million (–113) which was primarily due to the revaluation of investment assets as a result of recovery on the financial markets during the year.

Profit before tax declined by SEK 34 million to SEK 662 million (696). The consolidated tax expense totalled SEK –199 million (–161) which represented 30 per cent (23) of profit before tax. The higher tax rate reported is an effect of positive deferred tax, which for precautionary reasons is not recognised, pertaining to the shortfall from market-related production shutdown at the Norwegian pulp mills and uncertainty regarding the timing of its fiscal application.

Cash flow after investing activities improved by SEK 1,120 million to SEK 1,438 million (318). This was largely due to a decrease in inventories to SEK 2,239 million (3,531) following the depletion of storm-felled saw log inventories during the year, and the decline in pulp inventories to a historically low level after the strong recovery in the pulp market in the second half-year. In addition, the sale of the wind power operations during the year (see below) provided a substantial liquidity surplus. The high cash flow generated an increase in cash and cash equivalents and current investments of SEK 980 million to SEK 2,782 million (1,802) during the year despite the high investment and acquisition level.

Investments and acquisitions

Investments totalled SEK 1,387 million (1,412), of which SEK 1,024 million (886) were in Södra Cell and SEK 196 million (264) in Södra Timber. In conjunction with the planned maintenance shutdown at Södra Cell Värö, a new evaporator and bark dryer were installed for approximately SEK 500 million, which makes the mill oil-independent during normal operations. In addition, a flue-gas cooler was installed on the recovery boiler for SEK 23 million, enabling district heating deliveries to be increased. Other major investment decisions have been for reinvestments, including SEK 33 million for new baling equipment at Värö, SEK 23 million for tube exchange in the tertiary superheater at Mönsterås and SEK 15 million for a new drive system on drying machine 1 at Mörrum.

Södra Timber completed the investment in a new planing mill at the Långasjö sawmill. The plant was commissioned in the first quarter and is dimensioned for the sawmill's entire production of 300,000 m^3. During the year, 50 per cent of shares were acquired in Tage Peetz & Co A/S (name changed to Södra Timber A/S) that sells timber products on the Danish market. A pressure treatment plant in Åstorp was acquired from Nordic Wood Treatment AB. On 1 October, all shares were acquired in Ittur Prefab Industrier AB (name changed to Södra Trivselhus Holding AB) and Tomtbolaget THV Aktiebolag. The sellers were Ittur AB and Ittur House and Land AB.

Södra Interiör made five acquisitions during the year. The acquisition of Werner Träförädling AB provides backward integration in the value chain. The sawmill was restructured during the year and raw material supply transferred to Södra Skog. The acquisition of Bju i Rottne Aktiebolag, a producer of glue-joint boards in pine, was made prior to summer. Before the acquisition, Södra Interiör purchased large volumes from Bju and other operators and can now further develop its building trade concept. Aktiebolaget Nordingrå Trä was acquired concurrently, and extends the building trade range with a range of wood pillars and poles. Acquisition of the net assets of Vikan Trelast in Namsos provided a geographic expansion that strengthens the distribution network in northern Norway. On 1 October, VIMA and B.E. Profiler in Denmark were acquired. The companies manufacture mouldings and their acquisition strengthens the company's position on the Danish building trade market. During the autumn Södra Interiör has focussed on moving production from subcontractors to its own production units in order to utilise available capacity, and this is expected to continue in 2010.

As part of the reconstruction of Rörvik Timber AB, Södra received one million share warrants without consideration. The warrants entitle subscription of Class B shares in Rörvik Timber AB at an issue price of SEK 10 per share between 15 December 2011 and 15 December 2013.

Södra Skog added 2,800 hectares of forest in Estonia to its forest assets in the Baltic States, and now owns almost 19,000 hectares of forest in the region.

The Södra Board resolved during the year to invest SEK 203 million in wind power on its Mönsterås industrial site. The project comprises some 12 MW installed effect.

Sales

On 1 October, Norwegian energy company Statkraft acquired part-ownership of Södra's wind power investment. The operation was divided into three parts and Statkraft now owns 90.1 per cent of the shares in the company running wind power projects on member land. The projects on Södra land and at its mills are handled by Södra Vind AB, which is wholly-owned by Södra. A development company was also formed to continue project development. The company is owned 60 per cent by Södra and 40 per cent by Statkraft.

Wholly-owned subsidiary Södra Reinsurance SA was sold on 14 December. The Group's insurance operations will thereafter be managed in Södra Skogsägarna Försäkring AB.

Productivity

The Group's structured and long-term productivity process continued in 2009. Productivity processes are coordinated within Södra and are based on clear and simple systematics. The work comprises specific major programmes in the form of focussed improvement areas and smaller everyday improvements.

Improvement areas are selected by the business areas and specific units. Benefitting from employee motivation and creating teamwork are key factors.

In addition to the systematic improvement work, long-term processes include productivity improvements through investments, organic growth and acquisition-based growth.

The objective is for the Group to increase productivity by an average of 2 per cent per year over a five-year period. In 2009, the outcome was 1.7 per cent (1). During the year, 3,472 improvement suggestions (2,914) were implemented with a total value of SEK 93 million (73).

Research and development (R&D)

Södra's R&D costs totalled SEK 80 million (77). This includes costs for corporate operations and support for external research projects.

On the forestry side and in sawn timber, research is mainly done in collaboration with research institutes and universities. The overall objectives are to promote a high level of sustainable forestry production, product development of sawn timber products and greater knowledge of timber construction.

Södra Cell's R&D investments focus on both product and process development. A number of projects are run internally and in co-operation with customers, suppliers and research institutes. Research is based at Södra's research centre in Värö.

Södra also supports research through the Södra Foundation for Research, Development and Education. The foundation aims to promote university-level research related to forestry and forest industry operations in southern Sweden.

Environment

Some 97 per cent of Södra's consolidated net revenue is subject to permits and reporting requirements. At the end of the year, Södra was running 71 (83) operations in Sweden subject to permits and reporting requirements under the Environment Act and 2 (2) operations in Norway subject to permits under Norwegian law. Pulp mills, sawmills, Mönsterås harbour and peat bogs are operations requiring permits. Operations with reporting requirements include mills for processing sawn timber, wood terminals, biofuel terminals and plant nurseries. Södra's impact on the environment is mainly through its discharges and emissions to water and air from pulp production.

A number of the wood terminals established after the storm Gudrun were depleted during the period. Some terminals remain, with a few likely to become permanent. At the end of the year there were 19 (31) terminals subject to reporting requirements.

Pulp mills have permits with final or provisional conditions mainly related to discharges to air and water. Provisional conditions apply during a limited trial period after which the mill's status is reported and final conditions determined.

Significant applications/documentation involving official procedures during the year were:

– In June, Mönsterås harbour received a license for its existing operations. The licence has been appealed to the environmental court.

– In October, the environmental court granted a licence for Södra Cell Värö to construct a land-based storage depot for saw logs.

– In October, environmental court proceedings were held regarding the licence appeal for operating conditions at Södra Cell Mörrum.

– In November, environmental court proceedings were held regarding the licence appeal relating to the expansion of Södra Cell Mörrum's operations at the Vekerum landfill.

At the closed impregnation operations in Hultsfred, Hjortsberga and Lidhult, where Södra has been an owner, Södra has been requested by the county councils to investigate environmental risks and required measures. Södra has been notified that it is to pay 90 per cent of the cost of these measures at Lidhult. A similar injunction has been notified for the Hjortsberga area, and has been appealed. A risk assessment has been made for Hultsfred and an action proposal submitted to the county council, which is preparing its report.

Financial risk management

Södra is exposed to financial risks through its operations. Financial risks refer to variations in profit and cash flow due to fluctuations in exchange rates, raw material prices, interest levels along with refinancing and credit risks. Södra's financial policy for management of financial risks is approved annually by the Board which stipulates objectives and governs the risk mandate and limits for financial operations. Transactions are handled centrally by the Treasury unit.

The overall objective is to provide cost-effective financing and liquidity administration while minimising the negative effects on consolidated income that arise from market risks. Södra continually monitors its financial risks and conformity to its financial policy. The financial risks pertaining to hedged risks, objectives, hedging policies and current exposure and hedging level, which primarily relate to internationally-active subsidiaries, are described in more detail in Note 22 Financial risk management.

Under the financial policy, up to 20 per cent of Södra's pulp production may be hedged using pulp price derivatives. Hedged risk pertains to cash flow risk, which is the risk that Södra receives a pulp price less than the price level required for satisfactory profitability. Hedging is also taken out on the fair value risk that arises when Södra offers to deliver pulp to buyers at a fixed price through its PulpServices Hedging value-added service. To ensure fixed prices contracted with customers will not be less than prevailing market prices at the time of delivery, the fixed price contract is swapped to variable prices. Cash flow hedging has been done for 2010 volumes representing 14 per cent (11) of forecast pulp production. There is no hedging for subsequent years. Fair value hedges for 2010 have been made for fixed-price agreements representing 9 per cent (2) of forecast pulp production. Three per cent (–) of 2011 production has been hedged.

Södra also has the opportunity to financially hedge oil, electricity and emission rights to minimise negative profit impact (cash flow risk) due to pricing variation over time. Oil exposure may be hedged by up to 75 per cent for the coming 6-month period. No oil has been hedged (75) for 2010. In terms of financial electricity trading, 100 per cent of forecast net consumption may be hedged. For 2010, 35 per cent (14) is hedged, while 35 per cent (–) has been hedged for 2011. Södra's surplus emission rights are sold in accordance with policy guidelines. For the coming 12-month period, up to 100 per cent of net surplus may be sold. No emission rights (–) have been sold for 2010.

Södra's transaction exposure is hedged in accordance with the financial policy. Up to 70 per cent of the forecast net inflow during the coming 12-month period may be hedged, and up to 50 per cent of the inflow for the subsequent 24-month period. At the end of the financial year, 42 per cent (37) and 15 per cent (–) were hedged for these periods. Under the policy, currency forward contracts, currency swaps and currency bonds may be used as hedging instruments. Translation exposure pertaining to net value in foreign subsidiaries is only currency hedged under special circumstances.

Liquidity and loan risks relate to the risk of liquidity being insufficient when needed, or refinancing being expensive or difficult. The financial policy states that the Group's cash and cash equivalents and its credit commitments are to represent at least eight per cent of forecast annual revenue. The average credit maturity on the Group's loan liabilities should also be in relation to the Group's equity ratio.

Credit risk is limited through the financial policy's requirement that most of Södra's cash and cash equivalents be invested in instruments with high liquidity, short duration and which have a Standard & Poor's credit rating of A-/K1 or higher.

For the Group's interest-bearing investments the financial policy indicates how the interest risk, which consists of the negative changes in market value that can arise from interest fluctuations in the yield curve, is to be limited through the allocation of investments over different fixed-rate periods. The makeup of the investment portfolio is described in Note 22 Financial risk management, along with its purpose and yield requirements in accordance with the financial policy.

For financial liability, the objective is to maintain fixed-interest terms within the 3–15 month interval as Södra deems that a relatively short fixed-interest period lowers Group financing costs in the long term.

Södra is exposed to share price risk through its holdings of shares, share index certificates, share index bonds and share funds. Exposure to share price risk totalled SEK 449 million (237) at the end of the year.

Accounting in accordance with IFRS

Södra has applied the EU-adopted International Financial Reporting Standards (IFRS) from 1 January 2009. The purpose of the transition is to increase comparability with other companies in the industry. For further description of these standards, see Note 1 Accounting policies.

In the consolidated financial statements for 2009, the 2008 comparison figures have been recalculated in accordance with IFRS. The effects of the recalculation of the consolidated statements of comprehensive income and financial position pertaining to the comparison year are reported in Note 49 Effects of transition to IFRS.

Human Resources

Human resources activities are based on the Human Resources policy, which promotes the active involvement of employees in the business and change processes. Competency and motivation are key factors as are job satisfaction and job security. Competency is defined as knowledge, motivation and ability. Leadership is to be permeated by clear and open communication, innovative thinking and will to change. Throughout the organisation, Södra aims to attract, develop and retain employees in an atmosphere of mutual respect and consideration.

Human Resources policies are translated to specific objectives and plans throughout the Group. The objectives are followed up by Group Senior Management and the Board. Prioritised areas include competency supply in the face of growing retirement numbers in the next years and increasing workplace mobility. The annual recruitment level is currently about 300 people. One measure is Södra's investment in university contacts through participation in exhibitions, employment market days and similar activities at selected universities and technical institutes. Other measures include the Group's regular trainee programme and productivity programme with regular recruitment of "navigators", which both contribute to the future supply of management and specialists. Eleven young graduates were recruited to the year's trainee programme, comprising seven women and four men.

The corporate introduction programme for new employees was held four times during the year. More than 800 employees have taken part in the 23 introduction days held since 2006. The introduction helps new employees get to know the business units in the Group and better appreciate the significance of individual employee contributions. Regular management development and training programmes and annual employee appraisals between managers and employees have been implemented as planned.

A prioritised area is the reduction of workplace injuries. Goal-oriented action plans to reduce elements of risk helped decrease workplace accidents during the year.

To make Södra a better employer, regular employee surveys are that give all employees the chance to evaluate working conditions. Results are reported back on a workplace and work team level and improvements made at the appropriate level. The 2009 survey showed an improved overall result for the Company as a whole compared to the 2007 survey. The next employee survey is in 2011.

A defined contribution pension solution that can ultimately be offered to all employees in Sweden has been introduced and received strong response from employees. This is one of the measures intended to improve the attractiveness of Södra as an employer.

A key objective for 2010 is to develop a human resources strategy and operations plan that is strongly rooted in the specific requirements of various parts of the company including competency supply, leadership and organisation issues. The result is to be monitored via key indicators and employee surveys.

Risks and uncertainty factors

The recovery in the international economy has great significance for the global market balance for market pulp and hence for pulp volume and price development. The economic situation also affects the national and international construction market and has great significance for Södra's sales of homes, sawn timber and interior products. The recovery is considered fragile and subject to backlash as it is coming off a low base and is largely based on massive governmental stimulation packages and a strong Asian economy. Private demand remains weak. Exit strategies, the timing and manner in which stimulation measures are retracted, will therefore be of major importance.

Several Södra operations are highly currency-dependent due to a major part of their sales being in currencies other than those where their costs are. The exchange rate development for the USD and EUR in particular has a major impact on consolidated income.

Södra's single biggest production costs are wood, wages and salaries, chemicals and energy. Even here, the economic situation is an uncertainty factor that affects price development of these input goods. The Group's productivity efforts and the efficiency improvements made in production and administration have the potential however to counteract price increases in input goods.

Note 22 Financial risk management presents what the effect on consolidated income and equity would have been for the year had average key variables deviated from actual levels.

Outlook for 2010

Following the deep global recession in 2009, economic growth is once again deemed positive. A slow and fragile recovery is anticipated due to its base in the exceptional fiscal measures that triggered recovery in the second half of 2009. There is also uncertainty related to the monetary and fiscal adjustments that will be required when these stimulation measures are withdrawn.

Demand for forest raw materials is expected to remain high in the first part of 2010 due to the high production rate and the depletion of terminal inventories of wood. Market balance will gradually improve on the pulp market as paper demand strengthens. The higher capacity utilisation for printing and writing paper in Europe will balance increased pulp supply. Improved market conditions are also anticipated for sawn timber, domestic homes and interior products. Södra anticipates a better result than in 2009.

Parent Company Södra Skogsägarna Economic Association

Income

Parent Company net revenue decreased by SEK 872 million to SEK 8,375 million (9,247). Operating income improved by SEK 132 million to SEK –89 million (–221). The lower net revenue was due primarily to the depletion of inventories of storm-felled wood during the year.

The improvement in operating profit was due to increased operating profit in Södra Skog and the sale of the wind power operation to Statkraft.

Finance income and expenses improved to SEK 292 million (–75). This was primarily due to increased dividends from subsidiaries, revaluation of investment assets due to financial market recovery during the year and profit contribution from the sale of subsidiaries.

Profit after finance income and expenses improved by SEK 499 million to SEK 203 million (–296).

Cash flow after investing activities improved by SEK 1,597 million to SEK 1,190 million (–407). This was primarily due to an inventory reduction of SEK 708 million following depletion of terminal inventories of storm-felled saw logs, Södra Skog's profit improvement and the sale of the wind power operation during the year.

Other

The operations in Södra Skogsenergi AB were transferred on 1 July 2009 to Parent Company Södra Skogsägarna Economic Association. The purpose was to achieve a more rational administration and control of the entire chain from forest to customer.

Repayments of capital contributed to members who left Södra during the financial year amount to SEK 33 million (39).

Annual General Meeting

The 2009 AGM was held in Växjö on 13 May. The meeting resolved to pay a dividend for the 2008 financial year of four per cent of capital contributed, five per cent of the value of wood deliveries, a bonus issue of ten per cent of available paid-up capital per 31 December 2008, as well as a dividend on subordinated debentures as contracted.

Members

The number of members at the end of the year was 51,365 (51,657). The associated membership area was 2.35 million hectares (2.33), an increase of 15,454 hectares.

Appropriation of profits

The Board's proposal to the AGM regarding the appropriation of profits is presented on page 59.

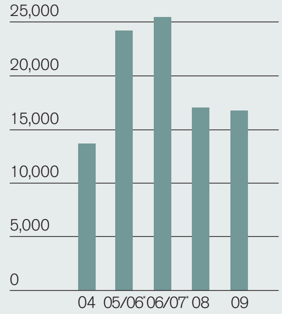
The proposal involves SEK 394 million being transferred to members through a profit dividend, consisting of a dividend on capital contributed of 3 per cent and on wood deliveries of 8 per cent. In addition, a bonus issue of SEK 81 million is proposed and of SEK 7 million on subordinated debentures per contract.

Consolidated statement of comprehensive income

SEK million	Note	2009	2008
Continuing operations			
Net revenue	2, 3	16,696	16,993
Other revenue	4	574	362
Change in inventories of finished products and products in process		–681	436
Capitalised work		44	10
Raw materials and consumables		–10,016	–11,226
Goods for resale		–181	–6
Freight and transportation		–990	–972
Employee expenses	6	–2,139	–2,102
Other expenses	5, 7, 9	–1,704	–1,549
Depreciation, amortisation and impairment of assets	8	–1,012	–1,135
Share of profit of associates	10	2	–2
Operating profit	2	**593**	**809**
Finance income		119	154
Finance expenses		–50	–267
Finance income and expenses	11	**69**	**–113**
Profit before income tax		**662**	**696**
Income tax	13	–199	–161
Profit for the year from continuing operations		**463**	**535**
Other comprehensive income			
Translation differences for the year on translation of foreign operations		148	–100
Revaluation of available-for-sale financial assets to fair value		9	7
Cash flow hedges		80	243
Actuarial gains and losses		17	–255
Tax attributable to other total profit		–32	–6
Other comprehensive income for the year	14	**222**	**–111**
Total comprehensive income for the year	14	**685**	**424**
Profit for the year attributable to:			
Parent Company		471	533
Minorities share of income for the year		–8	2
Income for the year		**463**	**535**
Total comprehensive income for the year attributable to:			
Owners of the parent		693	422
Minority interest		–8	2
Total comprehensive income for the year		**685**	**424**

Net revenue

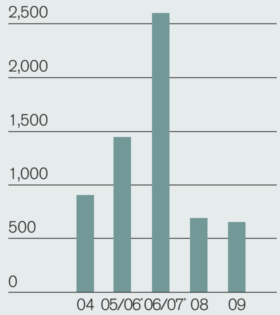
SEK million



*Pertains to 18 months.

Profit before income tax

SEK million



*Pertains to 18 months.

Comments on the consolidated statement of comprehensive income

Consolidated net revenue decreased by SEK 297 million to SEK 16,696 million (16,993). The decline was primarily attributable to Södra Skog, where the depletion of storm-felled wood inventories was completed. The acquisition of a number of companies during the year contributed to a revenue increase of nine per cent for Södra Timber and seven per cent for Södra Interiör. Södra Cell's revenue declined marginally by one per cent.

Operating profit declined to SEK 593 million (809). Operating income includes income effects from currency derivatives and fixed-price contracts totalling SEK 415 million (–261) and from sale of electricity certificates of SEK 935 million (648).

Depreciation, amortisation and impairment of assets includes reversal of previous impairment losses at Södra Timber Mönsterås of SEK 80 million. Figures from the previous financial year include impairment of asset values at the Folla pulp mill of SEK 43 million.

Södra Cell's marked decline in income is primarily attributable to the weak pulp market in the first half-year which led to widespread market-related production shutdowns at the mill's Norwegian pulp mills. The pulp market recovered during the second half-year and Södra Cell's income improved accordingly.

Finance income and expenses was SEK 69 million (–113). This improvement was primarily due to the revaluation of investments as a result of the recovery in the financial markets during the year. Profit before tax declined by SEK 34 million to SEK 662 million (696).

Return on capital employed was 6 per cent (8).

Consolidated statement of financial position

31 December, SEK million	Note	2009	2008	2007
ASSETS	15, 44, 45			
Non-current assets				
Intangible assets				
Goodwill		375	101	96
Other intangible assets		48	17	2
Total intangible assets	16	423	118	98
Property, plant and equipment				
Buildings and land	17	1,550	1,384	1,519
Machinery and equipment	18	5,553	5,088	5,026
Construction in progress	19	231	536	392
Total property, plant and equipment		7,334	7,008	6,937
Biological assets	20	472	452	357
Shares and participations in associates	10	62	53	63
Financial investments	21	55	55	1
Surplus in funded pension plans	35	0	0	3
Other non-current receivables	21, 25	107	39	78
Deferred tax assets	26	149	139	238
Total non-current assets		**8,602**	**7,864**	**7,775**
Current assets				
Inventories	27	2,239	3,531	3,620
Tax assets		24	24	19
Operating receivables	29	3,229	3,190	3,053
Current investments	21	1,559	948	1,358
Cash and cash equivalents	30	1,223	854	1,207
Total current assets		**8,274**	**8,547**	**9,257**
TOTAL ASSETS		**16,876**	**16,411**	**17,032**

31 December, SEK million	Note	2009	2008	2007
EQUITY AND LIABILITIES				
Equity				
Contributed capital		2,211	2,113	1,805
Paid-up capital		1,225	1,209	1,143
Reserves		415	205	119
Retained earnings including profit for the year		5,950	5,814	6,743
Equity attributable to owners of the parent		9,801	9,341	9,810
Minority interest		5	5	3
Total equity	31	**9,806**	**9,346**	**9,813**
Liabilities	15, 44, 45			
Non-current liabilities				
Non-current interest-bearing liabilities	22, 34	577	391	554
Provisions for pensions	35	323	355	180
Non-current provisions	36	133	133	127
Non-current operating liabilities	37	12	110	363
Deferred income tax liabilities	26	1,253	1,172	1,347
Total non-current liabilities		2,298	2,161	2,571
Current liabilities				
Current interest-bearing liabilities	34	1,934	2,048	1,870
Income tax liabilities		69	66	210
Current operating liabilities	38	2,769	2,790	2,568
Total current liabilities		4,772	4,904	4,648
Total liabilities		**7,070**	**7,065**	**7,219**
TOTAL EQUITY AND LIABILITIES		**16,876**	**16,411**	**17,032**

For information about pledged assets and contingent liabilities, see Notes 40 and 41.

Comments on the consolidated statement of financial position
Investments and company acquisitions totalling SEK 1,387 million contributed to an increase in the balance sheet total of SEK 465 million to SEK 16,876 million (16,411). Stabilisation in the pulp market combined with depletion of terminal inventories of storm-felled wood reduced tied-up inventory capital substantially and contributed to a cash flow after investments of SEK 1,438 million. This brought about an increase in cash and cash equivalents and current investments of SEK 980 million to SEK 2,782 million, despite high investment and acquisition levels.

Equity totalled SEK 9,806 million (9,346). Paid-up capital contributed and bonus issues represented SEK 2,211 million (2,113) of equity. Forthcoming repayments of contributed capital to members that have resigned during the financial year total SEK 33 million (39).

Interest-bearing liabilities increased by SEK 72 million to SEK 2,511 million (2,439). Acquired companies had interest-bearing liabilities at the time of acquisition totalling SEK 325 million. At the end of the year, SEK 92 million of these had been repaid. In addition to these interest-bearing liabilities, the Group's external borrowings consist primarily of loans from members allocated in membership accounts SEK 1,627 million, payment plans SEK 467 million, forest loans SEK 39 million and liquidity accounts SEK 14 million. Outstanding subordinated debentures of SEK 131 million have, as a consequence of the transition to IFRS reporting, been reclassified from equity to interest-bearing liabilities.

Södra has a credit agreement with a bank syndicate that enables it to borrow up to USD 200 million. The credit was not utilised at the end of the financial year.

The equity ratio was 58 per cent (57) and the debt-equity ratio was 0.3 times (0.3).

Consolidated statement of changes in equity

Equity attributable to owners of the parent

Group, 2009	Contributed capital	Other paid-up capital	Translation reserve	Fair value reserve	Hedging reserve	Retained earnings including profit for the year	Total	Minority interest	Total equity
Opening balance 1 January 2009	2,113	1,209	139	3	63	5,814	9,341	5	9,346
Total comprehensive income for the year	—	—	148	6	56	483	693	–8	685
Capital contributed, paid-up by members	61	—	—	—	—	—	61	—	61
Capital contributed, paid-out to members	–39	—	—	—	—	—	–39	—	–39
Appropriation of profits	—	16	—	—	—	–16	—	—	—
Dividend to members	—	—	—	—	—	–255	–255	—	–255
Bonus issue	76	—	—	—	—	–76	—	—	—
Other	—	—	—	—	—	—	—	8	8
Closing balance 31 December 2009	**2,211**	**1,225**	**287**	**9**	**119**	**5,950**	**9,801**	**5**	**9,806**
Group, 2008									
Opening balance 1 January 2008	1,805	1,143	239	–4	–116	6,743	9,810	3	9,813
Total comprehensive income for the year	—	—	–100	7	179	336	422	2	424
Capital contributed, paid-up by members	66	—	—	—	—	—	66	—	66
Capital contributed, paid-out to members	–40	—	—	—	—	—	–40	—	–40
Appropriation of profits	—	66	—	—	—	–66	—	—	—
Dividend to members	—	—	—	—	—	–999	–999	—	–999
Bonus issue	282	—	—	—	—	–282	—	—	—
Changed tax rates	—	—	—	—	—	82	82	—	82
Closing balance 31 December 2008	**2,113**	**1,209**	**139**	**3**	**63**	**5,814**	**9,341**	**5**	**9,346**

For additional information, see Note 31 Equity.

Consolidated statement of cash flows

SEK million	Note	2009	2008
Operating activities			
Profit before income tax		662	696
Depreciation and amortisation		1,089	1,097
Unrealised exchange rate differences		–131	–138
Profit from sale of non-current assets		–179	–12
Impairment of non-current assets		–77	36
Impairment of current assets		–63	92
Change in provisions		–36	–72
Other items not affecting cash flow		–67	183
Income tax paid		–136	–315
Net cash flow from operating activities before change in working capital		**1,062**	**1,567**
Change in			
Inventories (increase –)		1,542	65
Operating receivables (increase –)		295	–227
Operating liabilities (increase +)		–327	463
Cash flow from operating activities		**2,572**	**1,868**
Investing activities			
Acquisition of subsidiaries	15	–60	–8
Sale of subsidiaries		217	12
Purchases of other non-current financial assets		–5	–63
Investments in property, plant and equipment		–1,324	–1,517
Sale of other non-current assets		38	26
Cash flow from investing activities		**–1,134**	**–1,550**
Cash flow after investing activities		**1,438**	**318**
Financing activities			
Capital contributed, paid-up		61	66
Capital contributed, paid out		–39	–40
Change in subordinated debentures		0	–116
Dividends paid		–258	–999
Change in loans from members		–160	131
Repayment of loans		–92	—
Change in current investments with maturity > 90 days		–611	311
Cash flow from financing activities		**–1,099**	**–647**
CASH FLOW FOR THE YEAR	42	**339**	**–329**
Cash and cash equivalents at beginning of year		854	1,207
Exchange gains/losses on cash and cash equivalents		30	–24
Cash and cash equivalents at end of year	30	1,223	854

Parent Company income statement

SEK million	Note	2009	2008
Continuing operations			
Net revenue	2, 3	8,375	9,247
Change in inventories of finished products and products in process		31	5
Other revenue	4	258	157
Goods for resale		–7,901	–8,872
Other external expenses	5, 9	–403	–273
Employee expenses	6	–418	–458
Depreciation, amortisation and impairment of assets	8	–30	–26
Other operating expenses	7	–1	–1
Operating profit	3	**–89**	**–221**
Profit from shares in Group companies		245	3
Interest income and similar profit items		102	167
Interest expenses and similar items		–55	–245
Finance income and expenses	11	292	–75
Profit after financial items		**203**	**–296**
Appropriations	12	13	–44
Profit before income tax		**216**	**–340**
Income tax	13	102	162
Income for the year		**318**	**–178**

Parent Company balance sheet

31 December, SEK million	Note	2009	2008
ASSETS	44		
Non-current assets			
Intangible assets			
Other intangible assets		8	10
Total intangible assets	16	8	10
Property, plant and equipment			
Buildings and land	17	212	199
Machinery and equipment	18	70	79
Construction in progress	19	35	26
Total property, plant and equipment		317	304
Financial assets			
Shares in Group companies	39	2,192	2,281
Non-current receivables with Group companies	24	—	17
Shares and participations in associates	10	1	1
Surplus in funded pension plans	35	21	14
Other non-current investments	23	52	51
Other non-current receivables	25	8	9
Deferred tax assets	26	47	36
Total financial assets		2,321	2,409
Total non-current assets		**2,646**	**2,723**
Current assets			
Inventories	27	306	1,014
Current receivables			
Interest-bearing receivables with Group companies	28	1,815	1,795
Operating receivables	29	1,206	1,348
Total current receivables		3,021	3,143
Current financial investments		2,055	1,391
Cash and cash equivalents		344	116
Total current assets		**5,726**	**5,664**
TOTAL ASSETS		**8,372**	**8,387**

31 december, SEK million	Note	2009	2008
EQITY AND LIABILITIES			
Equity			
Restricted equity			
Contributed capital		2,211	2,113
Subordinated debentures		131	131
Statutory reserve		1,224	1,209
Total restricted equity		3,566	3,453
Non-restricted equity			
Retained earnings and losses		405	681
Income for the year		318	–178
Total non-restricted equity		723	503
Total equity	31	**4,289**	**3,956**
Untaxed reserves	32	**216**	**229**
Provisions			
Provisions for pensions	35	47	57
Non-current provisions	36	60	44
Total provisions		**107**	**101**
Non-current liabilities			
Non-current interest-bearing liabilities with Group companies	33	12	61
Non-current interest-bearing liabilities	34	213	260
Total non-current liabilities		**225**	**321**
Current liabilities			
Current interest-bearing liabilities with Group companies	33	98	431
Current interest-bearing liabilities	34	1,934	2,048
Current income tax liabilities		19	50
Current operating liabilities	38	1,484	1,251
Total current liabilities		**3,535**	**3,780**
TOTAL EQUITY AND LIABILITIES		**8,372**	**8,387**
Pledged assets	40	157	101
Contingent liabilities	41	506	471

Parent Company statement of changes in equity

SEK million	Restricted equity			Non-restricted equity		
	Contributed capital	Subordinated debentures	Statutory reserve	Profit carried forward	Profit for the year	Total equity
Opening balance 1 January 2009	2,113	131	1,209	681	–178	3,956
Transfer of profit for the period	—	—	—	–178	178	—
Income for the year	—	—	—	—	318	318
Intra-Group transfers	—	—	—	347	—	347
Tax effect on intra-Group transfers	—	—	—	–91	—	–91
Tax attributable to items charged to equity	2,113	131	1,209	759	318	4,530
Capital contributed, paid-up by members	61	—	—	—	—	61
Capital contributed, paid-out to members	–39	—	—	—	—	–39
Paid-out subordinated debentures	—	0	—	—	—	0
Appropriation of profits	—	—	16	–16	—	—
Dividend to members	—	—	—	–255	—	–255
Dividend on subordinated debentures	—	—	—	–7	—	–7
Bonus issue	76	—	—	–76	—	—
Closing balance 31 December 2009	**2,211**	**131**	**1,224**	**405**	**318**	**4,289**
Opening balance 1 January 2008	1,805	247	1,143	1,184	380	4,759
Transfer of profit for the period	—	—	—	380	–380	—
Income for the year	—	—	—	—	–178	–178
Intra-Group transfers	—	—	—	688	—	688
Tax effect on intra-Group transfers	—	—	—	–193	—	–193
Tax attributable to items charged to equity	1,805	247	1,143	2,059	–178	5,076
Capital contributed, paid-up by members	66	—	—	—	—	66
Capital contributed, paid-out to members	–40	—	—	—	—	–40
Paid-out subordinated debentures	—	–116	—	—	—	–116
Appropriation of profits	—	—	66	–66	—	—
Dividend to members	—	—	—	–999	—	–999
Dividend on subordinated debentures	—	—	—	–31	—	–31
Bonus issue	282	—	—	–282	—	—
Closing balance 31 December 2008	**2,113**	**131**	**1,209**	**681**	**–178**	**3,956**

For additional information, see Note 31 Equity.

Parent Company statement of cash flows

SEK million	Note	2009	2008
Operating activities			
Profit after financial items		203	–296
Depreciation and amortisation according to plan		30	26
Profit from sale of non-current assets		–196	–1
Impairment of non-current assets		87	—
Impairment of current investments		–63	92
Anticipated dividends from subsidiaries		—	300
Change in provisions		6	38
Other items not affecting cash flow		–39	–24
Income tax paid		–31	–29
Net cash flow from operating activities before change in working capital		**–3**	**106**
Change in			
Inventories (increase –)		708	480
Operating receivables (increase –)		122	–495
Operating liabilities (increase +)		233	–302
Cash flow from operating activities		**1,060**	**–211**
Investing activities			
Purchases of shares in subsidiaries		–14	–54
Sale of shares in subsidiaries		229	—
Purchases of other financial assets		–1	–72
Sale of other financial assets		18	—
Investments in property, plant and equipment		–102	–77
Sale of other non-current assets		—	7
Cash flow from investing activities		**130**	**–196**
Cash flow after investing activities		**1,190**	**–407**
Financing activities			
Capital contributed, paid-up		61	66
Capital contributed, paid out		–39	–40
Change in subordinated debentures		0	–116
Dividends paid		–262	–1,030
Change in loans from members		–160	131
Repayment of loans		–383	—
Intra-Group transfers received		485	762
Intra-Group transfers paid		—	–76
Change in current investments with maturity > 90 days		–531	331
Cash flow from financing activities		**–829**	**28**
CASH FLOW FOR THE YEAR	42	**361**	**–379**
Cash and cash equivalents at beginning of year		654	1,033
Cash and cash equivalents at end of year	30	1,015	654

Notes

1 Accounting policies

The following accounting policies have, with the following exceptions, been applied consistently to all periods presented in the consolidated financial statements. The Group's accounting policies have also been consistently applied by Group companies and associates.

Conformity with standards and legislation
The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and interpretations from the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the EU. The following recommendation of the Swedish Financial Accounting Standards Council has also been applied: RFR 1.2 Additional accounting regulations for groups.

The Parent Company applies the same accounting policies as the Group except as specified in the following section Parent Company's accounting policies.

The annual report and consolidated financial statements were approved for publication by the Board and President on 26 February 2010. The consolidated statement of comprehensive income and the consolidated statement of financial position along with the Parent Company income statement and balance sheet are to be adopted by the AGM on 19 May 2010.

Valuation basis applied on adoption of the financial statements
Assets and liabilities are recognised at cost, except for certain financial assets and liabilities and biological assets that are valued at fair value. Financial assets and liabilities valued at fair value consist of derivative instruments, financial assets classified as financial assets at fair value through profit or loss or as available-for-sale financial assets.

Functional currency and reporting currency
Individual Group companies prepare their financial statements in the currency that is used in the financial environment where they are primarily operative, known as the functional value. These statements form the basis of the consolidated financial statements. The consolidated financial statements are prepared in SEK which is the Parent Company's functional currency and reporting currency. All amounts are in SEK million, if not otherwise indicated.

Estimates and assumption in the financial statements
Preparing the financial statements in conformity with IFRS requires management to make estimates and assumptions and make presumptions that affect the application of accounting policies and the carrying amounts for assets, liabilities, revenue and expenses. The actual outcome may diverge from these estimates and assumptions.

Estimates and assumptions are regularly reviewed. Changes in the estimates are recognised in the period they are made if it is the only period affected by the change, or in the period the changes are made and in future periods if they also affect future periods.

Estimates made by management on application of IFRS that have a substantial effect on the financial statements and assumptions made that may involve material adjustments in the following year's financial statements are described in detail in Note 43 Critical accounting estimates and judgements.

Changed accounting principles
Södra has adopted IFRS in the consolidated financial statements from 1 January 2009. The transition to accounting in conformity with IFRS has been reported for the Group in conformity with IFRS 1 and is described in Note 49 Effects of transition to IFRS. The comparative figures for 2008 have been recalculated in accordance with IFRS.

New IFRS and interpretations not yet applied
A number of new or changed standards and new interpretations take effect in the coming financial year and have not been applied in advance in the preparation of these financial statements. Premature adoption of new or changed standards that take effect after the 2009 financial year is not planned. The following changes are considered applicable to the Södra Group:

Revised IFRS 3 Business combinations
The standard has been revised with a comprehensive revision of cost method application with associated changes in IAS 27 Consolidated financial statements and separate financial statements, IAS 28 Associates and IAS 31 Joint Ventures. Södra plans to apply the revised standard from 1 January 2010.

IAS 27 Consolidated financial statements and separate financial statements
The change that applies to financial years starting not earlier than 1 July 2009 requires that the effects of all transactions with minority owners be recognised in equity if there is no change in controlling influence and these transactions no longer give rise to goodwill or profits and losses. Södra plans to apply this change from 1 January 2010, but the change is not expected to have any impact on the consolidated financial statements.

In addition to the standards previously adopted and explained above, there are a number of new standards, supplements to standards and interpretations that have not taken effect prior to the 2009 financial year and were not applied in the preparation of the consolidated financial statements. None of these affect the consolidated financial statements with the exception of items entitled to hedge reporting – Supplement to IAS 39 Financial instruments: Recognition and measurement, that clarifies the policies for whether specific risks or portions of cash flows may be recognised in hedging transactions. The supplement, which will be compulsory in the 2010 consolidated financial statements, is not expected to have any material effect on the consolidated financial statements.

Classification
Non-current assets and non-current liabilities consist substantially of amounts that are expected to be recovered or paid more than twelve months after balance sheet date. Current assets and current liabilities consist mainly of amounts that are expected to be recovered or paid within twelve months of balance sheet date.

Segment reporting
An operating segment is a part of the Group that operates an entity in which it can generate revenue and incur costs and for which independent financial information is available. The profit of an operating segment is monitored by the chief operating decision-maker in order to assess performance and allocate resources to the operating segment. See Note 2 Segment reporting for grouping and presentation of operating segments. The Group's primary operation is divided into the following segments:

Södra Skog supplies the Group's mills with wood raw materials, trades in wood raw materials and biofuel, and provides forestry services to members. The Parent Company's primary operation is provided by Södra Skog.

Södra Timber manufactures sawn and planed timber products, primarily for construction and other building applications, at sawmills in southern Sweden. Following the acquisition of Trivselhus during the year the operating segment also includes prefabricated homes.

Södra Interiör manufactures a broad range of interior wood products, including mouldings, panels, flooring and interior fittings, at plants in Sweden, Norway and Denmark.

Södra Cell is one of the world's largest producers of market pulp. The pulp is primarily sold to European paper mills for the production of fine paper, printing paper, tissue and speciality paper.

Corporate functions include the group's financial operations and other corporate functions such as management, staffs and service units.

Segment allocation

Segment profit, assets and liabilities include directly attributable items. Interest-bearing receivables and liabilities, pension provisions, cash and cash equivalents and taxes are not included. The segment's investments in property, plant and equipment and intangible assets include all investments.

Business combinations

Subsidiaries

Subsidiaries are entities over which the Parent Company Södra Skogsägarna ekonomisk förening has determining influence. Determining influence implies the direct or indirect power to govern the financial and operating policies in order to achieve economic benefit. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The purchase method of accounting is used in preparing the consolidated financial statements. This method means the acquired company or group's incomes and expenses, identifiable assets acquired and liabilities incurred or assumed as well as accrued goodwill are included in the consolidated financial statements from acquisition date. The cost of acquisition of shares in a subsidiary or entity is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at acquisition date, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement as negative goodwill.

The financial statements of subsidiaries are included in the consolidated financial statements until such date as governing control ceases.

Associates

Shareholdings in associates in which the Group has a minimum of 20 per cent and maximum of 50 per cent of the votes or in some other way has a determining influence and ownership is part of a lasting relationship, are reported using the equity method. This method means that the carrying amount in the Group for shares in associates is equivalent to the Group's share of equity in the associates plus corporate goodwill and any residual value for Group surplus and undervalues. The Group's share of profit from associates attributable to owners of parent is recognised in the consolidated statement of comprehensive income as share in profit of associates, with adjustment for any depreciation or amortisation, impairment and discharged surplus or undervalues from the acquisition. Such share in profits less dividends received from associates represents the main change in the carrying amount of the shares in associates.

Any difference arising from the acquisition between cost of shares and the owner's share of net fair value of the associate's identifiable assets, liabilities and contingent liabilities is recognised using the same principles as for acquisition of subsidiaries.

When the Group's share of recognised losses in the associate exceeds the carrying amount of the shares in the Group, the value of the shares is reduced to zero. Losses are also settled on non-current, unsecured financial dealings, the financial substance of which is part of the owner's net investment in the associate. Ongoing losses are only recognised if the Group has provided guarantees to cover losses arising in the associate. The equity method of accounting is applied until such time as significant influence ceases.

Transactions that are eliminated on consolidation

Intra-Group receivables and liabilities, revenue or expenses and unrealised gains or losses arising from transactions between Group companies are eliminated in their entirety in the consolidated financial statements. Unrealised profits arising from transactions with associates are eliminated to the extent they represent the Group's ownership in the company. Unrealised losses are eliminated in the same way as unrealised profits provided impairment loss is not required.

Foreign currencies

Transactions in foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Functional currency is the currency of the primary economic environment in which the entity operates. Monetary assets and liabilities in foreign currency are translated into the function currency using the exchange rate prevailing on balance sheet date. Exchange rate differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are recognised at historic cost are translated to the exchange rate at the time of the transaction. Non-monetary assets and liabilities that are recognised at fair value are translated to the functional currency at the rate prevailing at the time of fair value valuation.

Financial statements for foreign entities

Assets and liabilities of foreign entities, including goodwill and other consolidated surplus and undervalues, are translated from the functional currency of the foreign entity to the Group's reporting currency, SEK, using the exchange rate on balance date. Income and expenses in a foreign entity are translated to SEK at an average rate that represents an approximation of exchange rates at the individual transaction times. Translation differences that arise on currency translation of foreign entities are recognised in other total profit and accumulated in a separate component of equity named translation reserve. When a foreign entity is disposed of, the accumulated exchange differences that were recorded in equity are recognised in profit for the year as a reclassification adjustment when the gain or loss on sale is recognised.

Revenue

Net revenue

Revenue from the sale of goods is recognised in the income statement when the material risks and benefits associated with ownership of the goods have been transferred to the buyer. Revenue from service assignments are recognised in the income statement when the services are performed. Revenue is not recognised if it is probable that the economic benefits will not flow to the Group. Revenue is not recognised where there is material insecurity regarding payment, associated costs or risk of return, or where the seller remains involved in the administration that is normally associated with ownership. Revenue is recognised at the fair value of the amount that is received or is expected to be received.

Net revenue includes invoiced sales pertaining to primary activities. The majority of Group revenue is generated from the sale of manufactured goods. Net revenue also includes revenue for sold and delivered electricity certificates and emission rights, exchange rate gains on hedged operating receivables, payments for delivery costs and sales commissions, plus value changes on derivatives pertaining to hedging of products delivered during the period.

Revenue is recognised exclusive of value-added tax, trade discounts provided and similar revenue reductions.

Other operating income

Other operating income consists primarily of rental and leasing income, insurance compensation and capital gains on property, plant and equipment. Other operating income includes exchange rate gains pertaining to operating receivables and liabilities arising from translation to balance date rate, profit on unhedged derivatives and capitalised work on own account. Recognition is also made of other revenue and profits arising from outside the company's primary operations.

Raw materials, consumables used and goods for resale

Wood raw material is classified as goods for resale in the Parent Company, while wood that goes to Södra mills is reclassified as raw materials on a consolidated level.

Leasing

Leasing is classified in the consolidated financial statements as financial or operational leasing. Under financial leasing the financial risks and benefits associated with ownership are substantially transferred to the leaseholder; otherwise it is a case of operational leasing. Assets rented under financial leasing agreements are recognised as assets in the consolidated statement of financial position. Commitments to pay future leasing fees are recognised as non-current and current liabilities. Minimum leasing fees are allocated between interest expenses and amortisation of outstanding liability. The interest expense is allocated over the leasing period so that each accounting period is charged with an amount equivalent to a fixed interest rate for the liability recognised in the specific period. Variable fees are expensed in the periods they arise. Under operational leasing, the leasing fee is allocated over the term of the lease on a linear basis. Benefits received in conjunction with signing of a contract are recognised as a reduction of the leasing charges. Variable fees are expensed in the periods they arise.

Finance income and expenses

Finance income and expenses consist of interest income and expenses, dividend income and revaluation of financial instruments at fair value as well as realised and unrealised exchange rate gains and losses attributable to financial operations.

Interest income on receivables and interest expenses on liabilities are calculated using the effective interest method. Dividend income is recognised when the dividend has been determined and the right to receive payment is considered certain. Issue expenses and opening fees for loans are apportioned over the duration of the loan.

Taxes

The Group's total tax consists of current tax and deferred tax. Income taxes are charged to the income statement except when the underlying transaction is recognised in other total profit or in equity in which case the associated tax effect is recognised in other total profit or equity.

Current tax is tax that is to be paid or received pertaining to the current year, with application of the tax rates that are enacted or substantively enacted at the balance sheet date. Adjustments of current tax relating to previous periods are also recognised here. The applicable regulations for economic associations have been applied in the calculation of current tax. These mean that dividend proposal for the 2009 financial year (which will be paid out in 2010) is tax deductable in the current year and has been treated as a deduction in the calculation of current tax for the 2009 financial year.

Deferred tax is calculated using the liability method, based on the temporary difference between the carrying amount and the fiscal value of assets and liabilities. Recognition is not made of temporary differences arising on initial recognition of goodwill or on initial recognition of non-operational assets and liabilities that at the time of the transaction do not affect either accounting or taxable profit or loss. In addition, recognition is not made of temporary differences pertaining to shares in subsidiaries and associates that are not expected to be reversed in the foreseeable future. Valuation of deferred tax is based on how the underlying assets or liabilities are expected to be capitalised or settled. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted at balance sheet date.

Deferred tax assets related to deductible temporary differences and deficit deductions are recognised only to the extent they can be utilised. The value of deferred tax assets is reduced when it is no longer considered likely it can be utilised. Deferred tax liabilities and assets in the same country are recognised on a net basis.

Financial instruments

Financial instruments are valued and recognised in the Group in accordance with IAS 39.

A financial asset or financial liability is taken up in the consolidated statement of financial position when the company becomes party to the contractual terms of the instrument. Trade receivables are taken up in the consolidated statement of financial position when invoiced. Liabilities are taken up when the counterparty has performed and contractual duty requires payment, even if the invoice has not yet been received. Trade creditors are taken up when the invoice is received.

A financial asset is removed from the consolidated statement of financial position when the rights in the contract are realised, fall due or the company loses control of them. The same applies for parts of a financial asset. A financial liability is removed from the consolidated statement of financial position when the obligation in the contract is fulfilled or otherwise extinguished. The same applies for parts of a financial liability.

A financial asset and a financial liability are offset and the net amount recognised in the consolidated statement of financial position only when there is a legal right to set off the amount, combined with an intention to adjust the items with a net amount or to concurrently realise the asset and settle the liability.

For transactions involving securities and interest-bearing receivables and liabilities, settlement day reporting is used.

The fair value presented is based on official market quotations at balance sheet date as well as the generally accepted methods for quoted financial instruments. Translation to SEK has been made at the exchange rate quoted at balance sheet date.

Classification and valuation

Financial instruments that are not derivatives are initially recognised at cost representing the fair value of the instrument, with transaction costs added for all financial instruments except those defined as financial assets at fair value in the income statement, which are recognised at fair value excluding transaction costs. Classification of financial instruments depends on the purpose for which they were acquired. Classification determines how the financial instruments are valued after initial recognition as described below.

Available-for-sale financial assets

Available-for-sale financial assets includes all interest-bearing investments and equity instruments other than shares, share index bonds and share index certificates. Assets in this category are regularly valued at fair value with changes in value recognised in other total profit. Impairment, interest on receivables instruments and dividend revenue are recognised in profit for the year. The translation differences on monetary securities are recognised in profit for the year, while translation differences on non-monetary securities are recognised in other total profit. When assets are sold or disposed, the accumulated profit or loss recognised in equity is included in the consolidated statement of comprehensive income.

Financial assets at fair value through profit/loss

This category consists of two subgroups: available-for-sale financial assets and other financial assets that the company has initially chosen to place in this category (based on the fair value option). The latter subgroup includes shares, share index bonds and share index certificates as well as derivatives with positive fair value for which hedging is not applied. Management reviews the fair value of shares, share index bonds and share index certificates on a regular basis through information in the monthly financial report. Assets in this category are regularly valued at fair value with changes in value recognised in profit for the year. Interest on receivables instruments, dividend revenue and exchange rate effects are recognised in profit for the year. Accumulated profit or loss is recognised in profit for the year on sale or disposal of the assets.

Loan receivables and trade receivables

Loan receivables and trade receivables are financial assets that are not derivatives, that have determined or determinable payments and that are not quoted on an active market. These assets are valued at amortised cost. Amortised cost is based on the effective interest calculated at the date of purchase. Trade receivables are recognised at the amount that is expected to be received after deduction of doubtful debts.

Provision for decrease in value of trade receivables is made when there is objective evidence that the company will not receive full payment under the original terms of the overdue receivable. Unpaid or significantly delayed payments and/or significant financial difficulties at the debtor are considered indicators of an impairment requirement. A provision is made by reducing the carrying amount of the asset through a provision for depreciation while the anticipated loss is recognised in other external costs in the consolidated statement of comprehensive income. The size of the provision consists of the difference between the carrying amount of the asset and the present value of the estimated future cash flow discounted by the original effective interest. When the bad debt loss is determined it is removed using a counter-entry on the provision for impairment of trade receivables. Any recovery of the previously impaired amount is credited to other external costs in the consolidated statement of comprehensive income.

Financial liabilities at fair value through profit/loss

Recognition is made here of the Group's derivatives with negative fair value not subject to hedging reporting. Changes in fair value are recognised in the consolidated statement of comprehensive income.

Other financial liabilities

This includes subordinated debentures, loans from members and credit institutes and other financial liabilities such as trade creditors. The liabilities are valued at amortised cost.

Derivatives and hedging

The Group's derivative instruments have been acquired as an economic hedge against risks for interest, price and currency exposure that the Group is exposed to. Derivatives are initially recognised at fair value with transaction costs charged to profit for the period. After initial recognition, derivative instruments are valued at fair value and changes in value are recognised as described below. An embedded derivative is disclosed if it is not closely related to the value contract.

Hedging accounting requirements require an unambiguous connection to the hedged item. It is also necessary that the hedge effectively protects the hedged item, that hedging documentation is prepared and that its effectiveness is measurable. Profits and losses pertaining to hedging are recognised in profit at the same point in time as profits and losses for the hedged items are recognised. The interest component in forward contracts is not allocated over the duration of the forward contract but is fully recognised in revenue at the same time as the forward contract.

Fair value hedges

When a hedge instrument is used to hedge a fair value, the derivative is recognised at fair value in the statement of financial position, and the hedged asset is also recognised at the fair value of the hedged risk. The gain or loss on the derivative is recognised in profit for the year along with the gain or loss on the hedged item. Customer contracts, known as Long Term Fixed Price (LTFP), are recognised here along with the associated derivatives.

Cash flow hedges

Derivatives used to hedge exposure of variations in cash flow, attributable to a specific risk, are recognised in the hedge reserve in equity via other total profit. When the hedged flow is recognised in profit for the year, the accumulated gain or loss is transferred from the hedging reserve to the income statement where it meets and matches the profit effects of the hedged transaction.

Currency derivatives are taken out in order to eliminate the exchange risks associated with selling, purchasing and investments in foreign currency. Currency derivatives with a maturity longer than 60 days represent hedge reporting when they meet the criteria for effectiveness and the hedge can be supported by documentation from the entities in the form of budgets or forecasts. Currency derivatives with a maturity of less than 60 days are assumed to be invoiced and hedge reporting is therefore not applied. A derivative that does not fulfil effectiveness criteria is also classified under non hedge accounting.

Pulp price derivatives are taken out in order to reduce profit fluctuations caused by pulp price variations including currency effects. Södra hedges the selling price of its produced pulp by swapping future revenue in USD to SEK at a fixed price. This process also provides a currency hedge for the sales price. The fair value of outstanding derivatives is based on current market conditions at balance sheet date.

Electricity price derivatives are taken out in order to reduce profit fluctuations caused by variations in electricity prices. Electricity price derivatives can be used for both procurement and sale of electricity. The fair value of outstanding electricity price derivatives is based on current market conditions at balance sheet date.

Oil price derivatives are taken out to reduce profit fluctuations caused by variations in the prices of crude oil and oil products. The fair value of outstanding oil price derivatives is based on current market conditions at balance sheet date.

Timber price derivatives are taken out to reduce profit fluctuations caused by variations in the price of sawn timber products. The fair value of outstanding timber price derivatives is based on current market conditions at balance sheet date.

Non hedge accounting

When a hedge is ineffective or hedge accounting is not used, the derivative is recognised at fair value with the change in value recognised in the consolidated statement of comprehensive income. With hedge accounting, the ineffective part is recognised in the same manner as the profit or loss on derivatives that are not used for hedge accounting.

Receivables and liabilities in foreign currency

Forward contracts are used to hedge receivables or liabilities against exchange rate risk. Hedge accounting is not applied to protect against foreign exchange risk, as a financial hedge is reflected in the accounts by the underlying receivable or liability and hedging instrument being carried at the closing rate and the changes in exchange rates are recognised in the consolidated statement of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and similar institutions, and other short-term liquid investments with original maturities of three months or less which are exposed to only an immaterial risk of value fluctuations.

Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets, assumed liabilities and contingent liabilities. Goodwill is carried at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and impairment tested not less than annually. Goodwill on acquisitions of associates is included in the carrying amount for investments in associates.

Research costs are expensed as they incur. Direct development costs are only capitalised in conjunction with major projects if they are deemed to create an identifiable asset that is controlled by the Group and expected to generate future economic benefits. Other costs associated with development are recognised as expenses in the consolidated statement of comprehensive income as incurred.

Major investments in IT systems are recognised as intangible assets. Intangible assets are recognised at cost less accumulated amortisation and impairment. With the exception of goodwill, intangible assets are amortised individually over their estimated useful lives. These periods are tested each year.

Property, plant and equipment

Property, plant and equipment is stated on a consolidated basis at cost after deduction of accumulated depreciation and amortisation, and potential impairment. The cost includes purchase price and costs directly attributable to bringing the asset into place and in the condition required by the purchase. The accounting policies for impairment are described below.

The cost of property, plant and equipment manufactured in-house includes expenses for material, for remuneration of employees, if applicable other manufacturing costs considered directly attributable to the property, plant or equipment, and estimated expenses for dismantling and removal of assets and restoration of the site or area where they are located.

Property, plant and equipment consisting of parts with different useful lives are treated as separate components of property, plant and equipment.

The carrying amount for property, plant and equipment is removed from the consolidated statement of comprehensive income on disposal or sale or when no future economic benefits are expected from the use or disposal/sale of the asset. Profit or loss that arises on the disposal or sale of an asset represents the difference between the selling price and the carrying amount of the asset less direct selling costs. Profit and loss are recognised as operating income/expenses.

Additional expenses

Additional expenses are added to the cost only if it is probable that the future economic benefits associated with the asset will benefit the company and the cost can be reliably estimated. All other additional expenses are expensed in the period they are incurred.

An additional expense is added to the cost if the expense relates to the exchange of identified components or parts thereof. Even in situations where new components are created the expense is added to the cost. Any undepreciated carrying amount on exchanged components, or parts of components, are disposed and expensed in conjunction with the exchange. Repairs are expensed on an ongoing basis.

Depreciation policies

Depreciation is made on a linear basis over the estimated useful life of assets. The Group applies component depreciation, which means that depreciation is based on the estimated useful life of the component. Land is not subject to depreciation.

Estimated useful life

	Group No. of years	Parent Company No. of years
Other intangible assets	5	5
Pulp mills	17	–
Factory buildings	20–25	20–25
Administration buildings	20–50	25–50
Residences	25–50	25
Land improvements	20	20
Sawmills	10	–
Machinery	5–10	7–8
Equipment	5–10	5
Mobile transportation equipment	5–7	5
IT equipment (servers, printers, etc)	3	3

Equipment and other plant and machinery consist of components with various useful lives that are recognised and depreciated as separate components. Planned maintenance shutdowns at pulp mills are recognised and depreciated as separate components with an estimated useful period of 18 months, which represents the operating period between planned maintenance shutdowns. Factory buildings consist of two components grouped under buildings and land. There is no depreciation on the land component as the useful life is deemed indeterminable. The Group's head office consists of components with different useful lives as follows:

Structure	50 years
Structural additions, internal walls, etc	25 years
Fixtures and fittings: heating, electricity, sanitation, ventilation, etc	25 years
External surface: facades, roof, etc	25 years
Inner surface, mechnical equipment, etc	25 years

Depreciation methods, residual values and useful life periods are retested at the end of each year.

Biological assets

The Group's forest holdings are recognised under the headings land and growing forest. Growing forest is classified as a biological asset and valued at fair value while land is valued at cost.

On valuation of biological assets at fair value, the present value of expected future cash flows before tax is estimated based on current harvesting plans and estimates of forest growth, wood prices, harvesting costs and forest management costs. These future cash flows, after deduction of selling costs, are discounted using an estimated WACC (weighted average cost of capital) based on a harvesting cycle of 80 years. Future price and cost development has been estimated, replanting costs taken into account and provisions made for environmental conservation.

The profit or loss that arises when a biological asset is initially recognised at fair value, and when the fair value of a biological asset is changed, is recognised in consolidated profit for the period in which it arises.

Biological assets are recognised in the Parent Company in accordance with RFR 2.2. This means that biological assets classified as non-current assets are recognised at cost and adjusted for any impairment gains or losses required.

Inventories

Inventories are stated at the lower of cost and net realisable value. Obsolescence risk is thus taken into account. Cost is determined using the first-in, first-out (FIFO) method and comprises costs incurred in acquiring inventory assets and transporting them to their current location and condition. The cost of finished goods and work in progress includes a reasonable proportion of indirect costs based on normal operating capacity. Net realisable value is the estimated selling price in operating activities, less estimated costs for completion and to achieve sale.

Electricity certificates

On 1 May 2003 a system of electricity certificates was introduced in Sweden, whose purpose is to promote production and usage of renewable energy sources for electricity production. Plants involved in the system receive electricity certificates at no cost from the Swedish National Grid in proportion to the certificate-entitled electricity produced. Received electricity certificates are recognised at zero cost.

Emission rights

Södra participates in the European system for emission rights, which aims to reduce emissions of the greenhouse gas carbon dioxide. Affected plants are granted free emission rights from the Swedish EPA. Purchased emission rights are recognised as inventory under current assets at cost, with a deduction for cumulative impairment as appropriate.

Impairment

The Group's recognised assets are reviewed at each balance sheet date to determine whether there are any impairment indicators. IAS 36 is applied regarding impairment of assets other than financial assets which are reported in accordance with IAS 39, available-for-sale financial assets and disposal assets that are reported in accordance with IFRS 5, inventories, plan assets that are used to finance benefits to employees, biological assets and deferred tax assets. The carrying amounts of other assets are estimated according to the appropriate standards.

Impairment of property, plant and equipment and intangible assets plus shares in associates

The recoverable amounts of assets are calculated where impairment indicators are present. Impairment is recognised when the carrying amount of an asset exceeds the recoverable amount. Impairment losses are recognised as an expense in the consolidated statement of comprehensive income.

The recoverable amount is the greater of fair value less selling costs and value-in-use. When value-in-use is calculated, future cash flow is discounted using a discount factor that reflects the risk-free interest rate and risk associated with the specific asset.

Impairment of financial assets

At each balance sheet date assessment is made whether there is objective evidence that a financial asset or group of assets has an impairment requirement. Objective evidence includes observable events that have occurred and that negatively affect the potential to recover the cost, as well as a significant or extended decrease of the fair value of a financial investment classified as an available-for-sale financial asset.

The company classifies trade receivables as doubtful when, subsequent to non-payment or significantly delayed payment and individual assessment of the debtor's financial situation, an impairment need may arise. The impairment need on the receivables is based on historic experience of losses on similar trade receivables. Trade receivables with impairment indicators are recognised at present value of the expected future cash flow. Receivables with short maturity are not discounted. The presence of credit insurance or other form of security is considered when determining a potential impairment requirement.

Equity instruments classified as available-for-sale financial assets are deemed to have an impairment requirement and subsequently impaired if their fair value is substantially less than cost or they have been subject to a prolonged decrease in value. The company deems a decrease in value of more than 20 per cent to be substantial and a period of not less than nine months to be prolonged. On impairment, the carrying amount of the asset is reduced through a provision for depreciation while the anticipated loss is recognised in finance income and expenses in the consolidated statement of comprehensive income. Previously recognised accumulated profit or loss in equity is transferred to profit for the year in the event of impairment. The amount of an accumulated loss that is reclassified from equity to profit and loss represents the difference between cost and the current fair value less any impairment of the financial asset previously recognised in profit and loss for the year. Any increase in value subsequent to the impairment reduces the amount of the depreciation provision and is credited to finance income and expenses in the consolidated statement of comprehensive income.

Impairment of available-for-sale financial assets is recognised in finance income and expenses in the statement of comprehensive income.

Reversal of impairment

An impairment loss on assets covered by IAS 36 is reversed if there are indicators that an impairment requirement no longer exists and there has been a change in the assumptions that formed the basis for calculation of the recoverable amount. Impairment of goodwill is never reversed. A reversal is only made such that the asset's carrying amount after reversal does not exceed the amount that would otherwise have been recognised, less any depreciation, had it not been impaired.

Employee benefits

Pension obligations

Within the Group there are a number of defined contribution plans as well as defined benefit pension plans.

Defined contribution pension plans

Defined contribution pension plans are classified as a pension plan under which the company's obligation is limited to the contributions the company has committed to pay. Under such plans the size of an employee pension is based on the contributions the company pays to the plan or to its insurance company and the capital yield generated by the contributions. Subsequently, it is the employee who bears the actuarial risk (that the payment will be lower than expected) and the investment risk (that the investment assets will be inadequate to provide the expected benefits). The company's obligation to make payments to the defined contribution plans is recognised as an expense in the consolidated statement of comprehensive income at the rate they are earned through services provided by the employee over a period.

Defined benefit pension plans

The Group's net obligation in terms of defined benefit pension plans is calculated separately for each plan through an estimate of the future benefit that employees have earned through their employment in current and previous periods; this benefit is discounted to a present value. The discount rate is the interest on balance sheet date on a prime corporate bond with a duration equivalent to the Group's pension obligations. When there is no active market for such corporate bonds, market interest on government bonds with an equivalent duration is used. The calculation is made by a qualified actuary using the Projected Unit Credit Method. The fair value of any plan assets is also calculated at report date.

Actuarial gains and losses are recognised as revenue or cost in other total profit.

In the consolidated statement of financial position, the carrying amount for pensions and similar obligations represents the present value of the obligation at the end of the financial year, less the fair value of plan assets and unrecognised costs pertaining to past service.

When the calculation leads to an asset for the Group, the carrying amount of the asset is limited to the net of unrecognised costs for service in earlier periods and the present value of future repayments from the plan or reduced future payments to the plan. When benefits in a plan are improved, the share of the increase in benefit attributable to the employee's past service is recognised as an expense in the consolidated statement of comprehensive income and allocated on a linear basis over the average period until the benefit is fully earned. If the benefit is fully earned the total expense is recognised directly in consolidated statement of comprehensive income.

Where there is a difference in the determination of pension costs in legal entities and groups, a provision or receivable is recognised pertaining to the specific payroll tax based on this difference. The provision or receivable is not calculated at present value.

The net of the interest on pension liabilities and expected return on the associated plan assets is recognised in finance income and expenses. Other components are recognised in operating profit.

Termination benefits

An expense for benefits on termination of employees is only recognised if the company is demonstrably committed to a detailed formal plan, without realistic possibility of withdrawal, to terminating an employment before the normal date. When benefits are paid as a result of an offer to encourage voluntary redundancy, an expense is recognised if it is probable the offer will be accepted and the number of employees that will accept the offer can be estimated reliably.

Short-term employee benefits

Short-term employee benefits are calculated on an undiscounted basis and recognised as an expense when the related services are performed.

Provisions

A provision is recognised in the consolidated statement of financial position when a legal or constructive obligation arises as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Provisions are made based on the best estimate of the amount required to settle the current obligation on balance sheet date. When the time of payment is important, provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Parent Company

Accounting policies

The Parent Company has prepared its annual report in accordance with the Annual Accounts Act (1995:1554) and the recommendation of the Swedish Financial Accounting Standards Council RFR 2.2 Accounting for legal entities. RFR 2.2 specifies that the parent company in the annual report of the legal entity is to apply all IFRS and statements adopted by the EU to the extent possible within the framework of the Annual Accounts Act, the Pension Security Act and the guide to the relationship between accounting and taxation. The recommendation specifies the exceptions and additions to be made to IFRS.

Differences between accounting policies for the Group and Parent Company

Differences between accounting policies for the Group and Parent Company are presented below. The accounting policies described below for the Parent Company have been applied consistently to all periods presented in the financial statements of the Parent Company.

Classification and layouts

The income statement and balance sheet for the Parent Company are presented in the Annual Accounts Act layouts. The difference in IAS 1 Presentation of financial statements as applied in the design of consolidated financial statements is primarily disclosure of finance income and expenses, non-current assets, equity and the presence of provisions as a specific heading in the balance sheet.

Subsidiaries, associates and joint ventures

Shares in subsidiaries, associates and joint ventures are recognised in the Parent Company at cost after deduction of any accumulated impairment.

Where impairment indicators exist, the recoverable amounts of subsidiaries are calculated. Impairment is recognised when the carrying amount of a subsidiary exceeds the recoverable amount. Impairment loss is recognised as an expense in the income statement.

The recoverable amount is the greater of fair value less selling costs and value-in-use. When value-in-use is calculated, future cash flow is discounted using a discount factor that reflects the risk-free interest rate and risk associated with the specific subsidiary.

Revenue

Sale of goods and performance of service assignments

Service assignments are recognised in Parent Company profit on completion of the service according to the Annual Accounts Act, Chapter 2, Section 4. Prior to this, third-party work in progress pertaining to service assignments is recognised at the lower of cost and net realisable value on balance sheet date.

Financial instruments and hedge accounting

As a result of changed rules in the recommendation of the Swedish Financial Accounting Standards Council RFR 2 and the guide to the relationship between accounting and taxation, the rules for financial instruments and hedge accounting in IAS 39 are not applied to the Parent Company as a legal entity.

In the Parent Company, financial assets are valued at cost less any impairment loss and current financial assets according to the principle of lowest value. The cost of interest-bearing instruments is adjusted for the capitalised difference between the original purchase price, less transaction costs, and the amount due on maturity (premium and discount).

Interest swaps that effectively hedge cash flow risk on interest payments on liabilities, are valued at the net of the accrued receivable on variable interest and the accrued liability pertaining to fixed interest and the difference recognised respectively as interest expense and interest income. Hedging is effective if the economic content of the hedge and liability is the same as if the liability had been taken up at a fixed market interest rate when the hedging relationship commenced. Any premium paid for the swap contract is allocated as interest over the duration of the contract.

Anticipated dividends

Anticipated dividends from subsidiaries are recognised when the Parent Company alone is entitled to determine the size of the dividend and the Parent Company has done so before publishing its financial statements.

Segment reporting

The Parent Company does not recognise segments based on the same allocation and scope as the Group, but discloses net revenue and allocation of other revenue based on the revenue types and geographic markets of the Parent Company.

Property, plant and equipment

Property, plant and equipment in the Parent Company is recognised at cost after deduction of accumulated depreciation and any impairment loss in the same manner as for the Group but with the addition of impairment gains as appropriate.

Leased assets

All leasing agreements are recognised in the Parent Company according to the regulations for operational leasing.

Loan costs

Loan costs in the Parent Company are charged to income for the period to which they are attributable.

Intangible assets

Research and development

All research and development costs for the Parent Company are recognised as expenses in the income statement.

Biological assets

Biological assets are valued according to the Annual Accounts Act. This means that biological assets classified as non-current assets are recognised at cost and impaired as necessary.

Subordinated debentures

In the Parent Company, subordinated debentures are recognised as equity according to the Act on Economic Associations. Subordinated debentures do not meet IFRS criteria for equity and are therefore recognised as a liability in the consolidated financial statements.

Employee benefits

Defined benefit plans

The Parent Company uses another basis for calculating defined benefit plans than that specified in IAS 19. The Parent Company follows the regulations of the Pension Security Act and the Financial Supervisory Authority as required for tax deductibility. The key differences compared to the rules in IAS 19 relate to how discount interest is determined, that calculation of the obligations of the defined benefit plan are based on current salary level without regard to future salary increases, and that all actuarial profits and losses are recognised in the income statement when they arise.

Taxes

Unlike the Group, the Parent Company recognises untaxed reserves in the balance sheet without division into equity and deferred tax liability. Similarly, there is no allocation in the Parent Company income statement for appropriations to be partially transferred to deferred tax expense.

Intra-Group transfers and shareholder contributions for legal entities

Intra-Group transfers and shareholder contributions are recognised in the Parent Company in accordance with the statement from the Swedish Financial Accounting Standards Council (UFR 2). Shareholder contributions are stated directly against the equity of the company receiving the contribution and capitalised in shares and interest in the company making it, provided no impairment is required. Intra-Group transfers are recognised on the basis of their financial implication. This means that intra-Group transfers granted and received with the intention of minimising the Group's total tax are recognised directly against retained earnings after deduction of current tax effects.

Intra-Group transfers comparable to a dividend are recognised as dividends. This means that intra-Group transfers received and their current tax effect are recognised in the consolidated income statement. Intra-Group transfers provided are reported directly with their current tax effect against retained profit.

Intra-Group transfers comparable to shareholder contributions are reported by the receiver directly with their current tax effect against retained profit. The provider recognises the intra-Group transfer and its current tax effect as an investment in shares in group entities, to the extent impairment is not required.

2 Segment reporting

Group	Södra Skog		Södra Timber		Södra Interiör		Södra Cell	
	2009	2008	2009	2008	2009	2008	2009	2008
Net revenue								
from external customers	3,405	3,841	2,830	2,627	931	865	9,529	9,660
from other segments	5,318	5,710	612	543	4	5	72	52
	8,723	**9,551**	**3,442**	**3,170**	**935**	**870**	**9,601**	**9,712**
Depreciation, amortisation and impairment of assets	–30	–27	–54	–170	–29	–28	–879	–893
Share of profit of associates	—	—	2	–2	—	—	—	—
Operating profit	29	–30	119	–24	0	46	406	902
Finance income and expenses								
Profit before income tax								
Assets	2,174	3,150	2,956	2,213	795	584	8,240	8,316
Operating capital*	994	1,888	2,523	1,907	405	357	7,114	7,436
Return on operating capital*	2	neg	5	neg	neg	13	6	12
Cash flow	900	542	–39	–223	–17	29	621	536
Investments	67	143	196	264	65	32	1,024	886

Group	Intra-Group		Eliminations		Total consolidated	
	2009	2008	2009	2008	2009	2008
Net revenue						
from external customers	1	—	—	—	16,696	16,993
from other segments	0	0	–6,006	–6,310	0	0
	1	**0**	**–6,006**	**–6,310**	**16,696**	**16,993**
Depreciation, amortisation and impairment	–20	–17	—	—	–1,012	–1,135
Share of profit of associates	—	—	—	—	2	–2
Operating profit	29	–101	10	16	593	809
Finance income and expenses					69	–113
Profit before income tax					**662**	**696**
Assets	6,582	6,285	–3,871	–4,137	16,876	16,411
Operating capital*	–30	157	–1,293	–1,266	9,797	10,279
Return on operating capital*	—	—	—	—	6	8
Cash flow	–27	–566	—	—	1,438	318
Investments	35	87	—	—	1,387	1,412

*Operating capital = property, plant and equipment and intangible assets, biological assets, inventories and other operating assets, less operating liabilities.
Capital employed is used in the consolidated total. Capital employed = operating capital less net tax liability.

Segment allocation

Segment profit, assets and liabilities include directly attributable items. Segment assets consist of property, plant and equipment and intangible assets, biological assets, other non-current receivables, inventories and current receivables. Liabilities in the segment comprise non interest-bearing operating liabilities.

Investments comprise property, plant and equipment and intangible assets as well as biological assets. Assets deemed to be constantly held and used in the operation during the coming 12-month period or longer are recognised as non-current assets. Capitalised costs for planned maintenance shutdowns are also recognised as non-current assets.

Assets are primarily divided between the geographic markets Sweden SEK 7,250 million (6,537), Norway SEK 826 million (727), Estonia SEK 239 million (240), Latvia SEK 117 million (93) and Denmark SEK 27 million (6).

Parent Company	Södra Skog		Intra-Group		Eliminations		Total consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008
Net revenue								
from external customers	2,942	3,175	–20	—	—	—	2,922	3,175
from other segments	5,453	6,072	—	—	—	—	5,453	6,072
	8,395	**9,247**	**–20**	**—**	**—**	**—**	**8,375**	**9,247**
Depreciation, amortisation and impairment of assets	–21	–19	–9	–7	—	—	–30	–26
Operating profit	16	–94	–105	–127	—	—	–89	–221
Finance income and expenses							292	–75
Profit before income tax							**203**	**–296**
Assets	1,878	1,926	6,502	6,845	–8	–384	8,372	8,387

Operating result, return on operating capital and cash flow per segment is monitored by the chief operating decision-maker.

3 Net revenue

Consolidated net revenue per geographic market	2009	Share, %	2008	Share, %
Sweden	6,739	40	6,884	41
Germany	1,925	12	2,222	13
Great Britain	1,186	7	1,264	7
Norway	1,216	7	1,139	7
Italy	856	5	810	5
Austria	470	3	611	4
France	615	4	526	3
Netherlands	320	2	390	2
Poland	347	2	301	2
Switzerland	231	1	274	1
Denmark	285	2	246	1
Other Europe	1,153	7	1,140	7
Asia	1,006	6	832	5
Africa	196	1	112	1
Other world	64	0	81	0
Unallocated	87	1	161	1
Total	**16,696**	**100**	**16,993**	**100**

Geographic segments

Net revenue per geographic market is shown as revenue grouped by customer location. Assets and investments for the period in property, plant and equipment and intangible assets are grouped geographically by where the assets are located.

Parent Company's net revenue per geographic market	2009	2008
Sweden	7,993	8,468
Norway	377	761
Finland	1	16
Germany	—	0
Other Europe	4	2
Total	**8,375**	**9,247**

Specification of revenue by income type	Group		Parent Company	
	2009	2008	2009	2008
Sale of goods	14,120	15,506	7,127	8,255
Services	1,025	993	1,024	992
Electricity certificates	929	648	—	—
Emission rights	2	4	—	—
Exchange rate effect	328	–118	—	—
Unallocated	292	–40	224	—
Total	**16,696**	**16,993**	**8,375**	**9,247**

Changes in the value of pulp price derivatives pertaining to pulp deliveries are included in sale of goods to the value of SEK 25 million (–273).

4 Other revenue

Other revenue by income type	Group		Parent Company	
	2009	2008	2009	2008
Sale of goods	59	—	59	—
Services	—	1	166	114
Rental income	21	18	5	5
Exchange rate effect	133	268	1	1
Revaluation of derivatives	63	—	—	—
Capital gains	185	8	—	1
Inventory grant/tax benefit	—	22	—	22
Government grants	6	1	1	—
Insurance compensation	34	5	1	1
Other	73	39	25	13
Total	**574**	**362**	**258**	**157**

Inventory grant/tax reduction includes government support for the Group of SEK – million (22) and for the Parent Company of SEK – million (22). Other government grants of SEK 6 million (1) are included in the consolidated total and mainly relate to training and market grants of SEK 4 million.

5 Operational leasing

Leasing agreements where Södra is lessee Non-terminable lease payments are:	Group		Parent Company	
	2009	2008	2009	2008
Within 1 year	68	72	5	4
Between 1 year and 5 years	103	131	8	7
More than 5 years	1	0	—	—
Total	**172**	**203**	**13**	**11**

Of future leasing payments, SEK 150 million (182) pertains to time-charter vessels. These have options to extend the contract by one year at a time with six months' notice.

Expensed charges includes rent for wood terminals. In 2009 most wood terminals have been closed and the rental/leasing agreements terminated.

Expensed charges for operational leasing agreements are:	Group		Parent Company	
	2009	2008	2009	2008
Minimum leasing agreements	130	142	22	24
Total	**130**	**142**	**22**	**24**

6 Employee expenses

Salaries and benefits	2009 Board and President	2009 Other employees	2008 Board and President	2008 Other employees
Parent Company	8	274	8	269
Subsidiaries	26	1,202	24	1,203
Total	**34**	**1,476**	**32**	**1,472**

Salaries and benefits	2009 Salaries and benefits	2009 Social security costs	2008 Salaries and benefits	2008 Social security costs
Parent Company	282	110	277	176
(of which pension expenses)[1]		(28)		(86)
Subsidiaries	1,228	441	1,227	480
(of which pension costs)		(64)		(162)
Total	**1,510**	**551**	**1,504**	**656**
(of which pension costs)[2]		**(92)**		**(248)**

1) Of the Parent Company's pension expenses, SEK 6 million (5) pertains to current and previous board members and presidents. Outstanding pension obligations to these amount to SEK 23 million (16).

2) Of the Group's pension expenses (under the Swedish Annual Accounts Act), SEK 10 million (9) pertains to current and former board members and CEOs. Outstanding pension obligations to these amount to SEK 38 million (29).

Benefits to senior management

Senior management

Senior management refers to top-level management and other senior management. Södra's top-level management includes the Chairman, Vice Chairman and the President and CEO. Senior management includes 13 salaried employees who, with the CEO, make up the Group Senior Management.

Preparation and decision process for setting benefits for senior management

The Fees and Benefits Committee appointed by the Board includes at least three board members, but not the CEO. The Committee should, in addition to preparing matters such as policies for benefits and other employment terms for Group management, regularly approve expense summaries for the Board, the Chairman and Vice Chairman, and the CEO's personally-related expenses.

Remuneration and benefits to the Board and senior management

As resolved at the AGM, board members have received remuneration and benefits in 2009 to the value of SEK 3,777 thousand (3,750). This consists of SEK 2,050 thousand (2,050) in fixed board fees, SEK 1,559 thousand (1,563) in daily fees, and SEK 168 thousand (137) in other remuneration and benefits.

Additional fees of SEK 750 thousand (829) have been paid to board members who also sit on the boards of Södra subsidiaries.

To the Chairman, Lars-Eric Åström, a total of SEK 1,289 thousand (1,239) has been paid in remuneration and benefits. To the Vice Chairman, Christer Segerstéen, a total of SEK 645 thousand (617) has been paid in remuneration and benefits. These benefits form the basis for pension payments.

To the CEO, Leif Brodén, remuneration and benefits (housing and vehicle) have been paid totalling SEK 4,243 thousand (4,099) of which SEK 150 thousand (113) was paid in productivity bonus on the same terms as other employees with a maximum of one month's salary.

Pensions are paid under the ITP plan (ITP1). In addition to the premium under the ITP plan, the Company has paid endowment insurance for Brodén of SEK 3,100 thousand (3,100). Yield on the endowment insurance falls to Brodén as additional pension. An employment contract applies with a mutual notice period of 6 months. Should the company terminate the contract, a 24-month redundancy payment is made in addition to salary during the termination period.

Senior management included 13 salaried employees at balance sheet date who, with the CEO, make up the Group Senior Management. This group has been paid remuneration, benefits and redundancy payments totalling SEK 20 million (19) including SEK 1 million (1) in productivity bonus on the same terms as other employees with a maximum of one month's salary. Pension is paid out under one of the ITP plans (ITP1 and ITP2). This group has individual employment contracts with termination periods of 3 to 6 months, and a redundancy payment equivalent to 12 to 18 months. For some senior management the company has also, in accordance with individual contracts, paid premiums for endowment insurance totalling SEK 2 million (2).

Average number of employees	2009 Number	2009 of which men, %	2008 Number	2008 of which men, %
Parent Company				
Sweden	742	77	799	76
Subsidiaries				
Sweden	2,500	84	2,536	84
Norway	522	84	476	84
Denmark	30	89	18	83
Estonia	12	75	12	75
Latvia	7	71	7	86
Germany	4	25	6	67
France	4	25	3	33
Great Britain	5	40	3	67
Italy	3	33	3	33
Switzerland	4	25	3	33
Uruguay	—	—	1	100
Total	**3,833**	**83**	**3,867**	**82**

Men/women in management, %	2009 Men	2009 Women	2008 Men	2008 Women
Group				
Boards	82	18	89	11
Management groups	79	21	74	26
Parent Company				
Board	86	14	86	14
Management group	64	36	69	31

Absence due to illness, %	Group 2009	Group 2008	Parent Company 2009	Parent Company 2008
Total absence due to illness as a percentage of normal working hours	3.8	3.8	2.0	2.2
Share of total absence due to illness involving a continuous absence of 60 days or more	45.1	49.2	46.4	55.5
Absence due to illness for men/women				
men	3.7	3.7	1.8	2.2
women	4.7	4.1	2.4	2.1
Absence due to illness by age				
29 or younger	3.7	3.3	0.8	0.6
30–49 years	2.8	3.0	1.5	1.4
50 or older	5.3	5.0	3.1	3.7

7 Other expenses

Group	2009	2008
Vehicle costs	161	168
Repairs, maintenance and other operating costs	676	573
Other services and subcontracted personnel	167	257
Travel expenses and cost of sales	185	168
Company insurances and other risk costs	76	51
Cost of premises and property	99	95
Rent of property, plant and equipment	42	38
Administration expenses	43	40
Revaluation of derivatives	—	91
Exchange rate effect	218	65
Other expenses	37	3
Total	**1,704**	**1,549**

Other operating expenses Parent Company	2009	2008
Capital loss	0	0
Exchange rate effect	1	1
Total	**1**	**1**

8 Depreciation, amortisation and impairment of assets

	2009			2008		
Group	Depre-ciation and amorti-sation	Impair-ment	Total	Depre-ciation and amorti-sation	Impair-ment	Total
Goodwill	—	3	3	—	—	—
Other intangible assets	4	—	4	—	1	1
Buildings	88	–54	34	80	8	88
Land improvements	19	—	19	18	—	18
Machinery	866	–26	840	898	28	926
Equipment	112	—	112	101	1	102
Total	**1,089**	**–77**	**1,012**	**1,097**	**38**	**1,135**

Impairment of goodwill pertains to the acquisition in 2009 of Aktiebolaget Nordingrå Trä. Impairment for 2009 includes reversal of impairment for buildings of SEK 54 million and for equipment of SEK 26 million.

	2009			2008		
Parent Company	Depre-ciation and amorti-sation	Impair-ment	Total	Depre-ciation and amorti-sation	Impair-ment	Total
Other intangible assets	2	—	2	—	—	—
Buildings	2	—	2	2	—	2
Equipment	26	—	26	24	—	24
Total	**30**	**—**	**30**	**26**	**—**	**26**

9 Payment to auditors

	Group		Parent Company	
	2009	2008	2009	2008
KPMG auditors				
auditing assignments	7	5	2	2
other assignments	3	1	3	1
Other				
auditing assignments	1	1	—	—
other assignments	0	0	—	—

10 Shares in associates

	Group		Parent Company	
	2009	2008	2009	2008
At the beginning of the year	53	63	1	1
Acquisition of associates	8	—	—	—
Share of profit of associates	2	–2	—	—
Translation difference	–1	–8	—	—
Carrying amount at the end of the year	**62**	**53**	**1**	**1**

The following information pertains entirely to associations.

Specification of associates 2009	Country	Revenue	Profit	Assets	Liabilities	Equity	Ownership share in %
Parent Company							
Wood and Logistics AS	Norway	1,241	–5	143	141	2	24
Subsidiaries							
Torsås Fjärrvärmenät AB	Sweden	7	0	25	16	9	24
Södra Timber A/S*	Denmark	37	0	15	10	5	50
Crown Timber Group (plc)	Great Britain	615	11	231	103	128	21

*Revenue and profit pertain to the period Södra owned shared in the associate.

Specification of associates 2008	Country	Revenue	Profit	Assets	Liabilities	Equity	Ownership share in %
Parent Company							
Wood and Logistics AS	Norway	1,661	3	160	154	6	24
Subsidiaries							
Torsås Fjärrvärmenät AB	Sweden	7	0	25	16	9	24
Crown Timber Group (plc)	Great Britain	775	–13	187	57	130	21

11 Income from financial instruments

Finance income and expenses Group	2009	2008
Finance income		
Net profit		
Assets and liabilities at fair value via profit/loss	83	—
Profit from sale of shares in Group companies	—	3
Interest income	33	95
Dividends	3	7
Net exchange rate fluctuations	—	38
Interest income on defined benefit pension obligations	—	6
Other finance income	—	5
	119	**154**
Finance expenses		
Net loss		
Assets and liabilities at fair value via profit/loss	—	–154
Interest expenses on defined benefit pension obligations	–5	—
Other interest expenses	–36	–110
Net exhange rate fluctuations	–7	—
Other finance expenses	–2	–3
	–50	**–267**
Total	**69**	**–113**

Of which:		
Interest income from instruments valued at amortised cost	19	37
Interest expenses from instruments valued at amortised cost	–35	–110

Profit from financial instruments recognised in operating income Group	2009	2008
Exchange rate effect in trade receivables	–72	196
Net profit from currency derivatives	369	—
Net loss from currency derivatives	—	–118
Net profit from pulp price derivatives	46	—
Net loss from pulp price derivatives	—	–143
	343	**–65**

Value changes for hedging instruments that pertain to fair value hedging have had a profit impact of SEK –32 million (60) for derivatives and SEK 32 million (–60) for hedged items.

Finance income and expenses Parent Company	2009	2008
Profit from shares in Group companies		
Dividends on shares in Group companies	151	3
Profit from sale of shares in Group companies	181	—
Impairment of shares in Group companies	–87	—
	245	**3**
Interest income and similar profit items		
Dividends on shares in other companies	3	7
Interest income from Group companies	15	45
Interest income from other	21	83
Foreign exchange rate gain	—	28
Other	63	4
	102	**167**
Interest expenses and similar profit items		
Interest expenses from Group companies	–5	–29
Interest expenses from other	–33	–102
Foreign exchange rate loss	–9	—
Loss on sale of current investments	–6	–22
Other	–2	–92
	–55	**–245**
Total	**292**	**–75**

12 Appropriations

Parent Company	2009	2008
Change in tax allocation reserve		
– provisions for the year	—	–56
– releases for the year	10	9
Change in accelerated depreciation		
– buildings and land	1	—
– machinery and equipment	2	3
Total	**13**	**–44**

13 Taxes

Recognised tax expense	Group 2009	Group 2008	Parent Company 2009	Parent Company 2008
Tax expense for the period	–141	–163	91	140
Adjustment of tax pertaining to previous years	–4	—	—	—
Current tax expense	**–145**	**–163**	**91**	**140**
Deferred tax expense pertaining to temporary differences	–54	2	11	22
Deferred tax expense	**–54**	**2**	**11**	**22**
Total	**–199**	**–161**	**102**	**162**

Reconsiliation of effective tax	Group 2009	Group Tax rate, %	Group 2008	Group Tax rate, %	Parent Company 2009	Parent Company 2008
Profit before income tax	662	—	696	—	216	–340
Tax based on current tax rate for Parent Company	–174	26.3	–195	28	–57	95
Effect of other tax rates for economic associations*	82	–12	70	–10	82	70
Effect of other tax rates for foreign subsidiaries	—	—	–2	0	—	—
Non-deductible expenses	–44	7	–75	11	–17	–9
Non-taxable income	88	–13	30	–4	88	1
Increase in deficit deductions without equivalent capitalisation of deferred tax	–147	22	—	—	—	—
Utilisation of previous non-capitalised deficit deductions	–4	1	—	—	—	—
Effect of changed tax rates and taxation rules	—	—	3	0	—	—
Standard interest on tax allocation reserve	–7	1	—	—	–1	—
Issue capital, paid-out	7	–1	8	–1	7	8
Other	—	—	—	—	—	–3
Effective tax reported	**–199**	**30**	**–161**	**23**	**102**	**162**

* In accordance with the taxation rules for economic associations, dividends paid in the second year (pertaining to the previous year) are tax deductible in the first year. This means that the Board's propsed dividend to be paid in 2010 has been treated as deductible on calculation of current tax for 2009.

Income tax pertaining to other comprehensive income is recognised in Note 14 Other comprehensive income.

14 Other comprehensive income

Group 2009	Translation reserve	Fair value reserve	Hedging reserve	Retained earnings	Minority interest
At the beginning of the year	139	3	63	–588	5
Translation differences for the year	154	—	—	—	—
Translation differences transferred to profit for the year	–6	—	—	—	—
Change for the year in fair value of available-for-sale financial assets	—	9	—	—	—
Change for the year in fair value of cash flow hedges	—	—	205	—	—
Change in fair value of cash flow hedges transferred to profit for the year	—	—	–125	—	—
Actuarial gains and losses		—	—	17	—
Tax pertaining to components in other comprehensive income	—	–3	–24	–5	—
Profit for the year pertaining to minority interests	—	—	—	—	–8
Carrying amount at the end of the period	**287**	**9**	**119**	**–576**	**–3**

Group 2008	Translation reserve	Fair value reserve	Hedging reserve	Retained earnings	Minority interest
At the beginning of the year	239	–4	–116	–391	3
Translation differences for the year	–107	—	—	—	—
Translation differences transferred to profit for the year	7	—	—	—	—
Change for the year in fair value of available-for-sale financial assets	—	1	—	—	—
Change in fair value of available-for-sale financial assets transferred to profit for the year on sale	—	6	—	—	—
Change for the year in fair value of cash flow hedges	—	—	112	—	—
Change in fair value of cash flow hedges transferred to profit for the year	—	—	131	—	—
Actuarial gains and losses	—	—	—	–255	—
Share of change for the year in reserves in associates	–1	—	—	—	—
Tax pertaining to components in other comprehensive income	—	0	–64	58	—
Profit for the year pertaining to minority interests	1	—	—	—	2
Carrying amount at the end of the period	**139**	**3**	**63**	**588**	**5**

Cash flow hedging – transferred to profit for the year	2009	2008
Net revenue	136	–134
Other expenses	–11	3
	125	**–131**

Translation reserve

The translation reserve includes all foreign exchange gains and losses that arise in translating financial statements from foreign operations that have prepared their financial statements in a currency other than that used in the consolidated financial statements. The Parent Company and the Group present their financial statements in SEK.

Fair value reserve

The fair value reserve includes the accumulated net change in fair value of available-for-sale financial assets until the asset is removed from the statement of financial position.

Hedging reserve

The hedging reserve includes the effective share of the accumulated net change in fair value of a cash flow hedge instrument attributable to hedging transactions that have not yet occurred.

15 Business combinations

During the year nine companies were acquired, of which five companies and four net assets acquisitions, to a value of SEK 164 million. The following table specifies acquisitions for the year and presents the annual revenue of the entity and the number of employees at the time of acquisition.

Business area	Company	Acquisition date	Annual revenue	Number of employees
Södra Timber	Ittur Prefab Industrier AB	1 Oct. 2009	460	198
Södra Timber	Tomtbolaget THV Aktiebolag	1 Oct. 2009	20	0
Södra Timber	Pressure impregnation plant, Åstorp	1 June 2009	20	11
Södra Interiör	Werner Träförädling AB	26 Jan. 2009	30	26
Södra Interiör	BJU i Rottne Aktiebolag	1 June 2009	45	24
Södra Interiör	Aktiebolaget Nordingrå Trä	1 June 2009	5	5
Södra Interiör	Vikan Trelast	1 July 2009	50	13
Södra Interiör	VIMA/B.E. Profiler	1 Oct. 2009	210	116
Total			**840**	**393**

During the year, 100 per cent ownership of all acquisitions was retained. The total purchase price for the acquisitions was SEK 164 million. Transaction costs for the year's acquisitions total SEK 1 million. The entities acquired had a total effect on consolidated net revenue of SEK 230 million. Total annual revenue in the acquired entities is approximately SEK 840 million. The effect for the year on consolidated operating profit from the acquired entities was SEK –36 million. Had all business combinations occurred at the beginning of the period the effect on operating profit for the year would have been SEK –81 million.

The acquired companies and operations have operations that are within the frame of the existing Group business areas in which they were combined after the acquisition.

The following tables show the fair value of acquired net assets, recognised goodwill and the total effect of the acquisitions on consolidated cash flow statements.

Ittur Prefab Industrier AB	Carrying amount in acquired company	Fair value adjust-ment	Fair value recognised in Group
Goodwill	250	–250	—
Intangible assets	—	34	34
Property, plant and equipment	15	—	15
Financial assets	20	—	20
Inventories	111	–5	106
Current receivables	102	—	102
Cash and cash equivalents	1	—	1
Interest-bearing liabilities	–316	—	–316
Non interest-bearing liabilities	–156	–8	–164
Identifiable net assets	27	–229	–202
Goodwill			250
Purchase price paid			48
Cash and cash equivalents in acquired entities			–1
Net effect on cash and cash equivalents			**47**

The acquisition of Ittur Prefab Industrier AB includes acquired goodwill of SEK 250 million. The acquisition balance reported above is preliminary pending review and allocation of acquired goodwill values. Surplus values in conjunction with the acquisition have preliminarily been attributed to the Trivselhus brand.

Pressure impregnation plant, Åstorp	Carrying amount in acquired company	Fair value adjust-ment	Fair value recognised in Group
Property, plant and equipment	26	—	26
Inventories	1	—	1
Non interest-bearing liabilities	–1	—	–1
Identifiable net assets	26	—	26
Goodwill			11
Purchase price paid			37
Cash and cash equivalents in acquired entities			—
Net effect on cash and cash equivalents			**37**

The surplus value of SEK 11 million from the acquisition of the pressure impregnation plant in Åstorp has been attributed to synergy gains with Södra Timber's existing operations, hence classification of surplus values as goodwill.

VIMA/B.E. Profiler	Carrying amount in acquired company	Fair value adjust-ment	Fair value recognised in Group
Property, plant and equipment	1	4	5
Inventories	41	—	41
Non interest-bearing liabilities	–2	–4	–6
Identifiable net assets	40	—	40
Goodwill			—
Purchase price paid			40
Cash and cash equivalents in acquired entities			—
Net effect on cash and cash equivalents			**40**

Vikan Trelast	Carrying amount in acquired company	Fair value adjust-ment	Fair value recognised in Group
Property, plant and equipment	1	—	1
Inventories	14	—	14
Identifiable net assets	15	—	15
Goodwill			11
Purchase price paid			26
Cash and cash equivalents in acquired entities			—
Net effect on cash and cash equivalents			**26**

Surplus value of SEK 11 million pertains to synergy gains with Södra Interiör's existing business and has been classified as goodwill.

Other aqcuisitions	Carrying amount in acquired company	Fair value adjust-ment	Fair value recognised in Group
Property, plant and equipment	14	5	19
Inventories	80	1	81
Current receivables	19	—	19
Cash and cash equivalents	1	—	1
Interest-bearing liabilities	–74	—	–74
Non interest-bearing liabilities	–33	—	–33
Identifiable net assets	7	6	13
Goodwill			—
Purchase price paid			13
Cash and cash equivalents in acquired entities			–1
Net effect on cash and cash equivalents			**12**

In 2008, two companies were acquired for a value of SEK 11 million. The following table specifies 2008 aquisitions along with the annual revenue and number of employees at the time of the individual acquisitions.

Note 15 continued

Business area	Company	Acquisition date	Annual revenue	Number of employees
Södra Interiör	BDL Bygg och Dekorlist AB	19 Aug. 2008	35	18
Södra Interiör	Magne Bråthens Eftf. AS	30 June 2008	20	7
Total			**55**	**25**

In both acquisitions, 100 per cent of ownership was retained. The total purchase amount for the 2008 acqusitions was SEK 11 million. Operations acquired during the year had a profit impact for the year of SEK 21 million. Annual revenue in the acquired operations totalled approximately SEK 55 million. The effect on 2008 consolidated operating profit from the acquired operations was SEK 0 million. Had the acquisitions occurred in the beginning of 2008, the effect on 2008 operating profit would have been SEK 3 million.

The following table shows the fair value of acquired net assets, recognised goodwill and the effect on consolidated statments of cash flows of all the acquisitions.

All acquisitions in 2008	Carrying amount in acquired company	Fair value adjustment	Fair value recognised in Group
Intangible assets	0	1	1
Property, plant and equipment	6	2	8
Inventories	7	—	7
Current receivables	6	—	6
Cash and cash equivalents	3	—	3
Interest-bearing liabilities	–2	—	–2
Non interest-bearing liabilities	–14	–1	–15
Identifiable net assets	6	2	8
Goodwill			3
Purchase price paid			11
Cash and cash equivalents in acquired entities			–3
Net effect on cash and cash equivalents			**8**

Surplus value of SEK 3 million pertains to synergy gains with Södra Interiör's existing operations and has been classified as goodwill.

16 Intangible assets

Group 2009	Brand	Development expenses	Goodwill	Total
Cost				
At the beginning of the year	—	26	101	127
Purchased through acquisition	34	—	250	284
Other investments	—	4	32	36
Reclassifications	—	–13	–5	–18
Disposals	—	—	–4	–4
Translation differences	—	1	4	5
	34	**18**	**378**	**430**
Amortisation				
At the beginning of the year	—	–5	—	–5
Reclassifications	—	5	—	5
Amortisation according to plan for the year	–2	–2	—	–4
	–2	**–2**	**—**	**–4**
Impairments				
At the beginning of the year	—	–4	—	–4
Reclassifications	—	4	—	4
Impairment for the year	—	—	–3	–3
	—	**—**	**–3**	**–3**
Carrying amount at the end of the period	**32**	**16**	**375**	**423**

Group 2008	Brand	Development expenses	Goodwill	Total
Cost				
At the beginning of the year	—	12	96	108
Purchased through acquisition	—	1	5	6
Other investments	—	12	—	12
Reclassifications	—	1	—	1
	—	**26**	**101**	**127**
Amortisation				
At the beginning of the year	—	–6	—	–6
Translation differences	—	1	—	1
	—	**–5**	**—**	**–5**
Impairments				
At the beginning of the year	—	–4	—	–4
Disposals	—	1	—	1
Impairment for the year	—	–1	—	–1
	—	**–4**	**—**	**–4**
Carrying amount at the end of the period	**—**	**17**	**101**	**118**

Testing of impairment requirement for goodwill

Impairment testing of recognised goodwill values has been done prior to the financial statements at 31 December 2009. Goodwill values of SEK 375 million (101) are recognised in the consolidated statement of financial position. The following table presents the recognised values for goodwill allocated by business area.

Södra Timber and Södra Trivselhus are the cash-generating units to which material goodwill has been allocated. The acquired operations are combined following the acquisition in the Group's existing business areas in order to generate the anticipated synergy effects. The integration also pertains to attributable cash flows. In such cases where acquired cash-generating units have been integrated with existing business areas, a test of impairment requirement is made at business area level as it is at this level that goodwill is monitored internally.

The business in Södra Trivselhus Holding AB belongs to the Södra Timber business area, but at the end of the financial year the business was operated in such a way that goodwilll attributable to this acquisition was monitored and tested separately.

The recovery amount of the business area builds on the value in use that is based on cash flow forecasts for five years where the forecasts of individual business area management pertaining to revenue, operating profit, operating capital and investments forms the basis for discounting cash flows. An increase in cash flows of 2 per cent per year has then been adopted. Growth rate and operating margins have been determined based on historic experience and judgments of business trends in the coming five-year period that draw on external and internal sources of information. Cash flows for Södra Trivselhus Holding AB has been discounted by 12 per cent before tax. Cash flow discounting for other business areas has been made by 10 per cent prior to tax. It is the judgement of corporate management there are no reasonable potential changes in any important assumption that would lead to any impairment requirement of recognised goodwill values.

The acquisition balance for Södra Trivselhus Holding AB was still provisional at the end of the year. Further investigation and allocation of surplus will be done in 2010 after which renewed testing of potential impairment requirements of goodwill will be carried out.

Goodwill per cash-generating unit	2009	2008
Södra Timber		
Södra Trivselhus Holding AB	250	—
Other Södra Timber business area	72	60
Södra Interiör	52	40
Södra Skog	1	1
Total	**375**	**101**

	Intangible assets developed internally	Intangible assets acquired	
Parent Company 2009	Development expenses	Goodwill	Total
Cost			
At the beginning of the year	10	—	10
	10	**—**	**10**
Amortisation			
At the beginning of the year	—	—	—
Amortisation according to plan for the year	–2	—	–2
	–2	**—**	**–2**
Carrying amount at the end of the period	**8**	**—**	**8**

	Intangible assets developed internally	Intangible assets acquired	
Parent Company 2008	Development expenses	Goodwill	Total
Cost			
At the beginning of the year	—	—	—
Other investments	10	—	10
	10	**—**	**10**
Carrying amount at the end of the period	**10**	**—**	**10**

17 Buildings and land

Group	2009 Buildings	2009 Land	2009 Land improvements	2009 Total buildings and land	2008 Buildings	2008 Land	2008 Land improvements	2008 Total buildings and land
Cost								
At the beginning of the year	2,539	145	482	3,166	2,510	322	250	3,082
Acquisition of subsidiaries	34	5	1	40	2	–	–	2
Investments	79	44	13	136	58	85	15	158
Reclassifications	71	–16	4	59	24	–284	228	–32
Disposals	–2	–1	–	–3	–27	–5	–10	–42
Translation differences	47	–18	1	30	–28	27	–1	–2
	2,768	**159**	**501**	**3,428**	**2,539**	**145**	**482**	**3,166**
Depreciation								
At the beginning of the year	–1,398	–	–232	–1,630	–1,343	–	–220	–1,563
Acquisition of subsidiaries	–7	–	–	–7	–1	–	–	–1
Disposals	–	–	–	–	12	–	4	16
Reclassifications	–2	–	–	–2	–	–	–	–
Depreciation according to plan for the year	–88	–	–19	–107	–80	–	–18	–98
Translation differences	–24	–	–1	–25	14	–	2	16
	–1,519	**–**	**–252**	**–1,771**	**–1,398**	**–**	**–232**	**–1,630**
Impairments								
At the beginning of the year	–144	–8	–	–152	–156	–8	–10	–174
Disposals	–	–	–	–	15	–	10	25
Reversal of previous impairment losses	54	–	–	54	–	–	–	–
Impairment for the year	–	–	–	–	–8	–	–	–8
Translation differences	–9	–	–	–9	5	–	–	5
	–99	**–8**	**–**	**–107**	**–144**	**–8**	**–**	**–152**
Carrying amount at the end of the period	**1,150**	**151**	**249**	**1,550**	**997**	**137**	**250**	**1,384**
Taxation value in Sweden	2,245	543	–	2,788	2,192	476	–	2,668

Parent Company	2009 Buildings	2009 Land	2009 Land improvements	2009 Total buildings and land	2008 Buildings	2008 Land	2008 Land improvements	2008 Total buildings and land
Cost								
At the beginning of the year	65	147	8	220	61	146	7	214
Acquisitions	–	–	2	2	–	–	–	–
Investments	7	8	–	15	2	4	1	7
Reclassifications	–	–	–1	–1	2	–2	–	–
Disposals	–	–	–	–	–	–1	–	–1
	72	**155**	**9**	**236**	**65**	**147**	**8**	**220**
Depreciation								
At the beginning of the year	–13	–	–	–13	–11	–	–	–11
Acquisitions	–	–	–1	–1	–	–	–	–
Depreciation according to plan for the year	–2	–	–	–2	–2	–	–	–2
	–15	**–**	**–1**	**–16**	**–13**	**–**	**–**	**–13**
Impairments								
At the beginning of the year	–	–8	–	–8	–	–8	–	–8
	–	**–8**	**–**	**–8**	**–**	**–8**	**–**	**–8**
Carrying amount at the end of the period	**57**	**147**	**8**	**212**	**52**	**139**	**8**	**199**
Taxation value in Sweden	69	295	–	364	64	207	–	271

18 Machinery and equipment

Group	2009 Machinery	2009 Equipment	2009 Leased assets	2009 Total machinery and equipment	2008 Machinery	2008 Equipment	2008 Leased assets	2008 Total machinery and equipment
Cost								
At the beginning of the year	16,328	1,342	—	17,670	15,849	1,236	—	17,085
Acquisition of subsidiaries	38	33	8	79	14	—	—	14
Investments	826	95	—	921	551	162	—	713
Reclassifications	411	45	—	456	227	19	—	246
Disposals	–346	–48	—	–394	–196	–71	—	–267
Translation differences	202	9	—	211	–117	–4	—	–121
	17,459	**1,476**	**8**	**18,943**	**16,328**	**1,342**	**—**	**17,670**
Depreciation								
At the beginning of the year	–11,040	–975	—	–12,015	–10,377	–938	—	–11,315
Acquisition of subsidiaries	–23	–25	–2	–50	–6	—	—	–6
Disposals	328	41	—	369	178	59	—	237
Reclassifications	–3	–9	—	–12	–2	2	—	—
Depreciation according to plan for the year	–866	–112	—	–978	–898	–101	—	–999
Translation differences	–110	–7	—	–117	65	3	—	68
	–11,714	**–1,087**	**–2**	**–12,803**	**–11,040**	**–975**	**—**	**–12,015**
Impairment								
At the beginning of the year	–564	–3	—	–567	–572	–2	—	–574
Acquisition of subsidiaries	1	—	—	1	—	—	—	—
Disposals	—	—	—	—	7	—	—	7
Reversal of previous impairment losses	26	—	—	26	—	—	—	—
Impairment for the year	—	—	—	—	–28	–1	—	–29
Translation differences	–47	—	—	–47	29	—	—	29
	–584	**–3**	**—**	**–587**	**–564**	**–3**	**—**	**–567**
Carrying amount at the end of the period	**5,161**	**386**	**–6**	**5,553**	**4,724**	**364**	**—**	**5,088**

Parent Company	2009 Machinery	2009 Equipment	2009 Leased assets	2009 Total machinery and equipment	2008 Machinery	2008 Equipment	2008 Leased assets	2008 Total machinery and equipment
Cost								
At the beginning of the year	—	193	—	193	—	172	—	172
Acquisitions	—	12	—	12	—	—	—	—
Investments	—	6	—	6	—	35	—	35
Reclassifications	—	9	—	9	—	2	—	2
Disposals	—	–10	—	–10	—	–16	—	–16
	—	**210**	**—**	**210**	**—**	**193**	**—**	**193**
Depreciation								
At the beginning of the year	—	–114	—	–114	—	–100	—	–100
Acquisitions	—	–9	—	–9	—	—	—	—
Disposals	—	9	—	9	—	10	—	10
Depreciation according to plan for the year	—	–26	—	–26	—	–24	—	–24
	—	**–140**	**—**	**–140**	**—**	**–114**	**—**	**–114**
Carrying amount at the end of the period	**—**	**70**	**—**	**70**	**—**	**79**	**—**	**79**

19 Construction in progress

Group	2009	2008
Cost		
At the beginning of the year	535	391
Investments	199	461
Reclassifications	–518	–311
Translation differences	15	–5
Carrying amount at the end of the period	**231**	**536**

Parent Company	2009	2008
Cost		
At the beginning of the year	26	3
Investments	17	25
Reclassifications	–8	–2
Carrying amount at the end of the period	**35**	**26**

20 Biological assets

Södra's forest assets are divided into biological assets and land assets in the consolidated financial statements. Standing timber is recognised as a biological asset at fair value discounted to the present value of future expected cash flow from the standing timber. The land that the forest is growing on is valued at cost. Södra had total forest holdings of 26,200 hectares (23,300) of productive forest land on 31 December 2009. The volume of standing timber was 3.5 million forest cubic metres (3.0). The total value of Södra's forest holdings was SEK 538 million (516). Of this value, SEK 66 million (64) pertained to forest land. The change of value of standing timber during the year amounted to SEK 2 million (–6). This change in value is recognised in the income statement.

The valuation model was unchanged from the previous year. The valuation is based on estimated harvesting cycles for Södra's harvesting volumes and product range and growth assumptions based on current harvesting plans. Future price and cost development are estimated to be 2 per cent per year. Costs for replanting have been considered along with provisions for environmental conservation. Estimated cash flow before tax has been discounted to present value at a rate of 5.5 per cent after tax for forest assets located in Sweden. Forest assets located in the Baltic States have been discounted at a rate of 6.5 per cent after tax. The assessed value of standing timber has subsequently been charged with deferred tax. A 100-year timeframe has been used for discounting of future cash flow in all forests. The length of harvesting cycles varies depending on which country the forest assets are located. A harvesting cycle of 80 years has been used for forest assets located in Sweden, 75 years for Latvia and 70 years for Estonia. The change in value of standing timber can be divided into the following components:

Group	2009	2008
Cost		
At the beginning of the year	452	357
Purchases of growing forest	35	101
Change in fair value less selling costs	2	–6
Translation differences	–17	—
Carrying amount at the end of the period	**472**	**452**

The following sensitivity analysis shows how the value of standing timber would be affected if the key valuation parameters were attributed other values than those that form the basis of the current valuation.

Variabel	Change	Change in value after tax, SEK million
Discount rate	+/– 0.25%	+/– 25
Wood price	+/– 0.5% in real terms	+/– 5
Harvesting costs	+/– 0.5% in real terms	+/– 3
Harvesting volumes	+/– 1%	+/– 2

21 Financial investments

Non-current assets	2009	2008
- valued at fair value via income statement		
Financial investments	55	55
	55	**55**
Current assets		
- valued at fair value via income statement		
Shares in listed companies	257	65
Share index bonds	153	164
Share index certificates	39	8
	449	**237**
- available for sale		
Bonds	717	676
Other current investments	393	35
	1,110	**711**
	1,559	**948**

Non-current financial assets comprise unlisted shares and participations valued at cost since a reliable market value could not be determined. Carrying amount is thus used as an indicator of fair value. Impairment has been applied where indicators have arisen.

Non-current financial assets include holdings of shares in LRF förening upa of SEK 0 million (0) and SunPine AB of SEK 50 million (50). These valuations are due to there being no functional market for these holdings. Södra does not intend to sell these investments in 2010.

Interest-bearing securities valued as available-for-sale financial assets have a fixed interest between 0.36 per cent (0.67) and 4.085 per cent (5.80) and a carrying amount of SEK 967 million (555). The receivables have maturities of up to four years.

The financial assets shares, share index bonds and share index certificates are valued at fair value via the consolidated statement of comprehensive income as management values these instruments based on their fair value. Fair value for these assets is based on quoted market prices through trade on an active market.

22 Financial risk management

The international and capital-intensive nature of its operations means Södra is constantly exposed to financial risks such as market risk, credit risk and liquidity and financing risk. The Group's financial policy for handling financial risks is adopted by the Board and provides a framework of guidelines and rules in the form of risk mandates and limits for financial operations.

Södra's financial risk management is centralised to the treasury function in the Parent Company. This enables scale benefits and synergy effects to be utilised and helps minimise handling risks. The overall objective is to provide cost-effective financing and liquidity administration while minimising the negative effects on consolidated income that arise from market risks. Södra continually monitors its financial risks and their conformity to its financial policy. The key aspects of financial risk management within the Group are described below.

Market risk

Market risk involves the risk of the fair value of or future cash flow from a financial instrument changing due to fluctuating market prices. Market risk consists of foreign exchange risk, interest risk and other price risks. The market risks that primarily affect the Group consist of foreign exchange risk and raw material price risk.

Foreign exchange risk

Södra is exposed to foreign exchange risk in conjunction with buying and selling foreign currency (transaction exposure), and in conjunction with translation of foreign net assets and profit to the currency of the Parent Company (translation exposure).

Södra is exposed to different types of foreign exchange risk. The primary exposure arises from the Group's sale and purchase in foreign currencies. These foreign exchange risks consist partly of the risk of fluctuations in the value of financial instruments, trade receivables and payables, and partly of foreign exchange risk in anticipated or contracted payment flows (transaction exposure).

There are also foreign exchange risks in translation of the assets and liabilities of foreign subsidiaries to the functional currency of the Parent Company (translation exposure). The Group is also exposed to foreign exchange risks attributable to investments in foreign currency (financial exposure).

Consolidated income includes foreign exchange differences of SEK –84 million (203) in operating result and of SEK –7 million (38) in finance income and expenses.

Transaction exposure

A substantial part of Södra's revenue is related to customers outside Sweden and most of the company's products are invoiced in local currency or USD. Input goods are largely imported in foreign currency. These factors mean that changing foreign exchange rates have a major impact on Södra. To manage Södra's net transaction exposure, forecast currency flow is hedged using currency derivatives.

Currency exposure is hedged in accordance with the financial policy. The rate risk during the period from invoicing to payment is hedged to 95 per cent. In addition, the anticipated net inflow is hedged within the standardised interval framework for the coming 48 month period. The hedging norms presented in the following table represent the normal level determined for the desired degree of hedging. Temporarily attractive levels or specific factors can make it desirable to temporarily deviate from the hedging norms. The hedging interval considers the risk mandate that Södra Treasury has to follow for temporary deviations from hedging norms. The currency hedging component of pulp hedges is included in the overall foreign exchange mandate. Under the policy, standardised forward contracts, currency swaps and acquired foreign exchange options may be used for hedging purposes. Hedging reporting is used when the demands for this are met.

Transaction exposure 31 December 2009 (major currencies)

	2010				2011			
Currency	Forecast net influx	Hedges	%	Average rate	Forecast net influx	Hedges	%	Average rate
USD million*	570	89	16	7.12	570	–	–	–
EUR million	125	215	172	11.10	303	136	45	10.84
GBP million	43	5	12	11.58	43	–	–	–
Total	**738**	**309**	**42**		**916**	**136**	**15**	
Hedging standard			50				35	
Hedging interval			0–70				0–50	

* In addition to the currency hedging above, 36 per cent of forecast net influx of USD in 2010 were currency hedged through the currency hedging component of pulp price hedgings.

Translation exposure

Translation exposure refers to the net value in foreign subsidiaries. The basic principle is not to currency hedge this exposure. Financial translation exposure of any significance that arises is to be limited by Södra Treasury in conjunction with hedging of the transaction exposure. The most significant translation exposure pertains to equity in the following currencies: NOK 1,232 million (1,562), EEK 353 million (353) and DKK 66 million (8).

Interest risk

Interest risk represents the negative changes in market value that can arise with interest fluctuations in the yield curve (market interest for different terms). The objective in the financial policy is to maintain fixed-interest terms for financial liabilities within the 3–15 month range.

The financial policy specifies how interest risk is to be limited on the Group's interest-bearing investments by allocating investments over different fixed-rate periods. To generate a reasonable return in relation to risk, while also countering cash flow fluctuations, the investments are managed in three portfolios with different yield requirements (and thus fixed interest periods):

Investment portfolio	Investment purpose	Norm/interval	Return requirement
Liquidity portfolio	Cover current payments	SEK 100–500 million	Equivalent to three-month treasury bills
Business cycle portfolio	In conjunction with unutilised credit agreements should cover identified requirements for liquidity preparedness prior to a downturn in the business cycle	Min. SEK 700 million in positive economic cycle	Equivalent to two-year government bonds
Active portfolio	Achieve high yield with controllable risk on liquidity that exceeds requirements for other portfolios	Liquidity surplus to portfolio requirements above	Equivalent to three-month treasury bills plus four percentage units

The financial policy specifies that interest payment dates, interest-rate swaps and interest rate options may be used to change the Group's fixed-interest period.

Price risk

Price risk pertains to the change in price of products or input goods and the subsequent effect on profit.

Pulp price risk

Pulp price risk is the risk of the average selling price received for pulp being less than the expected long-term price. Pulp price risk management aims to reduce profit fluctuations caused by price variations. To reduce pulp price risk, Södra Treasury can trade in quoted pulp forward contracts, forward contracts or swap contracts on the OTC market. Södra hedges pulp price risk in two ways: hedging of cash flow risk from the future sale of Södra pulp, and hedging of fair value risk in fixed price customer contracts.

Cash flow risk from future sale of own production of pulp arises through cyclical variations in pulp price, expressed in foreign currency, which in conjunction with variations in exchange rates can mean the pulp price that Södra receives measured in SEK is less than the price required for satisfactory profitability. Hedging of cash flow risk from future sales of own production may be done on up to 400,000 tonnes annually over the next five years. This is equivalent to approximately 20 per cent of forecast production during the mandate period.

Fair value risk arises when Södra, through the value-added service PulpServices Hedging, utilises its financial competence in the field of pulp price risk, and offers pulp deliveries to buyers at a fixed price. To ensure the fixed prices contracted with customers will not deviate negatively from the prevailing market prices at the time of delivery, the fixed price contract is swapped to variable prices. Fixed price contracts may be signed for not more than 50 per cent of the total delivery volume to individual customers. The contract period may not exceed 24 months. Business cycles, market price level, demand for fixed price contracts and the potential to sign swap contracts on acceptable terms are factors that over time affect current hedging levels.

	2010		2011	
Pulp price derivatives 31 December 2009	Ktonne	%	Ktonne	%
Cash flow hedges	300	14	–	–
Fair value hedges	195	9	55	3
Forecast production	2,100		2,100	

	2009		2010	
Pulp price derivatives 31 December 2008	Ktonne	%	Ktonne	%
Cash flow hedges	314	15	216	10
Fair value hedges	107	5	51	2
Forecast production	2,100		2,100	

Timber price risk

Södra Timber has annual sawn timber sales of 1,600,000 m^3 and is thus exposed to timber price risk on the entire sales volume. Selling prices are normally contracted when the delivery of sawn timber is made. To a minor extent, however, when Södra ships sawn timber to the US, there is a risk that the market price may change between shipment of the goods and their sale. This risk is due to the timber products not having contractually regulated prices at the time of loading. The risk can be partially managed by trading in timber derivates on the commodity exchange in Chicago. Other than these situational hedges of timber price risk, there is no formal risk hedging of sawn timber prices.

At the end of the year, Södra had no hedges contracted for timber price risk. The previous year it had a total of 13,575 million board feet, which is approximately 23,500 nominal cubic metres sawn timber, for delivery in 2010. The average price for the contracts was USD 222.3 per million board feet last year.

Electricity price risk

Some Södra business areas generate surplus electricity while others have a deficit. Södra Timber and Södra Interiör are at risk of heavy increases in the purchase cost of electricity, which would lower margins and weaken their competitive position. The major investments in electricity generating capacity made by Södra Cell in recent years, which have made it a net seller of electricity, require reasonably high electricity prices to achieve the required return.

To best hedge the different needs of the business areas while optimising the Group's net position for electricity utilisation, Södra Treasury has a consumption portfolio and a production portfolio. The total net price position is hedged between the two portfolios using financial electricity contracts to avoid major profit effects of electricity price changes. Permitted hedging instruments consist of the standard contracts open on Nordpool. Hedging is ultimately to cover the coming five years, but as electricity trading is new to Södra the policy is being phased in over a two-year period.

Electricity price derivatives total net sales of 17.5 GWh (60.5) at an average weighted price of SEK 793 per MWh (544) with maturity 2010–2012 (2009–2011).

Oil price risk

Södra business areas annually purchase oil-related products for approximately SEK 600 million. Most of these purchases are related to spot markets for specific products. The volatile nature of these markets means they may cause major fluctuations in profit and Södra aims to limit this risk by trading in financial markets for oil-related products. The permitted hedging instruments consist of forwards and options.

Oil-related products that may be hedged are diesel, fuel oil and Brent crude. Hedging may be done for the coming 18-month period with the following purchasing volumes for each 6-month period: 0–6 months 0–75 per cent, 7–12 months 0–50 per cent and 13–18 months 0–25 per cent.

At the end of the year there were no hedges of oil-related products. At the end of 2008 hedges were held with a negative value of SEK 9 million.

Share price risk

Södra is exposed to price risk through its holdings of shares, share index certificates, share index bonds and share funds (see Note 21 Financial investments).

Credit risk

Financial credit risk

Södra's financial transactions create exposure to credit risk relative to financial counterparties. The financial policy specifies that transactions may only be undertaken with parties that have good credit ratings, defined as category A-/K1 or better under Standard & Poor's system. Limits are set for each counterparty and revised regularly. To further limit counterparty risk, ISDA contracts (netting contracts) have been taken out with several banks.

Credit risk in trade receivables

The risk of customers not fulfilling their obligations, in other words payment not being received, represents a customer credit risk. Customer credit is checked using information on their financial position from various credit-rating agencies. The delinquency risk for major customers is limited through credit insurance. Security is required for customers with an inadequate credit rating or weak credit history. Credit risks involving customers are described in Note 29 Operating receivables.

Maximum credit risk

The credit quality of Södra's financial assets can be assessed using the following asset grouping:

Financial assets per category	2009	2008
Trade receivables that are not due	1,709	1,613
Trade receivables that are due	400	490
Total trade receivables	**2,109**	**2,103**
Current investments	1,559	948
Liquid funds	1,223	854
Total financial investments	**2,782**	**1,802**
Derivative instruments with positive values	284	102
Customer contracts	—	12
Earned but not invoiced revenue	25	13
Prepaid expenses and accrued income	145	93
Other operating receivables	694	884
Other receivables total	**1,148**	**1,104**
Maximum credit risk exposure	**6,039**	**5,009**

Trade receivables due with no impairment indicators totalled SEK 372 million (473) on 31 December 2009.

Liquidity and financing risk

Liquidity and financing risk is the risk of the Group having problems fulfilling obligations associated with financial liabilities. Corporate financial planning, which comprises all Group entities, is used to identify and counter liquidity risks and minimise corporate financing costs. The objective is for the Group to be able to meet its financial commitments in positive and negative business cycles without material unforeseen costs. Group policy is to minimise its lending requirement by using surplus liquidity in the Group in cash pools. Liquidity risks are managed on a central basis by Södra Treasury for the Group as a whole.

Cash and cash equivalents are primarily invested in current interest-bearing securities. Investments can also be made in highly liquid assets that are negotiable within three days. The optimal investment is where a high yield is achieved with a limited financial risk. A limited amount of surplus liquidity may be invested in index bonds. The majority of index bonds have a 100 per cent capital guarantee, with value growth linked to various indices.

To cover future financing requirements, Södra aims to have account credits, loan structures, or other binding loan agreements that guarantee access to liquidity in the coming two-year period. A substantial part of Södra's loan financing consists of loans from members through member accounts, forest loans and payment plans. Södra has a five-year syndicated credit of USD 200 million (200) with a remaining duration of more than three years, which was not utilised at the end of 2009. This loan agreement has a covenant based on Södra's equity ratio where the lenders are entitled to cancel the loan agreement if Södra's equity ratio falls below 40 per cent. Södra's liquidity reserve, which consists of loan agreements and the Company's cash and cash equivalents, is to represent at least 8 per cent of consolidated revenue. At balance sheet date, the total liquidity reserve was SEK 4,218 million (3,348), equivalent to 25 per cent (20) of consolidated annual revenue.

Maturity structure current investments

	Maturity							
	Within 1 year		1–5 years		More than 5 years		Total	
Financial investments	2009	2008	2009	2008	2009	2008	2009	2008
Certificates	246	35	—	—	—	—	246	35
Bonds	356	—	276	529	—	—	632	529
Share index bonds	22	—	133	251	83	62	238	313
Share index certificates	—	—	40	8	—	—	40	8
Quoted shares	303	63	—	—	—	—	303	63
Bank funds	100	—	—	—	—	—	100	—
Total	**1,027**	**98**	**449**	**788**	**83**	**62**	**1,559**	**948**

The fixed-rate interest period on the interest-bearing investments is less than 12 months on 85 per cent (52) of investments. The fixed-rate interest period on the remaining interest-bearing investments varies between one and five years.

Note 22 continued

Maturity structure financial liabilities – undiscounted cash flow

			Maturity							
			Within 1 year		1–5 years		More than 5 years		Total	
Financial liabilities	Interest rate, %	Currency	2009	2008	2009	2008	2009	2008	2009	2008
Liabilities to credit institutes	2.23 (—)	SEK	—	—	242	—	—	—	242	—
Subordinated debentures	5.7 (5.7)	SEK	—	—	137	137	—	—	137	137
Loans from members										
Liquidity accounts	0.00	SEK	14	13	—	—	—	—	14	13
Payment plans	0.5 (2.00) variable	SEK	256	289	182	227	34	37	472	553
Forest loans	0.75 (2.25) variable six months	SEK	39	41	—	—	—	—	39	41
Member accounts	0.5 (2.00) variable six months	SEK	1,631	1,709	—	—	—	—	1,631	1,709
Trade creditors	0.00		1,566	1,571	—	—	—	—	1,566	1,571
Negative derivatives			245	253	—	—	—	—	245	253
Liabilities to other		SEK	—	1	—	1	—	—	—	2
Total			**3,751**	**3,877**	**561**	**365**	**34**	**37**	**4,346**	**4,279**

Sensitivity analysis

Södra is subject to large profit fluctuations, with a number of its operations highly dependent on the state of the general economy and exchange rates. However it is primarily the upswings and downswings in the pulp market that generate profit variations at a Group level.

Södra Skog's profit is particularly sensitive to changes in price margins in the wood trade and in acquired volumes. Sawmill profit is mainly affected by changes in the prices of sawn timber and chips and the cost of saw logs. The greatest impact for Södra Cell is changes in pulp prices, volume and wood costs. The table shows the effect on profit and equity if the values had been higher or lower than the actual outcome. (Pertains to a 12-month result based on average conditions during the financial year.)

In the calculation of the effect on profit and equity effect, specific changes on the hedging instrument for currency and pulp price have been taken into account. The effects that would have been realised during the year have been included in the indicated profit effect. The unrealised effects that would have arisen at the end of the year have affected the effect in equity.

The table shows individual sensitivity for each variable. In reality, a change in one variable often affects other variables, but with a certain time delay. For example, a strengthening or weakening of a currency can affect market price. There is no simple rule of thumb for calculating a net profit effect due to the complex and changeable relationships which vary with market conditions and other factors.

At the end of the year, Södra held shares and share-related instruments worth SEK 449 million (see Note 21 Financial investments). A ten per cent value change on those shares and the underlying index they relate to would have affected annual profit by some SEK 45 million.

Variable	Change	Effect on 12-month profit, SEK million	Effect on equity, SEK million
USD/SEK	+/– SEK 0.50	+/–200	–/+175
Pulp price	+/– SEK 300/tonne	+/–440	–/+90
Fibre cost for pulp mills	+/– SEK 25/m³fub	–/+215	+/–0
Pulp production	+/– 50,000 tonnes	+/–85	+/–0
Sawn timber price	+/– SEK 50/m³	+/–85	+/–0
Saw log cost for sawmills	+/– SEK 25/m³fub	–/+85	+/–0
Sawn timber production	+/– 50,000 m³	+/–30	+/–0
Total salary cost	+/– 3%	–/+60	+/–0

23 Other non-current investments

Parent Company	2009	2008
Cost		
At the beginning of the year	76	76
Purchases	1	—
	77	**76**
Impairments		
At the beginning of the year	–25	–25
	–25	**–25**
Carrying amount at the end of the year	**52**	**51**

24 Non-current receivables with Group companies

Parent Company	2009	2008
At the beginning of the year	17	—
Additional items	—	17
Deductible items	–17	—
Carrying amount at the end of the year	**—**	**17**

25 Non-current receivables

	Group		Parent Company	
	2009	2008	2009	2008
Derivatives	89	20	—	—
Customer contracts	3	9	—	—
Other non-current receivables	15	10	8	9
Total	**107**	**39**	**8**	**9**

Parent Company	2009	2008
At the beginning of the year	9	9
Deductible items	–1	—
Carrying amount at the end of the year	**8**	**9**

26 Deferred tax assets/liabilities

Group	Deferred tax assets 2009	Deferred tax assets 2008	Deferred tax liabilities 2009	Deferred tax liabilities 2008	Net 2009	Net 2008
Intangible assets	—	—	–23	–1	–23	–1
Property, plant and equipment	3	3	–895	–932	–892	–929
Biological assets	—	1	1	—	1	1
Operating receivables	53	—	–15	–3	38	–3
Current investments	12	24	2	26	14	50
Tax allocation reserves	—	—	–301	–326	–301	–326
Other untaxed reserves	—	—	–23	–15	–23	–15
Provisions for pensions	—	4	78	92	78	96
Non-current assets	24	8	—	—	24	8
Operating liabilities	—	48	–85	14	–85	62
Deficit deductions	65	36	—	—	65	36
Other	—	15	—	–27	—	–12
Deferred tax asset/liability	**157**	**139**	**–1,261**	**–1,172**	**–1,104**	**–1,033**
Set-off	–8	—	8	—	—	—
Total	**149**	**139**	**–1,253**	**–1,172**	**–1,104**	**–1,033**

Parent Company	Deferred tax assets 2009	Deferred tax assets 2008	Deferred tax liabilities 2009	Deferred tax liabilities 2008	Net 2009	Net 2008
Current investments	12	24	—	—	12	24
Provisions for pensions	6	4	—	—	6	4
Non-current provisions	11	8	—	—	11	8
Deficit deductions	18	—	—	—	18	—
Deferred tax asset/liability	**47**	**36**	**—**	**—**	**47**	**36**
Set-off	—	—	—	—	—	—
Total	**47**	**36**	**—**	**—**	**47**	**36**

Of deferred tax liabilities, SEK 889 million (897) is attributable to depreciation and amortisation in excess of plan.

Deferred tax assets pertaining to the deficit that arose at the Norwegian pulp mills as a result of the year's market-related production shutdown have, for precautionary reasons, not been recognised due to the uncertainty regarding the timing of their fiscal application.

27 Inventories

	Group		Parent Company	
	2009	2008	2009	2008
Raw materials and consumables	841	1,297	—	—
Goods under production	134	114	—	—
Finished goods	1,047	1,701	—	—
Goods for resale	217	419	306	1,014
Total	**2,239**	**3,531**	**306**	**1,014**

The consolidated cost of goods sold includes impairment of inventories of SEK 16 million (–) after reversal of previous impairment of SEK 65 million (–).

Parent Company cost of goods sold includes impairment of inventories of SEK 1 million (–) after reversal of previous impairment of SEK 50 million (–).

Electricity certificates

Stock-on-hand of allocated electricity certificates is recognised at zero value.

Sales value of allocated electricity certificates sold on forward contract for delivery	2009	2008
2009	—	211
2010	54	51
Total	**54**	**262**

Residual stocks of allocated electricity certificates at balance sheet date had a market value of SEK 76 million (338).

Emission rights

The value of emission rights not expected to be used to cover actual emissions is recognised at zero value and had a market value of SEK 11 million (7) at balance sheet date.

Sales value of emission rights sold on forward contract for delivery	2009	2008
2009	—	2
Total	**—**	**2**

28 Receivables from Group companies and associates

Interest-bearing receivables from Group companies, Parent Company	Receivables from Group companies		Receivables from associates	
	2009	2008	2009	2008
Cost				
At the beginning of the year	1,795	1,034	—	—
Additional items	20	761	—	—
Carrying amount at the end of the period	**1,815**	**1,795**	**—**	**—**

Operating receivables from Group companies, Parent Company	2009	2008	2009	2008
Cost				
At the beginning of the year	551	622	—	—
Deductible items	–94	–71	—	—
Carrying amount at the end of the period	**457**	**551**	**—**	**—**

29 Operating receivables

	Group		Parent Company	
	2009	2008	2009	2008
Current receivables with Group companies	—	—	457	551
Trade receivables	2,081	2,086	265	308
Derivatives	284	102	—	—
Customer contracts	—	12	—	—
Earned but not invoiced income	25	13	24	13
Other receivables	694	884	434	450
Prepaid expenses and accrued income	145	93	26	26
Total	**3,229**	**3,190**	**1,206**	**1,348**

Trade receivables are recognised after deduction of anticipated and actual credit losses. They are valued at the lower of cost and fair value, which indicates the realisable value of the receivable through sale or otherwise after deduction of anticipated selling costs. Trade receivables in foreign currency are valued at closing rate. The value of doubtful debts is based on individual estimates.

Customer credit risk

The Group's credit management aims to limit the risk of customers not meeting their commitments. Where it is deemed necessary and practicable credit loss risk is limited using credit insurance, and different forms of security used otherwise for customers with a low credit ranking. On balance sheet date there was no significant concentration of credit exposure.

Prepaid expenses and accrued income for the Parent Company includes prepaid rental charge of SEK 1 million (1), prepaid insurance premiums of SEK 3 million (1), accrued interest income of SEK 10 million (6) and other prepaid costs of SEK 12 million (18).

	Group		Parent Company	
Trade receivables	2009	2008	2009	2008
Trade receivables gross	2,109	2,103	274	315
Provision for uncertain receivables	–28	–17	–9	–7
Total	**2,081**	**2,086**	**265**	**308**

Analysis of credit risk exposure in trade receivables	Group		Parent Company	
	2009	2008	2009	2008
Trade receivables that are not due and not impaired	1,709	1,613	210	257
Trade receivables that are due				
< 30 days	310	391	47	48
30–90 days	38	65	—	3
90–180 days	11	31	—	7
> 180 days	41	3	17	—
Total exposure to credit risk	**2,109**	**2,103**	**274**	**315**
Trade receivables that are impaired	–28	–17	–9	–7
Trade receivables	**2,081**	**2,086**	**265**	**308**

30 Cash and cash equivalents

	Group		Parent Company	
	2009	2008	2009	2008
Cash and bank balances	552	315	344	116
Current investments, equivalent to cash	671	539	671	538
Total according to cash flow analysis	**1,223**	**854**	**1,015**	**654**

31 Equity

	Group		Parent Company	
	2009	2008	2009	2008
Paid-up capital contributed	809	759	809	759
Issued capital contributed	1,402	1,354	1,402	1,354
Subordinated debentures	—	—	131	131
Other equity	7,595	7,233	1,947	1,712
Total	**9,806**	**9,346**	**4,289**	**3,956**

Non-restricted equity in the Group is SEK 4,120 million (3,781).

Board policy provides that the Group's financial objective is to have a strong financial position that contributes to retaining the confidence of members, creditors and the market and creating a foundation for ongoing development of the business, while also generating a satisfactory long-term profit. Due to the cyclical risks that Södra business areas are exposed to, the objective for the minimum equity ratio for the Group is 50 per cent. Södra's profitability is to achieve a return on capital employed of not less than 10 per cent over a business cycle.

The Board's dividend objective is that at least one-third of operating profit be paid out according to the distribution policy with approximately half the dividend amount relating to deliveries to Södra during the year and other half to capital holdings in the Company.

Södra has a five-year syndicated credit of USD 200 million with a remaining duration of just over three years, which was not utilised at the end of 2009. This loan agreement has a covenant based on Södra's equity ratio where the lenders are entitled to cancel the loan agreement if Södra's equity ratio falls below 40 per cent.

A condition for the leasing transcation entered into by Södra Cell in 1997 pertaining to the usufruct on equipment at Södra Cell Mörrum is that Södra's consolidated equity ratio not be less than 50 per cent. The leasing transaction is described in further detail in Note 41 Contingent liabilities and contingent assets.

Received and paid intra-Group transfers

Parent Company	2009	2008
Received	525	763
Paid	–178	–75
Total	**347**	**688**

Contribution repayments

Capital contributed of SEK 33 million (39) will be repaid in 2010 to members who had had left the association on 31 December 2009.

Subordinated debentures

SEK 1 million (1) of subordinated debentures will be repaid in 2010.

Subordinated debentures	2009	2008
2002: To members and employees	1	1
2004: To the Södra Pension foundation	100	100
2004: To the Södra Foundation for research, development and education	30	30
Total	**131**	**131**

See also statement of changes in equity.

32 Untaxed reserves

Parent Company	2009	2008
Accumulated depreciation and amortisation in excess of plan		
– buildings	—	1
– machinery and equipment	22	24
Tax allocation reserve 2004	—	10
Tax allocation reserve 2005	71	71
Tax allocation reserve 2007	27	27
Tax allocation reserve 2008	40	40
Tax allocation reserve 2009	56	56
Total	**216**	**229**

Deferred tax of SEK 57 million (60) is included in the untaxed reserves above.

33 Interest-bearing liabilities with Group companies

Parent Company	Maturity: Within 1 year 2009	2008	1–5 years 2009	2008	More than 5 years 2009	2008	Total 2009	2008
Group account - liabilities	98	431	—	—	—	—	98	431
Liabilities to Group companies	—	—	12	61	—	—	12	61
Total	**98**	**431**	**12**	**61**	**—**	**—**	**110**	**492**

34 Interest-bearing liabilities

Group	Maturity: Within 1 year 2009	2008	1–5 years 2009	2008	More than 5 years 2009	2008	Total 2009	2008
Subordinated debentures	—	—	131	131	—	—	131	131
Liabilities to credit institutes	—	—	233	—	—	—	233	—
Loans from members	1,934	2,047	179	223	33	36	2,146	2,306
Other liabilities	—	1	1	1	—	—	1	2
Total	**1,934**	**2,048**	**544**	**355**	**33**	**36**	**2,511**	**2,439**

Parent Company	Maturity: Within 1 year 2009	2008	1–5 years 2009	2008	More than 5 years 2009	2008	Total 2009	2008
Loans from members	1,934	2,047	179	223	33	36	2,146	2,306
Other liabilities	—	1	1	1	—	—	1	2
Total	**1,934**	**2,048**	**180**	**224**	**33**	**36**	**2,147**	**2,308**

35 Pensions

Most salaried employees in Sweden and almost all employees in Norway and Germany are covered by defined benefit pension plans. Most other employees are covered by defined contribution pension plans. Pension plans primarily include age pension, sickness pension and family pension.

Defined benefit plans

Benefit-based pension obligations are primarily secured through pension foundations with assets separate from Södra, but also through provisions in the consolidated statement of financial position. The Södra Group Pension Foundation of 2003 secures most of the Parent Company's and other Group obligations in Sweden. Plan assets include subordinated debentures that are issued by Södra with a nominal value totalling SEK 100 million (100). Pension obligations in Sweden are essentially also credit-insured in the Swedish Pension Guarantee Mutual Insurance Company (FPG).

The ITP1 plan in Sweden is a defined contribution plan. Södra pays premiums for the employees covered by ITP1 and the employee selects the administrator. Södra's ITP1 Pension plan is a variation of the traditional ITP1 plan. It is available to salaried employees in Sweden born not earlier than 1979 and/or with salaries exceeding ten base amounts. Employees that have selected Södra as administrator are covered by a guarantee for the minimum amount to be received at the time of retirement. This guarantee means that the portion of ITP1 plans for which Södra is adminisatrator is recognised as defined benefit plans. The net obligation recognised in the consolidated report of financial position is marginal as the Södra ITP1 pension plan started in April 2009. The pension premium is 5.5 per cent of salary up to 7.5 income base amounts and 30 per cent of salary over that amount. It is not subject to any administration costs, but is subject to tax on returns. Returns are governed by a Södra index consisting of 60 per cent shares and 40 per cent interest. Repayment cover is compulsory and the pension provision is credit insured through the FPG pension guarantee.

ITP2 in Sweden is a defined benefit pension plan in which the benefit is governed by the employee's final salary. ITP2 is the pension plan used for employees born in 1978 or earlier. The age pension is 10 per cent of salary below 7.5 income base amounts, 65 per cent between 7.5 and 20 base amounts and 32.5 per cent between 20 and 30 base amounts. A small portion is insured in Alecta. This insurance covers several employers and Alecta cannot currently provide the information required to report these benefits as defined benefit plans.

Defined contribution plans

Pension obligations for defined contribution plans are paid as insurance premiums. The size of the premium is based on the salary. The total cost is presented below.

Pension expense Group	2009	2008
Defined benefit plans		
Pension expenses accrued during the year	35	22
Interest expenses	46	37
Expected return on plan assets	–41	–43
Other	—	0
Cost of defined benefit plans	**40**	**16**
Cost of defined contribution plans	80	49
Payroll tax and tax on returns	17	39
Total cost of post-employment benefits	**137**	**104**

Costs in the following rows are included in profit for the year:		
Employee expenses	132	110
Finance income and expenses	5	–6
Costs recognised in profit for the year	**137**	**104**

Interest expense less expected return on plan assets is included under the heading finance income and expenses. Other pension expenses are recognised as employee expenses. Actual return on plan assets did not achieve the forecast return for 2009. SEK 6 million (7) of the cost for defined contribution plans above represents premiums to Alecta.

Cost recognised in other total profit, Group	2009	2008
Actuarial gains (–) and losses (+)	–17	255
Taxes	5	–65
Net recognised in other total profit	**–12**	**190**

Return on plan assets Group	2009	2008
Actual return on plan assets	61	–97
Less expected return on plan assets	–41	–43
Actuarial result for plan assets during the period	**20**	**–140**

Obligations and plan assets for the defined benefit plans Group	2009	2008
Defined benefit plans and value of plan assets Fully or partially funded obligations		
Present value of defined benefit obligations	1,141	1,090
Fair value of plan assets	–880	–786
Net fully or partially funded obligations	**261**	**304**
Present value of unfunded defined benefit obligations	62	51
Net obligations before adjustments	**323**	**355**
Net amount is recognised in consolidated statement of financial position under the headings:		
Financial assets	0	0
Provisions for pensions	323	355
Net amount in consolidated statement of financial position (obligation +, asset –)	**323**	**355**
Net amount is allocated between plans in the following countries:		
Sweden	247	252
Norway	49	77
Germany	26	25
Switzerland	1	1
Net amount in consolidated statement of financial position	**323**	**355**

Net amount in consolidated statement of financial position	2009	2008
Net liability in consolidated statement of financial position at the beginning of the period	355	177
Cost of defined benefit plans		
Net expense recognised in profit for the year	40	16
Payment of benefits	–40	–26
Additional funds from employer to funded plans	–18	–18
Actuarial gains and losses recognised in other total profit*	–17	209
Exchange rate difference	3	0
Other	—	–3
Net liability in consolidated statement of financial position at the end of the period	**323**	**355**

*Specific payroll tax is recognised in other provisions

Note 35 continued

Present value of defined benefit obligations **Group**	2009	2008
At the beginning of the year	1,141	1,037
Service expenses	35	22
Payments made	–44	–29
Interest expense	46	37
Actuarial gains and losses	3	69
Effects of business combinations	—	–3
Exchange rate differences	22	8
Carrying amount at the end of the period	**1,203**	**1,141**

Fair value of plan assets **Group**	2009	2008
At the beginning of the period	786	860
Fund contributions from employer	18	18
Payment of benefits	–4	–3
Expected return on plan assets	41	43
Difference between expected and actual return (actuarial gain or loss)	20	–140
Exchange rate differences	19	8
Carrying amount at the end of the period	**880**	**786**

Fair value of plan assets **Group**	2009	2008
Equity instruments	328	345
Hedge funds and bonds	207	84
Other interest-bearing securities*	255	284
Properties	49	48
Other assets	41	25
Carrying amount at the end of the period	**880**	**786**

*of which debentures issued by Södra Skogsägarna ekonomisk förening SEK 100 million (100)

Historic information **Group**	2009	2008
Present value of defined benefit obligations	1,203	1,141
Fair value of plan assets	–880	–786
Surplus/deficit in plan	**323**	**355**
Experience-based adjustment to plan assets	20	–140
Experience-based adjustment for defined benefit obligations	–28	–9

The Group estimates that SEK 51 million will be paid out in 2010 to funded and unfunded defined benefit plans.

Actuarial assumptions

The following significant actuarial assumptions have been applied in calculations (weighted average values).

Group	2009	2008
Discount rate	4.1%	4.1%
Expected return on plan assets	5.2%	5.3%
Future salary increases	3.2%	3.3%
Future pension increases	1.9%	2.0%
Employee turnover	5.0%	5.0%
Expected remaining average time of service	16.4 years	17.4 years

Expense pertaining to pensions **Parent Company**	2009	2008
Pension system run by Södra		
Cost for pensions accrued	9	10
Paid-out pensions	17	14
Actual return on specific separate assets	–26	29
Cost for pensions run by Södra excluding taxes	0	53
Pensions through insurance		
Insurance premiums or equivalent	22	16
Specific payroll tax	5	17
Recognised net costs pertaining to pensions	**27**	**86**

Provisons for pensions **Parent Company**	2009	2008
Capital value of pension obligations*	336	320
Less plan assets in pension foundation	–289	–263
Total	**47**	**57**
Pension obligations secured through endowment assurance recognised under financial assets	–21	–14
Net	**26**	**43**
* Of which PRI pensions	254	246
* Credit insured via FPG	315	303

Where plan assets exceed pension liabilities, the surplus is not recognised.

Changes in net liability **Parent Company**	2009	2008
At the beginning of the year	43	4
Expense recognised in income statement for pensions run by Södra excluding taxes	0	53
Pension payments	–17	–14
Carrying amount at the end of the period	**26**	**43**

Fair value of plan assets **Parent Company**	2009	2008
Equity instruments	133	120
Hedge funds and bonds	48	46
Other interest-bearing securities*	100	88
Properties	8	9
Carrying amount at the end of the period	**289**	**263**

*of which debentures issued by Södra Skogsägarna ekonomisk förening SEK 100 million (100)

Assumptions for defined benefit obligations **Parent Company**	2009	2008
Discount rate at the end of the period	3.8%	3.8%

36 Provisions

Group, 2009	Claims reserve	Guarantee commitments	Restructuring	Cost of bank guaran-tees	Other provisions	Provisions
At the beginning of the year	21	—	—	1	111	133
Provisions made during the period	—	1	—	—	40	41
Amount taken into use during the year	–21	—	—	—	–22	–43
Translation difference for the period	—	2	—	—	—	2
Carrying amount at the end of the year	**—**	**3**	**—**	**1**	**129**	**133**
of which non-current provisions						133

Group, 2008	Claims reserve	Guarantee commitments	Restructuring	Cost of bank guaran-tees	Other provisions	Provisions
At the beginning of the year	43	—	5	2	77	127
Provisions made during the period	—	—	—	—	44	44
Amount taken into use during the year	–22	—	–5	–1	–10	–38
Carrying amount at the end of the year	**21**	**—**	**—**	**1**	**111**	**133**
of which non-current provisions						133

Claims reserve

Provision for anticipated claims on sale of sawn timber produced from storm-damaged wood.

Guarantee commitments

Provisions for guarantee measures pertaining to costs that may arise during the guarantee period for current products. Provisions are made for amounts deemed reasonable based on previous experience.

Restructuring

Provision for future costs for organisational restructuring.

Parent Company, 2009	Other provisions	Provisions
At the beginning of the year	44	44
Provisions made during the period	15	15
Unutilised amount reversed during the year	1	1
Carrying amount at the end of the year	**60**	**60**
of which non-current provisions		60

Parent Company, 2008	Other provisions	Provisions
At the beginning of the year	44	44
Carrying amount at the end of the year	**44**	**44**
of which non-current provisions		44

Other provisions

Provisions have been made for payroll tax on pension liability provisions in accordance with IAS 19 and for anticipated possible future costs for project outcome guarantees for wind power projects. Provision has also been made of an amount deemed reasonable for possible future environmental rehabilitation of former businesses.

Cost of bank guarantees

Provision has been made for future costs for bank guarantees pertaining to completion of commitments related to a leasing transaction involving the usufruct on equipment at Södra Cell Mörrum. The leasing transaction is described in further detail in Note 41 Contingent liabilities and contingent assets.

Other provisions

Provisions have been made for payroll tax on pension liability provisions in accordance with IAS 19 and for anticipated possible future costs for project outcome guarantees for wind power projects. Provision has also been made of an amount deemed reasonable for possible future environmental rehabilitation of former businesses.

37 Non-current operating liabilities

Group	2009	2008
Derivatives	4	105
Customer contracts	8	5
Total	**12**	**110**

38 Current operating liabilities

	Group		Parent Company	
	2009	2008	2009	2008
Current liabilities with Group companies	—	—	358	45
Trade creditors	1,566	1,571	932	976
Derivatives	245	253	—	—
Customer contracts	55	6	—	—
Advances from customers	1	1	1	—
Value added tax liability	20	36	13	29
Other operating liabilities	169	266	23	43
Accrued expenses and prepaid income	713	657	157	158
Total	**2,769**	**2,790**	**1,484**	**1,251**

Accrued expenses and prepaid income in the Parent Company consist primarily of holiday and salary liabilities of SEK 62 million (55) and social security costs of SEK 20 million (28).

39 Group companies

Specification of Parent Company's holding of shares and participations in Group companies	Corp. ID no.	Reg. office	Number	Share, %	Carrying amount 2009	Carrying amount 2008
Operational						
Södra Cell AB	556072-7348	Växjö	50,000	100	1,052	1,052
Södra Cell Tofte AS	981 988 413	Norway	1,000,000	100		
Södra Cell International AB	556255-3106	Växjö	2,500	100		
Södra Cell Folla AS	950 198 168	Norway	100,000	100		
Södra AG	268012	Switzerland	50	100		
Södra Cell UK Ltd	789930	United Kingdom	1,999	100		
Södra Cell Italia SRL	3298250154	Italy	20	100		
Södra Cell AS	921 507 828	Norway	50	100		
Södra Cell SAS	69203946400031	France	2,500	100		
Södra Cell GmbH	164312351	Germany	50	100		
Södra Interiör AB	556095-2417	Växjö	2,220	100	223	223
Aktiebolaget Nordingrå Trä	556159-6395	Växjö	10,000	100		
Werner Träförädling AB	556613-9662	Sävsjö	10,000	100		
Södra Interiör AS	971 646 799	Norway	100	100		
Södra Interiör A/S	73496314	Denmark	1	100		
Södra Timber AB	556004-5998	Växjö	1,000	100	398	398
Billingsfors Sågverks AB	556593-1192	Växjö	1,000	100		
Södra Trivselhus Holding AB	556552-6810	Korsberga	5,000	100		
Smålands Trivselhus Invest AB	556224-4367	Korsberga	1,000	100		
Trivselhus AB	556402-2977	Korsberga	12,000	100		
Produktionsbolaget THVAB	556542-9429	Korsberga	1,000	100		
THV i Västerås AB	556445-3321	Korsberga	1,000	100		
A+F Småhus-Projektörer AB	556262-3511	Jönköping	10,000	100		
TH i Klöverfors AB	556730-3549	Åseda	1,000	100		
Tomtbolaget THV Aktiebolag	556536-7520	Korsberga	5,000	100		
Södra Timber A/S	16992445	Denmark	5	50		
Statkraft Södra Vindkraft AB	556091-8772	Växjö	—	—	—	76
Bark & Warburgs AB	556002-0959	Växjö	6,200	100	62	62
Södra Skogsägarna Leasing AB	556280-1943	Växjö	5,000	100	61	61
Södra Skogsägarna Försäkring AB	516406-0054	Växjö	10,000	100	45	45
Södra Odlarna Tve AB	556476-3539	Växjö	6,500	100	34	34
Södra Skogsenergi AB	556091-8764	Växjö	20,000	100	15	15
Södra Reinsurance SA	323736	Luxemburg	—	—	—	16
Mönsterås Hamn AB	556084-8037	Växjö	100	100	0	0
Södra Elnät Aktiebolag	556756-2300	Växjö	1,000	100	0	—
Södra Eesti AS	10329729	Estonia	204	51	0	0
Södra Metsad OÜ	10944021	Estonia	400	100	205	205
Sodra Latvia SIA	40003490902	Latvia	7,650	51	0	0
Sodra Mezs SIA	50003871841	Latvia	310,000	100	81	81
Södra Nederland BV	0017 83 099	Netherlands	100	100	0	0
Södra Medlemsel AB	556070-5724	Växjö	50,000	100	6	6
Södra Skog AS	994457012	Norway	100	100	2	—
Södra Statkraft Vindkraft Utveckling AB	556785-3865	Växjö	1,000	60	0	—
Södra Vind AB	556765-5716	Växjö	1,000	100	0	—
Non-operational					8	7
Total					**2,192**	**2,281**

Södra Skogsägarna ekonomisk förening has founded Södra Skog AS, Södra Elnät Aktiebolag and Södra Statkraft Vindkraft Utveckling AB. The business in Södra Skogsenergi AB has from 1 July been transferred to the association, Södra Skogsägarna ekonomisk förening. 40 per cent of Södra Statkraft Vindkraft Utveckling AB has been sold and Statkraft Södra Vindkraft AB and Södra Reinsurance SA have been sold.

Södra Timber AB acquired Ittur Prefab Industrier AB, renamed to Södra Trivselhus Holding AB, with subsidiary, Tomtbolaget THV Aktiebolag and 50 per cent of Tage Peetz A/S which was renamed Södra Timber A/S.

Södra Interiör AB acquired Bju i Rottne Aktiebolag, Werner Träförädling AB and Aktiebolaget Nordingrå Trä. Bju i Rottne Aktiebolag (556463-6479) was combined during the year with Södra Interiör AB.

Aktiebolaget Nordingrå Trä AB acquired Werner Träförädling AB from Södra Interiör AB. BDL Bygg and Dekorlist AB was combined during the year with Södra Interiör AB. Magne Bråthens Eftf. AS was combined with Södra Interiör AS during the year.

Shares and participations in Group companies Parent Company	2009	2008
Cost		
At the beginning of the year	2,281	2,227
Purchase of assets	3	54
Sale of assets	–92	—
Carrying amount at the end of the period	**2,192**	**2,281**

40 Pledged assets

	Group		Parent Company	
	2009	2008	2009	2008
In the form of pledged assets for own liabilities and provisions				
Property mortgages	78	—	—	—
Floating charges	206	53	53	53
Shares	356	—	—	—
Other pledged collateral and securities				
Current investments	83	31	83	31
Floating charges	8	8	—	—
Financial assets	27	17	21	14
Other	—	3	—	3
Total	**758**	**112**	**157**	**101**

The increse in pledged assets primarily pertains to the acquisitions of Ittur Prefab Industrier AB and Tomtbolaget THV AB during the year, for which collateral for loans was provided prior to the date of the acquisition.

41 Contingent liabilities and contingent assets

	Group		Parent Company	
	2009	2008	2009	2008
Liability under guarantee for pensions in Group companies	—	—	430	419
Other contingent liabilities	617	77	76	52
Total	**617**	**77**	**506**	**471**

Group

Equipment at Södra Cell Mörrum

Södra Cell AB entered a leasing transaction in 1997 with two American banks as counterparties. Supporting documentation for the transaction is a usufruct on equipment at Södra Cell Mörrum. The usufruct has been leased in two principle leases with terms of 36 years. Part of the lease has been received in advance. Södra Cell has in turn at the same time leased back the usufruct via two subleases with terms of just over 28.5 years. Payment responsibility for lease payments has been taken over by a bank following an advance payment by Södra Cell AB. Södra Cell AB has an option either to buy or return the usufruct in approximately 15.5 years. The Parent Company has signed a guarantee taking on liability for Södra Cell AB's contractual discharge of any payment commitments that may arise. The main lease and the sublease with one of the counterparties were terminated in 2008 with no financial consequences.

Guarantee commitment

A guarantee commitment has been made by Ittur Prefab Industrier AB, which was acquired during the year, for a credit institute loan to group companies. The guarantee commitment amounts to SEK 521 million and pertains to borrowings taken up prior to Södra's acquisition of the group of companies.

Restoration obligations

The future closure of part or parts of the operation could lead to a requirement for decontamination or other restoration work. Such work is considered to be in the distant future. Potential future expenses cannot be reliably calculated and no provision has been made for potential costs.

Other

The EFTA monitoring organ, ESA, is reviewing the contract that Nord-Tröndelag Elektrisitetsverk AS holds with Södra Cell Folla AS. There is uncertainty to the extent which the contracted price for 2007 contains elements that could be deemed to conflict with Section 5 of the Norwegian legislation pertaining to official grants. No specific demands have yet been presented.

Södra is currently reviewing its structure for deliveries to a number of countries in Europe. This is due to certain shortcomings in VAT administration. Södra does not anticipate the ongoing review to have any material negative impact on profit.

Parent Company

Restoration costs

Södra Skogsägarna ekonomisk förening has guaranteed the obligations of Södra Cell Tofte AS of NOK 20 million pertaining to industrial landfill until 2035. Should the equity ratio of the Parent Company decline under 40 per cent for two quarters running, a bank guarantee may be required during the period the equity ratio is below 40 per cent.

Provisions for future costs for restoration of fully-harvested peat bogs are made on an ongoing basis as individual peat bogs are harvested. The costs are expensed as provisions.

Disputes

Following the storm Gudrun, Södra contracted a large number of contractors and service providers, some of which decided to sue Södra regarding the extent of the compensation they received. The disputed amount is approximately SEK 27 million (30). An appropriation has been made for an amount that is deemed reasonable under the current circumstances.

Capital guarantee

Södra's part-ownership in SunPine AB includes a guarantee that the equity in SunPine AB may not fall below a determined level. The guarantee is jointly pledged by Södra, Sveaskog and Preem and applies until the production plant at SunPine AB is completed and 10,000 tonnes of biodiesel has been produced.

Guarantee of outcome of wind power projects

The transfer of Södra Vindkraft AB's project portfolio to Statkraft was associated with a guarantee that the contracted annual guarantee level pertaining to potential installed effect is not reduced due to termination from landowners. In the event of a decrease Södra may be required to compensate this by disposing a number of wind power project at cost.

Other

Wood acquisition company Södra Eesti AS received an increased tax assessment during the year and was charged non-deductible value-added tax, income tax and interest on this amount. The charge has been appealed and legal proceedings initiated. All applied and anticipated costs in conjunction with this have been charged to the annual accounts. The outcome may however have a further limited economic affect through a guarantee issued in conjunction with previous disposal of a minority interest in the company.

A number of the year's acquisitions have associated agreements for additional purchase price. In some cases these agreements are similar in character to options. Any fulfilment of these contingent liabilities would have little impact on Södra's financial position.

42 Statement of cash flows

	Group 2009	Group 2008	Parent Company 2009	Parent Company 2008
Financial items				
Interest received during the year	28	86	32	86
Interest paid during the year	–40	–109	–44	–108
	–12	**–23**	**–12**	**–22**
Dividends received during the year	3	7	154	310
Capital gains	–179	–12	–196	–1
Parent Company				
Unsettled intra-Group transfers	—	—	–138	2

Purchase of subsidiaries and other entities	Group 2009	Group 2008
Intangible assets	273	4
Property, plant and equipment	66	8
Financial assets	20	—
Inventories	243	7
Operating receivables	121	6
Cash and cash equivalents	2	3
Total assets	**725**	**28**
Loans	–390	–2
Operating liabilities	–171	–15
Total minorities, liabilities and provisions	**–561**	**–17**
Purchase price	**164**	11
Less: Vendor mortgages	—	—
Purchase price paid	**164**	**11**
Less: Cash and cash equivalents in the acquired entity	–2	–3
Effect on cash and cash equivalents (minus = increase)	**162**	**8**

Sale of subsidiaries	Group 2009	Group 2008
Sales price	**229**	**—**
Less: Vendor mortgages	—	—
Purchase price received	**229**	**—**
Less: Cash and cash equivalents in sold entities	–12	—
Effect on cash and cash equivalents	**217**	**—**

43 Critical accounting estimates and judgements

Preparation of financial statements and application of various accounting standards are based on estimates and judgements concerning the future made by company management. These estimates and judgements are based on historic experience and expectations of future events that are believed to be reasonable under the circumstances. These estimates and judgements form the basis of carrying amounts for assets, liabilities and contingent liabilities that cannot be determined using other information. If other circumstances arise, or if other assumptions are made, the actual outcome may deviate from the carrying amounts. Critical areas where such estimates and judgements have greatest impact on the result and on assets and liabilities are commented below.

Valuation of biological assets

Södra has valued the biological assets, which consist essentially of standing timber, at present value of the expected future cash flows. Cash flow calculations use an estimated harvesting cycle of 80 years and are based on Södra's harvesting volumes in current harvesting plans and relevant assumptions concerning future growth. Future price and cost development has been judged, costs for replanting taken into account and provisions made for environmental conservation. These calculated cash flows have been discounted at present value. Note 20 Biological assets presents the sensitivity in valuation of changes in these estimates as well as in the assumptions that have been applied.

Pensions

The value of pension obligations for defined benefit pension plans is based on actuarial calculations based on assumptions of discount interest, expected return on plan assets, future salary increases, inflation and demographic circumstances. These assumptions are normally updated on an annual basis. Changes in these assumptions affect the amount of the recognised pension liability and recognised equity in the Group. For further information see Note 35 Pensions.

44 Investment commitments

Group

In 2009 the Group signed contracts to purchase property, plant and equipment for SEK 815 million (871).

Parent Company

In 2009 the Parent Company signed contracts to purchase property, plant and equipment for SEK 19 million (8).

45 Financial instruments

Fair value and carrying amount in consolidated statement of financial position:

Group 2009	Financial assets at fair value	Financial assets at fair value via profit/loss Held-for-trade	Available-for-sale financial assets	Cash flow hedging	Hedging of fair value	Financial liabilities at fair value via profit/loss Held-for-trade	Loan and trade debtors	Other liabilities	Total carrying amount	Fair value
Other shares and participations	55	—	—	—	—	—	—	—	55	55
Derivatives, non-current	—	—	—	81	8	—	—	—	89	89
LTFP*, non-current	—	—	—	—	3	—	—	—	3	3
Trade debtors	—	—	—	—	—	—	2,081	—	2,081	2,081
Derivatives, current	—	67	—	149	68	—	—	—	284	284
Other receivables	—	—	—	—	—	—	511	—	511	511
Current investments	449	—	1,110	—	—	—	—	—	1,559	1,559
Cash and cash equivalents	1,223	—	—	—	—	—	—	—	1,223	1,223
Total assets	**1,727**	**67**	**1,110**	**230**	**79**	**—**	**2,592**	**—**	**5,805**	**5,805**
Subordinated debentures	—	—	—	—	—	—	—	131	131	131
Other non-current liabilities	—	—	—	—	—	—	—	234	234	234
Derivatives, non-current	—	—	—	1	3	—	—	—	4	4
LTFP*, non-current	—	—	—	—	8	—	—	—	8	8
Payment plans	—	—	—	—	—	—	—	468	468	468
Forest loans	—	—	—	—	—	—	—	39	39	39
Member accounts	—	—	—	—	—	—	—	1,627	1,627	1,627
Liquidity accounts	—	—	—	—	—	—	—	14	14	14
Trade creditors	—	—	—	—	—	—	—	1,566	1,566	1,566
Derivatives, current	—	—	—	205	17	23	—	—	245	245
LTFP*, current	—	—	—	—	55	—	—	—	55	55
Other liabilities	—	—	—	—	—	—	—	38	38	38
Other liabilities	**—**	**—**	**—**	**206**	**83**	**23**	**—**	**4,117**	**4,429**	**4,429**

* Customer contracts tied to financial instruments.

Group 2008	Financial assets at fair value	Financial assets at fair value via profit/loss Held-for-trade	Available-for-sale financial assets	Cash flow hedging	Hedging of fair value	Financial liabilities at fair value via profit/loss Held-for-trade	Loan and trade debtors	Other liabilities	Total carrying amount	Fair value
Other shares and participations	55	—	—	—	—	—	—	—	55	55
Derivatives, non-current	—	—	—	15	5	—	—	—	20	20
LTFP*, non-current	—	—	—	—	9	—	—	—	9	9
Trade debtors	—	—	—	—	—	—	2,086	—	2,086	2,086
Derivatives, current	—	29	—	67	6	—	—	—	102	102
LTFP*, current	—	—	—	—	12	—	—	—	12	12
Other receivables	—	—	—	—	—	—	593	—	593	593
Current investments	237	—	711	—	—	—	—	—	948	948
Cash and cash equivalents	854	—	—	—	—	—	—	—	854	854
Total assets	**1,146**	**29**	**711**	**82**	**32**	**—**	**2,679**	**—**	**4,679**	**4,679**
Subordinated debentures	—	—	—	—	—	—	—	131	131	131
Other non-current liabilities	—	—	—	—	—	—	—	1	1	1
Derivatives, non-current	—	—	—	69	9	27	—	—	105	105
LTFP*, non-current	—	—	—	—	5	—	—	—	5	5
Payment plans	—	—	—	—	—	—	—	547	547	547
Forest loans	—	—	—	—	—	—	—	41	41	41
Member accounts	—	—	—	—	—	—	—	1,705	1,705	1,705
Liquidity accounts	—	—	—	—	—	—	—	13	13	13
Trade creditors	—	—	—	—	—	—	—	1,571	1,571	1,571
Derivatives, current	—	—	—	140	38	75	—	—	253	253
LTFP*, current	—	—	—	—	6	—	—	—	6	6
Other liabilities	—	—	—	—	—	—	—	45	45	45
Total liabilities	**—**	**—**	**—**	**209**	**58**	**102**	**—**	**4,054**	**4,423**	**4,423**

* Customer contracts tied to financial instruments.

The following tables present the determination of fair value of financial instruments at fair value in the consolidated statement of financial position. Allocation of fair value determination is based on the following three levels.

Level 1: Based on prices quoted on an active market for such instruments.
Level 2: Based on direct or indirect observable market data not included in level 1.
Level 3: Based on input data that is not observable on the market.

Group 2009	Level 1	Level 2	Level 3	Total
Other shares and participations	—	—	55	55
Derivatives, non-current	—	81	8	89
LTFP*, non-current	—	—	3	3
Derivatives, current	—	207	77	284
Current investments	257	1,302	—	1,559
Total assets	**257**	**1,590**	**143**	**1,990**
Derivatives, non-current	—	1	3	4
LTFP*, non-current	—	—	8	8
Derivatives, current	—	25	220	245
LTFP*, current	—	—	55	55
Total liabilities	**—**	**26**	**286**	**312**

* Customer contracts tied to financial instruments

Group 2008	Level 1	Level 2	Level 3	Total
Other shares and participations	—	—	55	55
Derivatives, non-current	—	15	5	20
LTFP*, non-current	—	—	9	9
Derivatives, current	—	67	35	102
LTFP*, current	—	—	12	12
Current investments	65	883	—	948
Total assets	**65**	**965**	**116**	**1,146**
Derivatives, non-current	—	5	100	105
LTFP*, non-current	—	—	5	5
Derivatives, current	—	116	137	253
LTFP*, current	—	—	6	6
Total liabilities	**—**	**121**	**248**	**369**

* Customer contracts tied to financial instruments

The following table presents a reconciliation of opening and closing balance for financial instruments at fair value in the consolidated report of financial position using a valuation method based on non-observable input data (level 3).

	Assets			Liabilities	
Group	Other shares and participations	Derivatives	LFTP*	Derivatives	LTFP*
Opening balance 1 January 2009	55	40	21	237	11
Total recognised profits and losses:					
– recognised in profit for the year	—	67	–6	134	58
– recognised in other total profit	—	13	—	–11	—
Sold and terminated	—	–35	–12	–137	–6
Closing balance 31 December 2009	**55**	**85**	**3**	**223**	**63**

* Customer contracts tied to financial instruments

Other shares and participations includes shares in associates and external companies.

Current investments comprise interest-bearing investments with a duration of more than three months from the time of acquisition, share-index bonds, share-index certificates and shares in listed companies.

Cash and cash equivalents consists of bank assets and current investments with a duration of up to three months from the time of acquisition with insignificant risk of value fluctuation and unsubstantial interest risk.

The following summarises the methods and assumptions that are primarily used to determine fair value of the financial instruments presented in the preceding table:

Shares and participations and current investments

Fair value of listed securities is based on the quoted price of the asset on balance sheet date without addition of transaction costs at the time of acquisition. Potential transaction costs are not taken into account on disposal of an asset.

The fair value of unquoted shares valued at cost due to the difficulty in determining a reliable market value are represented by carrying amount in the above table.

Derivatives

Fair value of currency derivatives and electricity price derivatives is based on quoted prices where available. In the absence of such prices, fair value is calculated by discounting the difference between the contracted forward rate and the forward rate available on balance sheet date for the remaining period of the contract. Discounting is done using the risk-free interest based on treasury bonds.

Fair value of pulp price derivatives, oil price derivatives and timber price derivatives is based on the valuation of the intermediary credit institute, and fairness tested by discounting expected future cash flows based on market interest for similar instruments on balance sheet date. Cash flows are based on the best judgements of corporate management.

Trade receivables and trade creditors

For trade receivables and trade payables with a remaining life of less than six months, carrying amount is deemed to reflect fair value.

Other financial assets and liabilities

The fair value of other financial assets and liabilities is based on future cash flows of capital amounts and interest discounted to current market interest on balance sheet date.

Interest rates used to determine fair value

Discounting is based on the current government borrowing rate plus appropriate interest spread.

46 Events after the reporting period

Gapro changed name to Södra Interiör on 1 January 2010. The name change is a step towards building the Södra brand amongst consumers, customers and members.

47 Related parties

The Parent Company is deemed to be a related party in relation to its subsidiaries and associates, as presented in Note 39 Group companies. Of the Parent Company's total purchases and sales measured in SEK, 6 per cent (6) of purchases and 65 per cent (66) of sales are related to other companies in the Group.

Through its representation on the boards of the Södra Pension foundation and the Södra Foundation for research, development and education, the Parent Company is considered a related party to these foundations. The foundations have taken out subordinated debentures in Södra. The Södra Foundation for research, development and education has also acquired bonus issues.

Through their right to participate in decisions affecting the Parent Company's strategies, its board members have a significant influence over the Parent Company and are thus considered to be related parties. An economic association is intended to promote the economic interests of its members through financial operations in which the members participate. In accordance with this, purchases and sales of goods and services during the accounting year have occurred between the Parent Company and individual board members, which are members of the Association. In the same manner, individual board members participate in the financing of the Association. These transactions have occurred in accordance with the Association's purpose, and its price-setting and other conditions have been applied.

Group	Sale of goods/ services to related parties	Purchase of goods/services from related parties	Other (interest, dividends)	Receivables from related parties 31 December	Liabilities to related parties 31 December
Associates					
2009	314	—	—	14	—
2008	232	—	—	2	—

Parent Company	Sale of goods/ services to related parties	Purchase of goods/services from related parties	Other (interest, dividends)	Receivables from related parties 31 December	Liabilities to related parties 31 December
Associates					
2009	5,623	535	161	2,272	468
2008	6,190	561	19	2,363	537

Information about salaries and agreements for redudancy payments, etc. for management and other personnel has been provided in Note 6 Employee expenses.

Other information relating to transactions between Group companies is presented in Note 41 Contingent liabilities and contingent assets.

48 Parent Company information

Södra Skogsägarna ekonomisk förening is a Swedish-registered economic association with registered office in Växjö, Sweden. The head office is located at Skogsudden, Växjö, Sweden.

The consolidated financial statements for 2009 consist of the Parent Company and its subsidiaries, jointly named the Group. The Group also includes shares owned in associates.

49 Effects of transition to IFRS

Södra has applied International Financial Reporting Standards (IFRS) in its consolidated financial statements since 1 January 2009. The consolidated financial statements for the 2009 financial year are Södra's first financial statements in accordance with IFRS. The transition, with translation to IFRS, has been made with the application of IFRS 1 (First-time Adoption of IFRS). Södra has previously followed the recommendations of the Swedish Financial Accounting Council, which are adapted to many of the IFRS rules and regulations. As the recommendations of the Swedish Financial Accounting Council deviate from IFRS in a number of aspects, the transition to IFRS has involved changes and adjustments in Södra's accounting. The significant changes and adjustments resulting from IFRS rules and regulations are presented below. The quantitative effects on the consolidated statement of comprehensive income for 2008 and the consolidated statement of financial position at 1 January 2008 and 1 January 2009 are presented in table form at the end of this note.

IAS 1 Presentation of financial statements
Minority share is included in recognised income for the period. In accordance with IAS 1, minority interest is presented in the statement of financial position as a separate item under equity. Previously, minority share of profit has been recognised as a deduction after tax and minority share of equity recognised separately to equity.

IAS 12 Income taxes
Deferred tax has been calculated and recognised pertaining to all valuation differences arising as a result of adjustments to value in conjunction with the transition to IFRS accounting.

IAS 16 Property, plant and equipment
The application of IAS 16 involves a transition to application of the component method for property, plant and equipment including planned maintenance shutdowns.

The component method has increased the value of property, plant and equipment in the statement of financial position at 1 January 2008 by SEK 172 million and at 1 January 2009 by SEK 129 million. Operating profit before depreciation in 2008 has improved by SEK 133 million and recognised depreciation according to plan has increased by SEK 179 million.

IAS 19 Employee benefits
Södra has previously applied RR 29 under which actuarial gains and losses exceeding 10 per cent of the greater of the present value of obligations and fair value of plan assets are recognised in profit/loss over the expected remaining service period of the employees covered by the plan. In accordance with IAS 19, all previously unrecognised actuarial gains and losses at 1 January 2008, the date of Södra's transition to IFRS, are recognised respectively as assets and liabilities and counterbooked directly against equity. The principle change has resulted in a reduction of equity of SEK 125 million at 1 January 2008 and SEK 312 million at 1 January 2009. Operating profit for 2008 has been positively affected by SEK 5 million. From 1 January 2008 all actuarial gains and losses are recognised in full as assets and liabilities respectively and counterbooked directly against equity.

IAS 39 Financial instruments: Recognition and measurement
According to IAS 39, certain financial assets and liabilities are recognised at fair value. All derivative instruments are to be taken up and recognised at fair value in the statement of financial position regardless of whether hedge accounting is applied or not. Financial assets classified as available-for-sale are recognised regularly at fair value with changes in value taken up in the statement of comprehensive income for the period in which the change in value arised. Securities other than shares and share-related funds are classified as available-for-sale financial assets and measured regularly at fair value. Unrealised changes in value are recognised in other total profit, while realised profit and any impairment losses are taken up in the statement of comprehensive income.

Derivative instruments for which hedge accounting is applied are measured at fair value in the consolidated statement of financial position. Under previous accounting policies for hedge reporting, derivative instruments were not included in the statement of financial position to the extent they were considered to hedge future forecast or contracted transactions. On hedging of future cash flows (cash flow hedging) in accordance with IAS 39, changes in value of hedging instruments are recognised temporarily in equity until the hedged item is recognised in the statement of comprehensive income at which time the accumulated value changes of the hedging instrument are restored from equity to profit/loss in order to match the equivalent profit effect of the hedged item. When a hedging instrument is used to hedge fair value (fair value hedging) the derivative is recognised in the statement of financial position, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change of value of the derivative is recognised in the statement of comprehensive income in conjunction with the value change of the hedged item in the fair value hedge.

Södra applies hedge accounting in relation to transaction and translation exposure, hedging of electricity price, oil price, pulp price and timber price. Derivative instruments that do not fulfil the requirements for hedge accounting are recognised in the statement of comprehensive income.

In the opening balance at 1 January 2008, all financial instruments have been identified and measured in accordance with IAS 39. The difference in carrying amount between the statements of financial position at 31 December 2007 and 1 January 2008 have been recognised directly against equity.

The revaluation at 1 January 2008 resulted in a negative effect on equity of SEK 363 million. The revaluation at 1 January 2009 resulted in a negative effect on equity of SEK 124 million. The revaluations have had a positive effect on profit after finance income and expenses in 2008 of SEK 16 million. The most significant revaluation effects are attributable to the inclusion of existing pulp swaps for hedging purposes in the statement of financial position.

Subordinated debentures represent financial instruments under IAS 39 and are to be recognised as financial liabilities. This meant that in the opening balance at 1 January 2008 Södra reclassified subordinated debentures of SEK 247 million from equity to financial liabilities. The equivalent reclassification on 1 January 2009 was SEK 131 million. Dividends on subordinated debentures is to be recognised as interest expense when the dividend is earned. This has a negative effect on finance income and expenses of SEK 7 million in 2008.

IAS 41 Agriculture
Södra's forest assets have previously been recognised at cost adjusted for impairment as needed. IFRS requires forest assets to be divided into growing forest, which is reported in accordance with IAS 41, and land, which is reported in accordance with IAS 16.

Under IAS 41, growing forest is measured and recognised at fair value. Where there are no market prices, measurement can otherwise be made at present value of the estimated future cash flows from the growing forest. The fair value of the forest has been estimated by discounting the present value of future expected cash flows from the growing forest. The estimated value has then been charged with deferred tax. Changes in fair value are recognised in the consolidated statement of comprehensive income.

The land on which the forest is growing is valued at cost in accordance with IAS 16.

Introduction of IFRS means that SEK 357 million is classified as biological assets in the opening balance at 1 January 2008. At 1 January 2009 the corresponding amount is SEK 452 million. Operating profit for 2008 is negatively affected by SEK 6 million in terms of change in value of growing forest.

IFRS 3 Business combinations
In accordance with IFRS 3, goodwill is no longer written off but is tested annually for impairment requirement. Södra applies the voluntary exception in IFRS 1 and refrains from recalculating accounting of acquisitions made prior to 1 January 2008. This means that goodwill in Södra's statement of financial position at 1 January 2008 totals SEK 96 million and that operating profit for 2008 is improved by SEK 26 million.

Summary of adjustments and estimated income effects on transition to IFRS:

Consolidated statement of financial position 1 January 2008

	According to previous accounting principles 31 Dec. 2008	IFRS adjustments: IAS 1	IAS 2	IAS 16	IAS 19	IAS 39	IAS 41	Other IAS	IFRS 3	Opening balance according to IFRS 1 Jan. 2008
Assets										
Intangible assets	133	—	—	—	—	—	—	–35	—	98
Property, plant and equipment	7,139	—	—	172	—	—	–374	—	—	6,937
Biological assets	—	—	—	—	—	—	357	—	—	357
Surplus in funded pension plans	53	—	—	—	–50	—	—	—	—	3
Other non-current assets	42	—	—	—	—	64	—	36	—	142
Deferred tax assets	126	—	—	—	—	111	1	—	—	238
Inventories	3,623	—	–3	—	—	—	—	—	—	3,620
Tax assets	19	—	—	—	—	—	—	—	—	19
Operating receivables	2,948	—	3	—	—	102	—	—	—	3,053
Current investment	2,127	—	—	—	—	–769	—	—	—	1,358
Cash and cash equivalents	415	—	—	—	—	792	—	—	—	1,207
Total assets	**16,625**	**—**	**—**	**172**	**–50**	**300**	**–16**	**1**	—	**17,032**
Equity and liabilities										
Equity	10,418	3	—	124	–125	–610	–16	19	—	9,813
Minority interests	3	–3	—	—	—	—	—	—	—	—
Deferred income tax liabilities	1,369	—	—	48	–49	–21	—	—	—	1,347
Provisions for pensions	89	—	—	—	91	—	—	—	—	180
Non-current provisions	93	—	—	—	33	—	—	1	—	127
Non-current operating liabilities	—	—	—	—	—	363	—	—	—	363
Interest-bearing liabilities	2,177	—	—	—	—	247	—	—	—	2,424
Income tax liabilities	210	—	—	—	—	—	—	—	—	210
Current operating liabilities	2,266	—	—	—	—	321	—	–19	—	2,568
Total equity and liabilities	**16,625**	**—**	**—**	**172**	**–50**	**300**	**–16**	**1**	**—**	**17,032**

Consolidated statement of financial position 1 January 2009

	According to previous accounting principles 31 Dec. 2008	IFRS adjustments: IAS 1	IAS 2	IAS 16	IAS 19	IAS 39	IAS 41	Other IAS	IFRS 3	Opening balance according to IFRS 1 Jan. 2009
Assets										
Intangible assets	116	—	—	—	—	—	—	–24	26	118
Property, plant and equipment	7,354	—	—	129	—	—	–475	—	—	7,008
Biological assets	—	—	—	—	—	—	452	—	—	452
Surplus in funded pension plans	67	—	—	—	–67	—	—	—	—	—
Other non-current assets	92	—	—	—	—	28	—	27	—	147
Deferred tax assets	90	—	—	—	—	48	1	—	—	139
Inventories	3,541	—	–10	—	—	—	—	—	—	3,531
Tax assets	24	—	—	—	—	—	—	—	—	24
Operating receivables	3,054	—	10	—	—	126	—	—	—	3,190
Current investments	1,471	—	—	—	—	–523	—	—	—	948
Cash and cash equivalents	315	—	—	—	—	539	—	—	—	854
Total assets	**16,124**	**—**	**—**	**129**	**–67**	**218**	**–22**	**3**	**26**	**16,411**
Equity and liabilities										
Equity	9,806	6	—	95	–312	–255	–22	2	26	9,346
Minority interests	6	–6	—	—	—	—	—	—	—	—
Deferred income tax liabilities	1,286	—	—	34	–113	–37	—	2	—	1,172
Provisions for pensions	77	—	—	—	278	—	—	—	—	355
Non-current provisions	53	—	—	—	80	—	—	—	—	133
Non-current operating liabilities	—	—	—	—	—	110	—	—	—	110
Interest-bearing liabilities	2,308	—	—	—	—	131	—	—	—	2,439
Income tax liabilities	62	—	—	—	—	3	—	1	—	66
Current operating liabilities	2,526	—	—	—	—	266	—	–2	—	2,790
Total equity and liabilities	**16,124**	**—**	**—**	**129**	**–67**	**218**	**–22**	**3**	**26**	**16,411**

Note 49 continued

Consolidated statement of comprehensive income 2008

	According to previous accounting principles	IFRS adjustments IAS 1	IAS 2	IAS 16	IAS 19	IAS 39	IAS 41	Other IAS	IFRS 3	Opening balance according to IFRS
Net revenue	16,834	—	—	—	—	159	—	—	—	16,993
Other operating income	373	—	—	—	—	–1	—	—	—	372
Operating revenue	17,207	—	—	—	—	158	—	—	—	17,365
Operating expenses	–15,465	—	—	133	5	–90	–6	—	2	–15,421
Depreciation, amortisation and impairment of assets	–980	—	—	–179	—	—	—	—	24	–1,135
Operating profit	762	—	—	–46	5	68	–6	—	26	809
Finance income and expenses	–54	—	—	—	—	–59	—	—	—	–113
Profit after finance income and expenses	708	—	—	–46	5	9	–6	—	26	696
Taxes	–193	—	—	15	–2	20	–1	—	—	–161
Minorities share of income for the year	–2	2	—	—	—	—	—	—	—	—
Income for the year	**513**	**2**	**—**	**–31**	**3**	**29**	**–7**	**—**	**26**	**535**

Proposed appropriation of profits

The Board proposes that the profits at the disposal of the Södra AGM, SEK 722,919,934, be appropriated as follows:

Dividend to members of 3 per cent of capital contributed, amounting to	SEK 66,335,627
Dividend to members of 8 per cent of wood deliveries, amounting to *The dividend is calculated on member wood deliveries from 1 January 2009 to 31 December 2009, and is based on the full product range excluding sold standing forest.*	SEK 239,200,000
To members' capital account through bonus issue *The bonus issue represents 10 per cent of available paid-up capital contributed at 31 December 2009.*	SEK 80,867,513
Dividend of 5.7 per cent on subordinated debentures, series D	SEK 7,410,000
Appropriation to the statutory reserve	SEK 28,685,428
Amount carried forward	SEK 300,421,366
	SEK 722,919,934

The Group's non-restricted equity totalled SEK 4,120,493,000.
Proposed appropriations to restricted equity total SEK 109,552,941.

The consolidated financial statements and the annual report have been prepared respectively in accordance with the international accounting standards in Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards, and in accordance with generally accepted auditing standards in Sweden and give a true and fair view of the Group's and the Parent Company's financial position and results of operations.

The Directors' Report for the Parent Company and the Group gives a true and fair view of the development of the Parent Company's and the Group's operations, position and results as well as describing significant risks and uncertainty factors that the Parent Company and Group companies face.

Växjö, 26 February 2010

Lars-Eric Åström
Chairman

Christer Segerstéen
Vice Chairman

Kent Almqvist
Employee representative

Nils-Erik Andersson
Employee representative

Gunilla Aschan

Lena Ek

Anders Grennborg

Mats Hansson

Carl-Olov Holmström

Lars Idermark

Hans-Olof Mattsson
Employee representative

Anders Ripström

Jan-Olof Thorstensson

Leif Brodén
President and CEO

The annual report and consolidated financial statements were approved for release by the Board on 26 February 2010. The consolidated statement of comprehensive income and consolidated statement of financial position and the Parent Company's income statement and balance sheet will be presented for adoption by the AGM on 19 May 2010.

Our audit report was submitted on 26 February 2010

Johan Dyrefors Anders Malmeby
Authorised Public Accountants

Göran Andersson Paul Christensson
Member Representative Auditors

This is a translation of the annual report for the 2009 financial year as presented in original by the Board on 26 February 2010. This translation does not replace the original annual report and has therefore not been signed by the members of the Board, nor has it been subject to audit.

Audit report

To the Annual General Meeting of Södra Skogsägarna Economic Association, Corporate Identity Number 729500-3789.

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of Södra Skogsägarna Economic Association for the year 2009. The Board of Directors and the President are responsible for these accounts and the administration of the Company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of International Financial Reporting Standards IFRS as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain high but not absolute assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President and significant estimates made by the Board of Directors and the President when preparing the annual accounts and the consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the liability, if any, to the Company of any Board member or the President. We also examined whether any Board member or the President has, in any other way, acted in contravention of the Association Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the Company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with International Financial Reporting Standards IFRS as adopted by the EU and the Annual Accounts Act and give a true and fair view of the Group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the Annual General Meeting that the income statement and the balance sheet of the Parent Company and the consolidated statement of comprehensive income and the consolidated statement of financial position be adopted, that the profit of the Parent Company be dealt with in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Växjö, 26 February 2010

Johan Dyrefors Anders Malmeby
Authorised Public Accountants

Göran Andersson Paul Christensson
Member Representative Auditors

This is a translation of the annual report for the 2009 financial year as presented in original by the Board on 26 February 2010. This translation does not replace the original annual report and has therefore not been signed by the members of the Board, nor has it been subject to audit.

This is **Södra**

Södra is a company based on the growing power and potential of forest land. The business is based on growing forest, planting, forest management and harvesting. The forest is the base of our industrial operations: production of pulp, sawn timber, timber homes, interior wood products and energy.

Södra – a company that keeps growing into the future.

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