



PRESIDENT AND CEO

An excellent 2006 – stormy but strong start to 2007

2006 was characterised by a return to more normal conditions following the processing of wood felled by Hurricane Gudrun.

2007 has started with a new storm. Almost six million cubic metres, more than half a year's normal harvest, has been felled for Södra members. Our main approach is to deal with the storm-felled wood before summer and not fell any standing fresh wood during that period.

Södra has meanwhile had a strong start to 2007. As in 2006, the markets for sawn timber, pulp and interior wood products are stable.

During the autumn we recommenced felling of standing forest after a 19-month felling stop. The work fell in with improved business cycles in the sawmill and pulp sectors. The Gudrun process was capped by the resolution of the Annual General Meeting to distribute the entire profit for the business year January 2005–June 2006, over SEK 1.4 billion, to owners.

Market trends

A stable pulp market benefited the Södra Cell business unit. The global market price for long-fibre bleached softwood pulp increased during the year from USD 600 to USD 730 per tonne. Meanwhile the Swedish krona strengthened against the dollar, dampening the positive effect of the pulp price rise to some extent. 2007 has commenced with a continued rise in the pulp price.

The market for sawn timber was characterised by shortages in some ranges, driven by strong consumption of sawn timber in Europe. There was slowing demand in USA.

The Södra Timber business unit achieved its best result ever. The strong business cycle in the sawmill industry in Europe and Asia is expected to continue during 2007. A continued reduction in sawn timber consumption in the US is expected due to declining house construction.

Interior wood products also developed well, driven by domestic construction markets in Sweden and Norway as well as on the export market. The Gapro business unit continued this year to manage a balancing act between a strong market and an overstrained situation for raw material supply with upwards pressure on raw material prices.

Energy investments

During the year, Södra completed its investment programme in new electricity turbines at its three Swedish pulp mills. The total cost amounted to SEK 600 M. This makes Södra's



electricity production 130 percent of its consumption, and the Group a net seller of electricity. Södra also resolved in principle to invest in wind turbines beside the Värö pulp mill. The first phase comprises three wind turbines, a total investment of approximately SEK 80 M.

Expanded business area

Södra's geographic operating area was expanded through an agreement with forest-owner association Mellanskog to transfer its operations in Bohuslän and Dalsland on the Swedish west coast. Mellanskog members in this region are invited to apply for membership in Södra. Employees in the district, including administrative staff, are taken over by Södra Skog.

The global market price of our products is not something that Södra can affect. Instead we will work to improve productivity, which we can influence. This paves the way for long-term profitability and competitiveness and all employees are able to contribute. During the year, 889 improvement measures were implemented, giving the Group recurrent annual savings of SEK 64 M. In addition, 2,461 improvement suggestions were made.

Växjö, February 2007

Leif Brodén
President and CEO

	2006	2005	2004	2003	2002
Net sales, SEK M	15,891	15,935	13,651	13,177	12,048
Profit after financial income and expenses, SEK M	1,544	854	911	1,502	771
Return on capital employed, %	14	9	9	16	9
Equity ratio, %	58	59	63	63	58
Number of employees	3,678	3,687	3,599	3,638	3,642
Wood volume, mill. m ³ fub	18.2	24.1	15.5	14.9	14.7
Affiliated forest area, 1,000 hectares	2,231	2,203	2,197	2,132	2,086

CHAIRMAN OF THE BOARD

Battle against bark beetle in the wake of Storm Per

We continue to face the challenges of dealing with storm-felled wood and the threat of bark beetle attack. Teamwork will make it possible.

Hurricane Gudrun dominated 2006 as well. The first half-year was spent processing storm-felled wood. The idea was we would return to more normal operations during the second half-year. Unfortunately we met new challenges which made this difficult. The greatest challenge is to stop the bark beetle attack that has flared up. During the summer and autumn we could see widespread attacks on standing forest – not only around clearings and edges but even in the stands.

The new storm that hit our region in January 2007 brings further challenges. Gudrun aside, it caused the heaviest storm damage since the 1969 storm. It's critical to deal with the new storm volumes as quickly as possible. Measures to prevent insect attack have become even more critical. If we don't succeed in stopping the bark beetle attack we risk a drawn-out process with severe damage to forests throughout the Götaland region in coming years.

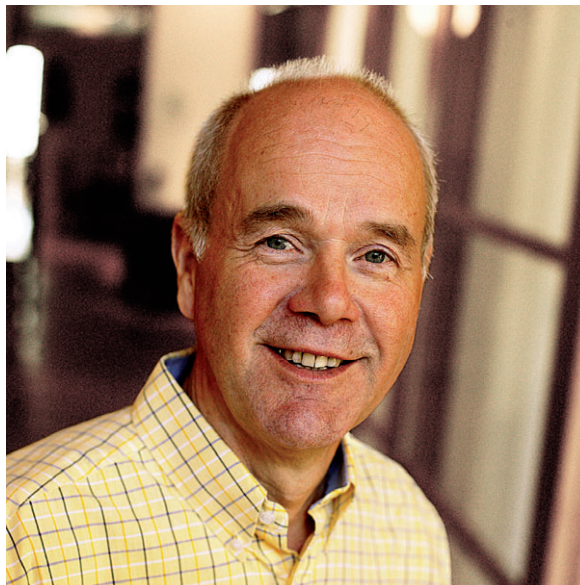
We will work intensively to process storm wood and take steps to combat insect attack. It is important that we, as forest owners, keep a close watch on our forest so we identify afflicted trees in time.

New members are welcome

From 1 January 2007, the Bohuslän and Dalsland provinces have become part of the Södra membership area. We would like to welcome forest owners in these new areas to our association, and hope they see the benefits of taking part in Södra's continued development. The membership organisation for this area consists of two forestry districts, the chairmen of which are members of our Administrative Council.

Members play important role in Södra

We face many exciting challenges as our mills increase their production, and at the same time we are looking at opportunities to continue developing energy production. In line with our industrial growth it is clear we need more members.



Our business concept is of course to create value through a co-operation in which we process wood from members. It's therefore pleasing to be able to report that even taking storm processing into account we managed to achieve an excellent result. With a strong balance sheet and excellent profit development we have good reason to recommence bonus issues in future.

As the membership base is constantly changing and being renewed, it's worth emphasizing the usefulness of our partnership. Today we have the tools we need to develop and clarify the ownership role of members. Information is needed though, along with a dialog on these matters. I look forward to continue talking with our members about our Södra.

Växjö, February 2007

Lars-Eric Åström
Chairman of the Board

Consolidated finances in summary

Net sales, SEK 15,891 M, were essentially the same as during the record 2005 year. All business units showed sales growth, with the exception of Södra Skog which delivered less wood than during the previous year when Hurricane Gudrun occurred.

Profit after financial income and expenses increased to SEK 1,544 M (854). All business units reported a positive result. The biggest profit increases were noted for Södra Cell and Södra Timber. Price increases were significant for pulp and sawn timber, more than offsetting the effects of a stronger SEK against the USD and EUR.

The result includes non-recurring items in the form of write-downs, provisions and profit from currency and price hedging. Tofte's goodwill value was written down by the residual SEK 128 M and a SEK 50 M provision made to Södra's Research Foundation.

Return on capital employed was 14 per cent. During the latest five-year period, the return has averaged 11 per cent compared to the long-term objective of at least 10 per cent.

The balance sheet total was SEK 15,118 M (15,269). The greatest changes compared to last year were the decline in Non-interest bearing liabilities to SEK 2,008 M (2,920) and increase in Interest-bearing liabilities to SEK 2,929 M (1,970). The former item includes 2005 provisions to the storm payment fund of SEK 1,248 M.

The item Interest-bearing liabilities consists primarily of member deposits. The increase is mainly due to a higher level of member funds on loan accounts and payment plans than at the previous year-end.

Stock value declined somewhat, but significant wood stocks mean that stock value was approximately double the level in the year prior to Hurricane Gudrun.

Equity capital amounted to SEK 8,709 M. Paid-up capital contributed and bonus issues accounted for SEK 640 M and SEK 125 M respectively, subordinated debentures for SEK 249 M and other equity for SEK 6,695 M.

The equity ratio was 58 per cent at year-end.

The year's cash flow was SEK 102 M. The largest outgoing payments were the dividend totalling SEK 1,426 M and gross investments of SEK 1,142 M. The incoming cash flow from operating activities increased to SEK 2,419 M.

The largest individual investments were the electricity turbines at the Värö and Mönsterås pulp mills. The total investments for the turbine projects implemented at the three Swedish pulp mills were almost SEK 600 M. The projects are part of Södra's energy strategy to maximise electricity production and make more efficient use of energy. On the sawmill side, the largest investments were a new planing mill at Värö. Two larger acquisitions of forest land in Estonia and Latvia totalled almost 10,000 hectares.

Profit and loss account

SEK M	2006	2005
Net sales	15,891	15,935
Profit before depreciation	2,645	1,808
Depreciation/write-downs	-1,094	-979
Operating profit	1,551	829
Financial income and expenses	-7	25
Profit after financial income and expenses	1,544	854

Net sales and income per operation

SEK M	Net sales		Operating profit	
	2006	2005	2006	2005
Södra Skog	7,427	9,142	50	54
Södra Skogsenergi	340	327	5	9
Södra Timber	3,074	2,781	270	156
Gapro	727	554	13	27
Södra Cell	9,028	8,125	1,331	708
Other/eliminations	-4,705	-4,994	-118	-125
Group	15,891	15,935	1,551	829

Balance sheet

SEK M	2006-12-31	2005-12-31
Assets		
Fixed assets	7,474	7,536
Inventories	3,067	3,277
Operating receivables	2,686	2,659
Cash, bank, investments	1,891	1,797
Total assets	15,118	15,269
Equity and liabilities		
Equity	8,709	8,979
Provisions	1,472	1,400
Interest-bearing liabilities	2,929	1,970
Non-interest bearing liabilities (incl. income tax recoverable)	2,008	2,920
Total equity and liabilities	15,118	15,269

Cash flow

SEK M	2006	2005
Funds from the year's operations	2,419	1,784
Change in operating capital	-848	-986
Cash flow from operating activities	1,571	798
Cash flow from investing activities	-1,095	-866
Cash flow from financing activities	-374	-708
Cash flow for the period	102	-776

This report encompasses the 2006 calendar year. The report has not been subject to review by the company's auditors. Due to the effects of Hurricane Gudrun, Södra's financial year is not consistent with the calendar year. The previous financial year was 1 January 2005–30 June 2006 and the current financial year is 1 July 2006–31 December 2007.

M E M B E R S

Gudrun summed up. Increased membership area

Membership operations were dominated by the repercussions of the storm that hit southern Sweden in January 2005. At the annual meeting of the forestry districts held in September, the effects of Hurricane Gudrun were summed up and presented to members.

Among the key business policy issues were management of Gudrun-related subsidies such as the road subsidy, the replanting subsidy and the "50 kronor" subsidy. Other business policy efforts have been focussed on infringement issues related to EU water directives, new regulations for water protection areas, tree clearance along power lines, the Southern Link electricity grid, and bark beetle damage close to nature reserves.

A follow-up of the Safe Forests project was run during the year with safety representatives being trained in each forestry district. Chainsaw Driving Licence workshops were started.

At the Annual General Meeting in Norrköping it was resolved that the entire operating profit for 2005/06 be paid as a dividend. The dividend provided members SEK 1,164 M in post-payments on wood delivered under storm conditions and SEK 238 M in dividends on capital contributed. In addition, SEK 24 M was paid on subordinated debentures.

The Articles of Association were changed at the Annual

General Meeting and their language modernised. Among the more important changes were that at least five hectares of productive forestry land must be owned or leased to become a member, and that the Board of Directors can order members that have felled but not delivered wood to the Association during the five past year to resign their membership. The Annual General Meeting discussed motions including profit distribution, action plans for gender equality among elected member representatives, information and activities for children and youth, as well as timber scaling.

Gunilla Aschan and Anders Ripström were elected new members of the Board of Directors.

During the 18-month period following the storm, the Association took in 25 million m³fub of wood from members. The equivalent volume for the 2006 calendar year was 12 million m³fub, compared to a normal annual quantity of 7–8 million m³fub.

At the end of 2006 there were 50,470 members and the affiliated membership area was 2.2 million hectares. Södra's membership area was expanded from 1 January 2007 with the addition of the west-coast districts of Bohuslän and Dalsland, which form one forestry district from an operational perspective and two in terms of the democratic organisation.

S Ö D R A S K O G

Processing of storm wood completed

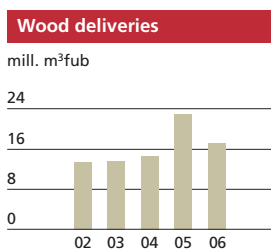
Net sales were SEK 7,427 M (9,142). The decline is explained by deliveries being less than during the storm year of 2005. Operating profit was SEK 50 M (54).

The raw material market changed from a surplus position at the start of the year to a shortage of raw materials throughout Northern Europe at the end of the year. There was a large supply of storm-felled wood during the first half-year. In areas such as northern Sweden, Germany and the Baltic countries, supply fell during the second half-year due to reduced felling and difficult weather conditions and wet ground. As wood was subject to heavy demand at the same time, a shortage emerged in several locations.

Processing of the storm-felled wood was completed during the first half-year. The total volume reached 25 million m³fub. Reporting of the 14,000 storm assignments involved significant effort.

Roadside pulpwood stocks were large at the beginning of the year, 3.9 million m³fub. During the first half-year, wood logistics were heavily impacted by measures for managing forest protection. A total of 1.1 million m³fub of white pulpwood was transported to terminals and 0.3 million m³fub of insect-damaged wood was removed from roadside log piles and transported directly to mills.

Closure of wood terminals began during the summer. Deliveries from the terminals were implemented according



to plan. At the end of the year 2.8 million m³fub remained at the terminals.

Contracts for standing forest and wood deliveries were recommenced during the summer. Prices for pulpwood and spruce saw logs were increased to pre-storm levels, with prices for pine saw logs rising by an additional SEK 25-50 per m³fub. Special conditions were applied to insect-damaged wood. Price-setting of saw logs was changed from m³to m³fub.

Procurement of felling services covered some 90 per cent of felling work. Contracts were signed with around a hundred contractors. The outcome was a consolidation of felling groups giving greater utilisation and a cost-reduction of some 10 per cent.

Productivity processes have maintained a high pace. The first phase has involved making wood procurement more efficient. Employees in all forestry districts have participated in purchasing training.

A total of nearly 10,000 hectares of forest have been acquired in Estonia and Latvia from the forest-owner owned company Metsäliitto. The purpose of the acquisition is capital investment and the creation of a platform for more secure wood import.

Facts	2006	2005
Net sales, SEK M	7,427	9,142
of which internal sales	4,330	4,640
Operating income, SEK M	50	54
Return on operating capital, %	3	7
Wood deliveries, mill. m ³ fub*	17.0	23.0
Number of employees	505	534

* Including deliveries to stock.

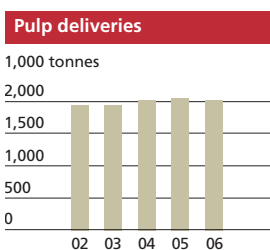
Improved market balance and price increases

Operating profit improved to SEK 1,331 M (708). The improvement is primarily explained by higher market prices and reduced specific costs. The result includes a non-recurring cost for write-down of outstanding goodwill in Tofte of SEK 128 M.

The demand for writing and printing paper in Western Europe increased by 3 per cent. The greatest growth was in newspaper and magazine paper, while the increase in coated wood-containing paper and wood-free qualities was more restrained. The pulp industry's deliveries of market pulp increased by 4 per cent and capacity utilisation reached 95 per cent. Stocks were for the most part low. At the end of the year, global pulp stocks amounted to almost 3 million tonnes.

Better market balance led to five increases in the price of bleached long-fibre sulphate pulp, from USD 600 per tonne at the start of the year to USD 730 at the end of the year. The price of short-fibre pulp also rose, but at a somewhat slower rate. The price increase more than offset an increasingly strong SEK against the USD. The average selling price in SEK was 13 per cent above last year's level.

Production was 2,005,000 tonnes, of which 1,430,000 tonnes was softwood pulp. The business was also affected by Hurricane Gudrun during 2006. The use of southern



Swedish soft pulpwood was prioritised in both Swedish and Norwegian mills.

Investment costs were SEK 658 M. The largest project involved the new turbines for generating renewable electricity at Värö and Mönsterås. Including the turbine installed at Mörrum in 2005, Södra Cell has invested close to SEK 600 M in plants for electricity generation. When the new turbines are run-in, Södra Cell expects to have a self-sufficiency level of close to 130 per cent. Other major investments included improved brownstock washing at Värö, which generates energy savings and increased capacity. At Mönsterås, the second phase of a programme for improving product properties was implemented.

The strategy for coming years includes ongoing productivity processes to increase volume and reduce costs. During the year a training programme was completed – in which nearly all employees have participated – which aims to strengthen productivity processes in the units.

Facts	2006	2005
Net sales, SEK M	9,028	8,125
Operating income, SEK M	1,331	708
Return on operating capital, %	20	10
Production tonnes	2,005	2,053
Number of employees	1,751	1,853

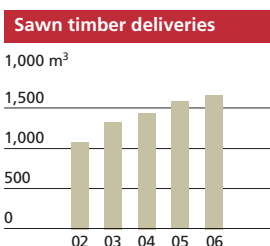
Strong demand lifts sawn timber prices

Operating profit increased to SEK 270 M (156), primarily as a result of higher delivery prices and lower raw material costs.

Demand for sawn timber products remained strong in Europe, while the US market was dampened by a significant decline in home construction. The market balance on the European market improved while availability from countries such as Finland and Russia was lower than the previous year. Sawn timber prices showed a rising trend throughout the year.

Production at Södra's sawmills was 1,550,000 m³. Production thus continued to increase. Investments during recent years have helped increase planing to 63 per cent (53).

Saw log deliveries during the spring included a certain amount of dry and decayed wood, which limited the production increase and affected quality, thus reducing the sawn timber price received. During the autumn, consumption increased from the saw log terminals established after the storm. The quality



of the stockpiled saw logs has been satisfactory. The pine terminals and lake storage in Lake Kisa were closed. Terminal closures are expected to be completed in early 2009.

The year's largest investment was a new planing mill in Värö with a capacity of 250,000 m³. New dryers were commissioned in Långsjö and Mönsterås. The new saw line at Unnefors was run-in.

Productivity projects are running at all sawmills. Key goals are to reduce the cost per manufactured cubic metre and to utilise raw materials effectively. The objective of implementing at least four improvement proposals per week was achieved.

Facts	2006	2005
Net sales, SEK M	3,074	2,781
Operating income, SEK M	270	156
Return on operating capital, %	21	11
Production, 1,000 m ³	1,550	1,524
Number of employees	905	876

High production rate and expanded operations

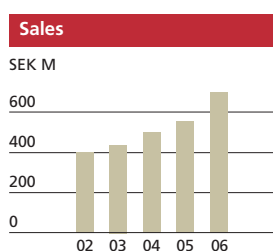
Net sales increased to SEK 727 M (554). Annual operating profit amounted to SEK 13 M (27).

Gapro products were subject to strong demand. The Swedish and Norwegian domestic markets showed strong growth rates. Demand from export markets also developed favourably.

Gapro's expansion has continued. Sales increased by 31 per cent to SEK 727 M. The increase was made possible by high production rate, acquisition and broader agreements with major customer groups.

Capacity utilisation ran high at all plants. Longer operating times and overtime were required to meet delivery commitments.

Raw materials consist 90 per cent of pine. Hurricane Gudrun led to pine being in short supply during much of the year, with significant price rises as a result. Margins were reduced as the increases could not be fully compensated by increased selling prices.



A productivity programme was introduced during the spring. The process is focussed on allocation of production between plants, logistics, optimisation of profitability at product level and the development of various key control ratios.

Acquisitions during the year included mouldings manufacturer Våxtorps List in Halland, Norwegian company Engesetdal AS which produces MDF mouldings and other products, and former supplier S A Träslöjd in Grimslöv. The acquisitions have reinforced Gapro's market position and enabled further expansion.

Facts	2006	2005
Net sales, SEK M	727	554
Operating income, SEK M	13	27
Return on operating capital, %	4	8
Number of employees	369	254

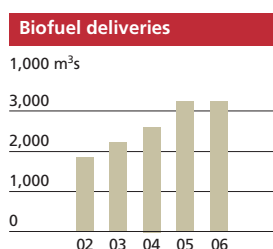
Warm autumn reduced demand

Operating profit declined to SEK 5 M (9), primarily due to increased purchase prices and handling costs.

Access to forest fuel was limited in the wake of Hurricane Gudrun. Terminal stocks were completely emptied during the previous winter and chipping of pulpwood logs replaced the loss of chipped felling residues. Terminal stocks were filled during the autumn with new volumes of pulpwood logs. The warm weather led to customer deliveries of wood chips being significantly lower than normal. There was, however, strong demand for raw materials from the pellets industry.

A total of 3.2 million m³s of biofuel were delivered, which is in line with the previous year. During the three previous years, deliveries increased by 20 per cent annually.

Costs for transportation and terminal storage increased as much of the



forest fuel was collected from storm areas and most pulpwood logs crushed at the terminal. An increase in selling prices, primarily for by-products, was possible during the autumn. The compensation level for forest fuel remains too low however for forest volumes to increase.

Current development projects include preparations for transportation of large volumes of biofuel by ship and rail to customers further afield. The new administrative system currently being installed will help improve planning and control of the business.






From 1 January 2007, Södra Skogsenergi is part of Södra Skog.

Facts	2006	2005
Net sales, SEK M	340	327
Operating income, SEK M	5	9
Return on operating capital, %	6	11
Deliveries, mill. m ³ s	3.2	3.2
Number of employees	16	18

Södra

Södra is an economic association with a membership base of 50,000 forest owners in southern Sweden. Its members own a total of 35,000 forest estates and over half the private forest in the region. The association's primary function is to secure markets for its members' forest products and contribute to the profitability of their forestry.

Members jointly own Södra – a company with wide-ranging forestry operations and products that are sold on the world market. Södra is one of the world's leading pulp producers, a significant player in the European sawn timber market, market-leader in Sweden for interior wood products and one of the country's largest biofuel suppliers.

	Södra Skog	Södra Skog supplies Södra mills with forest raw material and provides forestry services to members. The operation is run in 31 forestry districts.
	Södra Cell	Södra Cell is the world's second largest producer of market pulp, with production at three pulp mills in Sweden and two in Norway.
	Södra Timber	Södra Timber produces sawn and planed timber products at nine sawmills in southern Sweden. Its sawmill operation is the third largest in the country.
	Gapro	Gapro operates in nine locations, six of which are in Sweden and three in Norway. The company is one of the leading manufacturers of interior wood products in Scandinavia.
	Södra Skogsenergi	Södra Skogsenergi trades in biofuel, primarily from Södra mills and the forests and peat bogs of its members. The company supplies a fifth of the biofuel used in southern Sweden. From 2007, the business is incorporated in Södra Skog.

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