

Södra shows the way



2019 | ANNUAL AND  
SUSTAINABILITY REPORT

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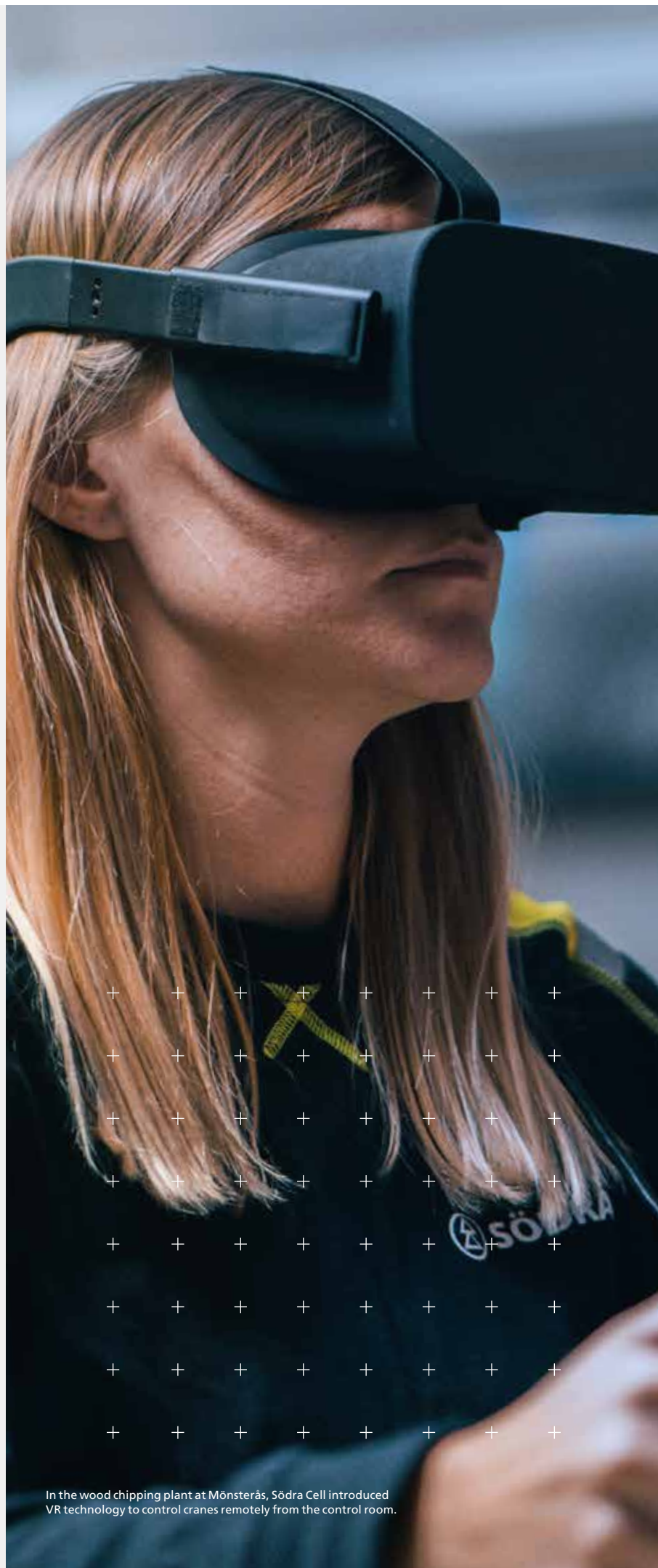
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The Board of Directors and President of Södra Skogsägarna ekonomisk förening (corporate identity number 729500-3789) hereby submit the 2019 Annual Report for the Group and the Parent Company. The audited annual report comprises pages 40-97. The consolidated income statement and balance sheet and the Parent Company income statement and balance sheet will be presented to the Annual General Meeting on 3 June 2020 for adoption. The Sustainability Report comprises pages 16-31 and 102-124. The scope of the mandatory Sustainability Report is presented on page 126. The Corporate Governance Report comprises pages 132-136.

This is a translation of the annual report. 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.



In the wood chipping plant at Mönsterås, Södra Cell introduced VR technology to control cranes remotely from the control room.



# Digital forest company at the forefront

Everything Södra delivers is based on trees, and responsible forestry is the backbone of our industrial operations. The company is a leading exporter of high-quality softwood and hardwood pulp, and processed wood products that compete in markets all over the world.

But trees are not only used for paper pulp and high-quality building materials. Based on decades of innovation, wood raw material can now be found in vehicle fuel, clothing and many other products where bio-based materials are increasingly replacing fossil alternatives.

Growing forests, processed forest-based products and Södra's innovative solutions are helping to fight climate change and accelerate the transition to a circular bioeconomy.

Södra is working actively to become one of the most digitised forest companies in the world, with connected production processes, apps that make forest management easier and new e-commerce solutions.

With innovation capabilities and foresight, the company will continue to push the boundaries of what a forest company should be, and show the way for how a modern forest industry can create long-term sustainable solutions to many of the social challenges facing large parts of the world, both today and tomorrow.

Södra – a future-oriented company where innovations are literally growing on trees!

SEK **23** billion

Net sales

SEK **15** billion

Export value

**9.2** million tonnes

Södra's climate effect amounted to 9.2 million tonnes of carbon dioxide equivalents.

SEK **2.6** billion

Operating profit

**7.1** m<sup>3</sup>fo

The annual rate of forest growth per hectare in Södra's members' forests according to the National Forest Inventory.

**12**

LTAR (lost-time-accident rate)



THIS IS SÖDRA

# This is Södra – a next-generation forest company

*Södra is an international forest industry group owned by more than 52,000 forest owners. The wood raw material supplied by Södra's owners is processed into renewable, climate-smart products in well-invested and high-tech industrial facilities.*

Södra is an export company with well-invested mills and a strong financial position. Södra's operations make use of every part of the tree, even the branches and treetops. The forest-based products are used to make softwood, hardwood and dissolving pulp, sawn timber, cross-laminated timber, construction timber, energy products and raw material for liquid biofuels.

Södra's pulp production and sawmill operations are among the largest in Europe and the products are mainly sold in international markets. The production processes also generate large amounts of excess renewable energy, which is sold to electricity and district heating grids. Södra's products can often compete with – and replace – plastic, oil and other fossil materials and energy sources that are contributing to climate change.

Södra controls the entire value chain – from seed to customer – and promotes sustainable development at every stage. The company also makes strategic investments in innovation to develop new, sustainable and climate-smart products based on renewable raw materials from the forest. In addition, Södra is working actively to introduce digital solutions in all parts of its operations, from apps and drones that make forest management easier, to connected and automated mills, and digital customer offerings.

In 2019, the wood volume was 17.1 million m<sup>3</sup>sub (cubic metres solid volume underbark). Södra's sales amounted to SEK 23 billion and the number of employees was 3,150.

3,150

No. of employees

3

No. of pulp mills

19

No. of forestry operations areas in Götaland

7

No. of sawmills

## Södra's production units

- Södra Cell, pulp mill
- Södra Wood, sawmill
- Södra Wood, pressure treatment plant
- Södra Wood, grinding facility
- Södra Wood, further processing
- Södra Wood, pellets factory
- Södra Skog, nurseries
- Trivselhus, house manufacturing
- Head office

Refers to production units at 31 Dec 2019.

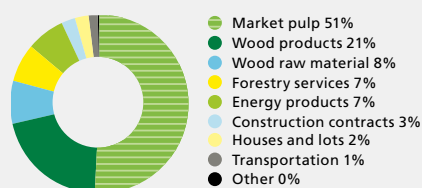




## Södra Skog

Södra Skog purchases forest-based products from its members and delivers them to Södra's mills. Södra Skog also conducts external trade with timber, develops digital precision forestry, offers forestry services and manages members' forests on their behalf – from planting and forest management to regeneration harvesting. The business activities are locally based, in 19 forestry operations areas and 36 forestry districts.

Net sales per revenue category



SEK 2,582 million

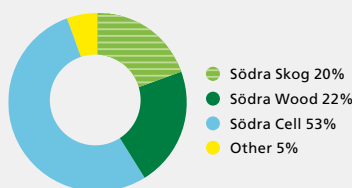
Strong operating profit



## Södra Wood

Södra Wood's operation comprises sawn timber and building systems. High-grade sawn and planed construction materials are produced at Södra's sawmills and planing mills. At the Värö facility, the production of cross-laminated timber (CLT) commenced during the year. Södra Wood also offers pellets, wood shavings and other by-products.

Sales per business area



SEK 23,183 million in total, excluding internal deliveries.

12%

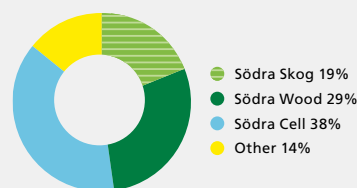
Return on capital employed



## Södra Cell

Södra Cell, with its pulp mills at Värö, Mörrum and Mönsterås, is one of the world's leading producers of market pulp from the most sustainable of raw materials – the forest. Softwood sulphate pulp accounts for most of the production volume, but hardwood pulp is also produced. In addition, dissolving pulp is produced in the pulp mill at Mörrum. Södra Cell is a major producer and supplier of biofuels, renewable electricity, district heating and raw material for liquid biofuels.

Employees per business area



3,150 employees in total.

SEK 1,068 million

The Board's proposed profit distribution

Key indicators	2019 <sup>5)</sup>	2018	2017	2016 <sup>1)</sup>	2015
Net sales, SEK million	23,183	24,230	20,518	18,482	18,267
Operating profit before depreciation, amortisation and impairment, SEK million	3,897	5,654	3,009	1,887	3,146
Operating profit, SEK million	2,582	4,508	1,917	979	2,162
Profit before tax, SEK million	2,495	4,431	1,830	913	2,072
Return on capital employed, %	12	24	12	7	17
Equity ratio, %	59	59	56	54	62
Cash flow after investments, SEK million	2,227	-142	356	-1,581	218
Profit distribution, SEK million	1,068 <sup>2)</sup>	1,795	868	602	1,002
Affiliated forest area, 1,000 hectares	2,637	2,591	2,517	2,481	2,440
Wood volume, million m <sup>3</sup> sub	17.1	16.5	15.9	15.0	15.1
No. of employees	3,150	3,141	3,402	3,594	3,599
Fossil CO <sub>2</sub> from production, ktonnes	70	103	81	99	87
Fossil CO <sub>2</sub> from transportation, ktonnes	207	196	191	199	193
Rate of forest growth, m <sup>3</sup> fo/ha per year	7.1	6.7	6.9	6.9	6.6
Lost-time-accidents (LTA) <sup>3)</sup> , no.	62	77	94	94	75
Lost-time-accident rate (LTAR) <sup>4)</sup>	12	15	17	16	13

<sup>1)</sup> As of 2017, the accounting policy for Södra Cell's planned maintenance shutdowns has changed so that the cost is charged to profit for the current year, rather than being recognised as an improvement expense and subsequently amortised over the period until the next maintenance shutdown. The comparative figures affected have only been restated for 2016, while 2015 is reconcilable with historical financial statements.

<sup>2)</sup> Proposed profit distribution.

<sup>3)</sup> LTA (lost-time-accident): occupational injury with absence.

<sup>4)</sup> LTAR (lost-time-accident rate): number of lost-time-accidents per million hours worked.

<sup>5)</sup> IFRS 16 Leases has been applied since 2019, which means that leases are now recognised as non-current assets, instead of Other expenses. This has impacted income statements and balance sheets, as well as key indicators.





SÖDRA 2019

# Södra's position in the world

*Södra is one of the largest forest industry groups in Europe and processes products that compete in markets all over the world.*

Södra's members jointly own and manage approximately 2.6 million hectares of forest land, representing more than half of all privately owned forest in southern Sweden. The Group has strong local roots and effective cooperation with its owners, from planting to regeneration harvesting. Södra is also a knowledge resource, and develops services for digital precision forestry.

Within the framework of sustainable forestry, the members deliver approximately 10 million m<sup>3</sup> of wood raw material to Södra's mills on an annual basis. This represents about 10 percent of the total harvesting volume in Sweden, and 80 percent of the forest-based products processed in Södra's mills each year. To optimise import demand and secure raw material supplies for its mills, Södra also has a forest holding in the Baltics.

## ONE OF THE LARGEST PULP SUPPLIERS IN THE WORLD

Södra is a well-established brand internationally and contributes to Sweden's strong

position as a forest nation. Nearly 80 percent of the Group's processed products are exported at a value of approximately SEK 15 billion.

The company's three pulp mills produce about 1.9 million tonnes of pulp per year, making Södra one of the largest producers of bleached softwood sulphate pulp in the world.

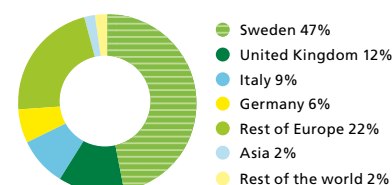
The pulp is mainly delivered to producers of tissue, specialty papers, packaging and publishing paper in Europe. Growth in tissue, in particular, is aligned with rising prosperity, and is strong in Asia, especially China.

Södra is also meeting the rising demand for dissolving pulp, which is based on hardwood, and other bio-based products produced by the pulp mills, such as tall oil, turpentine and biomethanol.

## MAJOR EXPORTER OF PROCESSED WOOD PRODUCTS

Every year, Södra sells 1.8 million m<sup>3</sup> of sawn and processed wood to the building

## Geographic markets



The diagram shows the distribution of Södra's net sales per market.

trade and construction, packaging and wood processing industries. This production is carried out in Sweden and Finland. Timber-treatment facilities are located in the UK, Ireland and Sweden. The vast majority of sales are conducted in northern Europe, and the UK is Södra's single largest market.

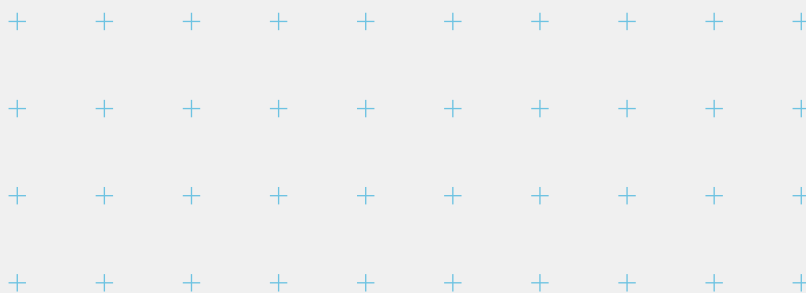
To meet the growing demand for wood as a construction material, Södra also offers cross-laminated timber (CLT).



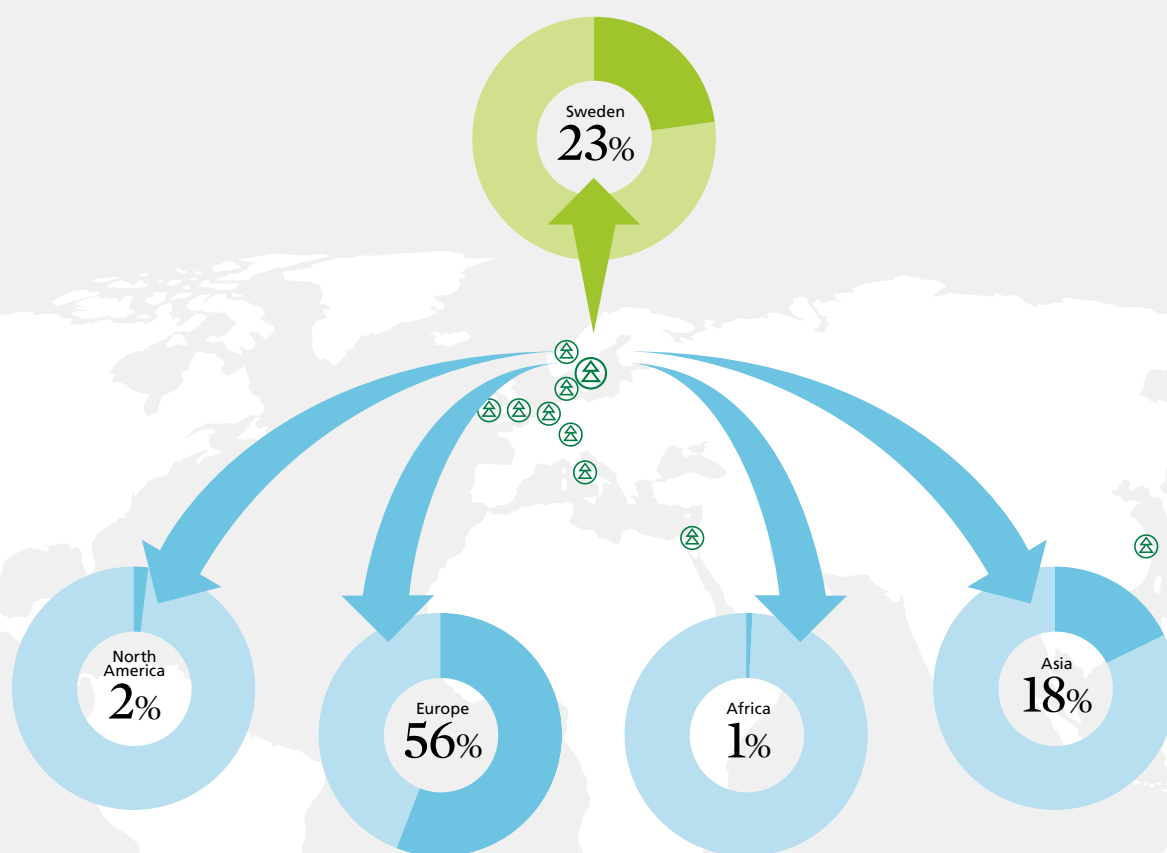
## The cleanest biomethanol in the world

**CASE** In the pulp mill at Mönsterås, Södra Cell has built a unique facility in partnership with Andritz to produce pure biomethanol from crude methanol. The combustion of biomethanol produces no fossil carbon dioxide emissions. However, the current production process emits small amounts of fossil carbon dioxide. When used as a marine fuel, it enables the most sustainable freight transport in the world. Production capacity is 5,500 tonnes per year.






## Södra's share of exports



Södra's export value is approximately SEK 15 billion. Södra has sales offices in all of its core markets.

 Södra's sales offices

7.1<sub>m³fo</sub>

The annual rate of forest growth per hectare in Södra's members' forests according to the National Forest Inventory.

→ Read more about climate-positive operations on pages 20-21.

1.9 + 1.8

Södra's pulp mills produced 1.9 million tonnes of pulp, and the sawmills produced 1.8 million m³ of sawn timber.

→ Read more about Södra's business areas on pages 32-39.

SEK 15 billion

The export value includes net sales of the processed products, geographically distributed to where Södra has its end customers.

→ Read more about Södra's financial statements on pages 40-97.



# Strong full-year result in a weaker market

*Despite the economic downturn, Södra posted a strong result in 2019. Net sales amounted to SEK 23,183 million and operating profit totalled SEK 2,582 million. The Board proposes a profit distribution of SEK 1,068 million. Södra is continuing to grow as a company due to expansion investments, increased product development, processing and new innovations.*

## NEW GROUP STRATEGY FOR CONTINUED PROFITABLE GROWTH

In 2019, a new Group strategy was created for the years ahead. The core of the new Group strategy builds on the successful development in recent years with sharp improvements in growth and profitability due to extensive investment and operational restructuring.

The goal of the new strategy is that Södra will be a sustainable, profitable, innovative and resource-efficient growth company. This will require continued investments and expansion of our core operations: paper pulp and sawn timber. To increase the value of Södra's products, a higher level of processing will also be prioritised. We will also be focused on increasing the processing of residual and by-products. Furthermore, the strategy includes increased and accelerated digitalisation to further strengthen our competitiveness. Our liquid biofuels venture will continue. The strategy also includes a broader focus on the development of family forestry in order to strengthen their competitiveness through, for example, faster technological development and forest tree breeding for faster growth. Trivselhus will continue to produce affordable homes from high-grade timber.

” Södra shall be a sustainable, profitable, innovative and resource-efficient growth company.

## SUSTAINABLE INNOVATIONS, RESEARCH AND DEVELOPMENT

As part of Södra's strategy to strengthen competitiveness, we have increased our focus on innovation, research and development in recent years. Södra invests about SEK 100 million in innovation each year. If we also add the recent years' investments in liquid biofuels, investments in strengthening competitiveness for family forestry and product development initiatives, the total investment amount is approximately SEK 800 million. In partnership with IKEA, Södra has also entered into a long-term and strategic collabora-

tion with Linnaeus University around research and education in forestry and the forest-based products industry.

Demand for liquid biofuels is rising as the use of fossil fuels declines, especially for transportation. Biomethanol production commenced in the pulp mill at Mönsterås during the year and when the trial run and evaluation are complete, similar investments will be possible in Södra's other pulp mills. The joint venture with Norwegian Statkraft to produce liquid biofuels from forest biomass continued. The venture has been successful thus far, despite the business risks associated with the development of a totally new technology in these types of projects. On the other hand, no business can grow without taking risks. If everything goes according to plan, liquid biofuel production will start in 2021.

During the year, Södra became the first company in the world to show how mixed textiles can be recycled in the production of dissolving pulp, which can be used to make new textiles. This is a major breakthrough and one example of how the textile industry is taking steps towards a more circular bioeconomy.

Södra's cross-laminated timber (CLT) initiative is another example of how we are meeting society's demand for sustainable products that can reduce carbon dioxide emissions.

## A STABLE FULL-YEAR RESULT

In 2019, the positive economic trend for forestry turned downwards after several years of strong demand and positive price growth. The global economic slowdown became increasingly clearer after the first quarter, not least because of the instability caused by the US-China trade war. Lack of clarity on Brexit and geopolitical tensions in the Middle East also contributed to market uncertainties. At the same time, global stock markets performed strongly during the year. The economic uncertainty weakened prices for Södra's core products. During the year, prices dropped more than 30 percent for market pulp and about 20 percent for sawn timber.

Södra posted operating profit of SEK 2,582 million for 2019. This was a robust result from an historical perspective. Södra's strong financial key indicators also indicate resilience to weaker conditions. The forest industry has been, and will continue to be, a cyclical industry. Weak demand and low prices will always follow a period of strong economic growth with favourable demand and high prices. Södra as a company is particularly sensitive when demand for our product mix declines. During the year, handling the effects that the massive spruce bark beetle outbreak caused for



”

*The underlying demand for forest-based products will gradually increase.*



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

2020 will be a weaker year financially due to uncertainty surrounding the economic forecast and price trends for market pulp and sawn timber. As a result, Södra will be focused on the areas that we can influence, such as productivity-enhancing measures, product development, innovation and the continued development of our customer relationships. At the same time, weaker conditions create opportunities to strengthen our relative market share and present interesting business opportunities.

#### **SÖDRA SHOWS THE WAY**

There is every reason to feel optimistic about the future from a long-term perspective. The state of the economy is always

changing, but the underlying demand for forest-based products will gradually increase, not least because of rising global prosperity and population growth. Furthermore, the highly topical subject of climate change is also calling for major changes. The forest industry has a key role to play in the move towards a sustainable bioeconomy.

With 52,000 members and owners, committed and competent employees, and a state-of-the-art industry that has strengthened its competitiveness in recent years, Södra is well-equipped and showing the way forward. In this climate of global competition, however, Södra must continue to safeguard and improve its competitiveness in all areas of its operations.

**Lars Idermark**  
President and CEO



# Members' views of Södra

*In 2019, Södra arranged 213 owner dialogues to capture important issues for its members. Södra has entered into a collaboration with Linnaeus University and IKEA around research and education. The production of cross-laminated timber commenced during the year. Södra also launched OnceMore™, a patented and globally unique process for large-scale textile recycling.*

## COLLABORATION WITH THE STOCKHOLM SCHOOL OF ECONOMICS

In collaboration with the Stockholm School of Economics, Södra Academy has created a training programme – Utveckla din affär (Eng: Develop your business) – for management and function teams at Södra. The aim of the programme is to create a strategic arena for learning, and for developing tomorrow's business in a changing world.

Södra's sourcing function completed the training course, which includes finances, sustainability, lean production, digitalisation and leadership.

"For us, it's a first step in the creation of a joint platform for the function and our continued development journey," said Kristoffer Arvidsson, Head of Group Sourcing at Södra.



## 213 OWNER DIALOGUE MEETINGS

In October and November, Södra conducted owner dialogues where members were asked to express their views on four important topics: Raw material and industry, the Södra Model, Member engagement and Business policy.



## LONG-TERM FOREST INDUSTRY COLLABORATION

Södra has entered into a unique collaboration with Linnaeus University and IKEA around research and education in forestry and the forest industry. The collaboration will bring together expertise in forest management, ecology, social sustainability, finances and forest product properties and applications, and create conditions for cooperation. The aim is to promote a dynamic exchange between academia and the business community.

"We need research and education that is adapted to today's world, and to new national and global conditions. This collaboration will allow us to focus on several different fields of research," said Professor Johan Bergh, Pro-Dean for the Department of Forestry and Wood Technology at Linnaeus University.



## OLD TEXTILES BECOME NEW

With innovation capabilities and foresight, Södra responded to the need for circular flows in the fashion and textile industry by launching OnceMore™. This is a unique global solution that enables the large-scale recycling of textiles into new dissolving pulp.

"We will be able to use viscose and lyocell as well as polycotton blends. Due to the technological shift in our processes, we will be needing large volumes of textiles. Södra is seeking companies with high sustainability ambitions that would like to become a partner and supply us with textiles," said Annica Larsson Ahlstedt, Project Manager at Södra.



## SUSTAINABLE CONSTRUCTION WITH CROSS-LAMINATED TIMBER

The development of cross-laminated timber (CLT) for structural building components is about to revolutionise the construction industry by contributing to higher productivity and the transition to a low-carbon society.

As the only renewable building material, timber creates opportunities for the construction industry to radically reduce its fossil carbon dioxide emissions, which currently account for 20 percent of Sweden's total emissions. The industrial production of structural elements in CLT is characterised by high-precision and quality, while assembly at the construction site ensures both time and cost savings upstream in the value chain.

Södra wants to actively drive the development of timber-based solutions for the building and residential construction industry. The low weight of wood, which is about one-fifth of concrete, combined with its high strength, creates new opportunities, such as the densification of cities by adding modular components to existing properties. Both built-up land and land that was previously 'unbuildable' made available for development as laying the foundations will be easier. The lighter weight also reduces the number of transports because the truck fill rate becomes considerably higher.

"Building with CLT offers so many benefits as I see it, and Södra's venture is perfectly timed," says Erik Goverde from engineering company Goverde&Co AB.

By using timber instead of other materials to construct multi-storey buildings, carbon dioxide emissions can be halved.

"The environmental aspects of construction are becoming more and more important and I think that new approaches will be needed to keep pace, and to maintain a leading role in the future," says Goverde.







# Global trends accelerating the green transition

*Several global trends are driving the demand for renewable materials and accelerating the transition to a circular bioeconomy. This development will increasingly affect operators in the forest industry.*

## INNOVATIONS TO MEET THE CHALLENGES OF CLIMATE CHANGE

A warmer climate is already threatening the habitats of many plants, animals and people. Many extreme events such as storms, droughts and massive insect outbreaks can be linked to a warmer climate and have a direct negative impact on forest growth. Forest-based products are an important resource, and they are becoming increasingly important because they bind carbon dioxide and can replace products made from fossil-based raw materials. Many policy measures to combat climate change are also benefitting the forest industry – an industry that is becoming increasingly innovative in its search for new business opportunities, and in meeting demands from customers and end-consumers for climate action.

## GLOBAL TRADE TRENDS

In just three decades, the global economy has grown almost three-fold. Free trade is important to Södra and the rise in protectionism, which has hampered the growth of global trade, could have negative effects on the company's exports. Globalisation is also increasing international competition. To remain competitive, Södra is making strategic investments in markets with the best growth potential.



Biodegradable food packaging from forest-based products is becoming increasingly popular. The aim of the FRESH project, a collaboration between Södra, Huhtamäki and Saladworks, is to develop a commercial and sustainable alternative to plastic packaging for the ready-made meals sold in large volumes every day.

## RISING PROSPERITY AND CONSUMER AWARENESS

Population growth and rising prosperity are leading to higher demand for sustainable consumables, for example hygiene products such as nappies and toilet paper, that are made from paper pulp. Demand for products based on renewable and biodegradable forest-based products is therefore growing, and is expected to continue to increase in the future at a steady pace. This is positive for Södra – a company that acts sustainably and can offer guarantees of origin.

## URBANISATION PLACES NEW DEMANDS ON SUSTAINABILITY

By 2050, almost 70 percent of the world population is expected to live in urban areas. In many areas, more construction will be needed and demand for sustainable forms of construction are expected to grow, which will benefit timber construction. Urbanisation is also creating a need for more sustainable solutions for energy supply and climate-smart packaging materials, especially for food. Overall, urbanisation is having a positive effect on demand for Södra's products. The company produces timber construction materials, renewable packaging materials, liquid biofuels and renewable electricity and heat.

## GROWING E-COMMERCE AND DIGITAL SERVICES

Digital technologies are fundamentally changing many consumption patterns and business models. In particular, traditional media channels have seen a sharp decline in printed products, which has reduced demand for publishing paper. At the same time, the growth of e-commerce is driving demand for corrugated board, which is positive for the paper and pulp industry. Digitalisation also offers opportunities to improve productivity, and impacts Södra's entire production chain – from seed to customer. Södra's members, customers and end-consumers are also becoming increasingly digital in their contact with the company and Södra is continuously developing new digital services.

## CURRENCY FLUCTUATIONS IMPACT EXPORTS

Geopolitical changes around the world have a major impact on foreign exchange market trends, which has implications for a large exporter like Södra. Since pulp prices are set in USD and many of Södra's paper-manufacturing customers are based in the eurozone, the exchange rates for both the USD and the EUR are highly significant for Södra's pulp industry. The GBP is also a key currency for Södra, since the UK is Södra's largest export market for sawn and processed wood. The recent weakening of the SEK against these currencies has benefited Swedish export companies, including Södra.

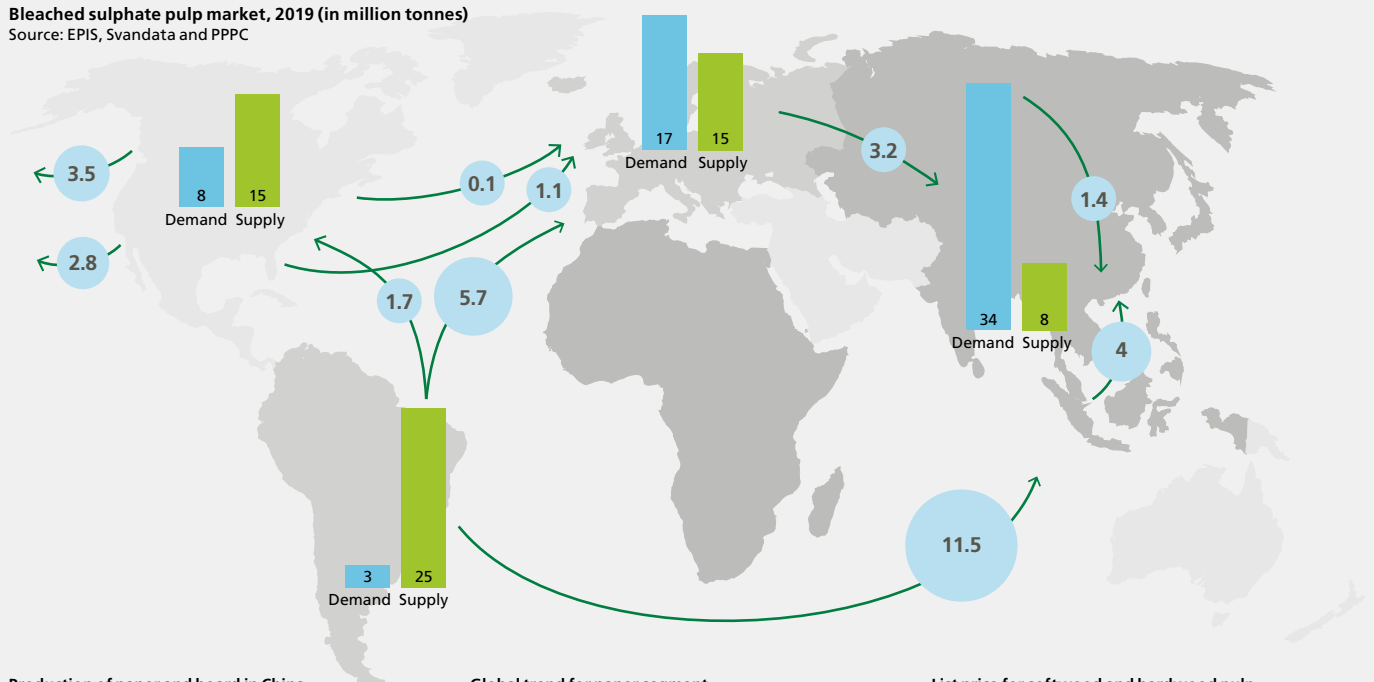


The Kilstromskaj project in Karlskrona is focused on large-scale construction of apartment buildings in timber. In addition to the environmental benefits of renewable building materials, timber also creates an environmentally pleasant atmosphere to live in. The framing for the apartment buildings is made with cross-laminated timber from Södra.

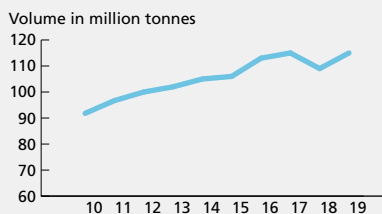
## BLEACHED SULPHATE PULP

Total global demand for bleached sulphate pulp, 2019: 63 million tonnes.

Bleached sulphate pulp market, 2019 (in million tonnes)  
Source: EPIS, Svandata and PPPC



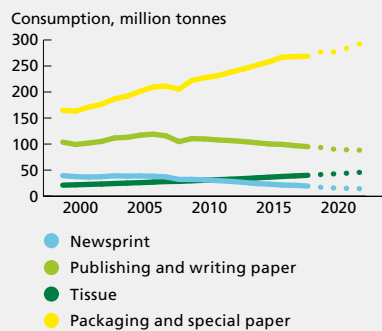
### Production of paper and board in China



The previous spike in Chinese paper production has now stalled somewhat due to a general slow-down in China's GDP expansion.

Source: RISI

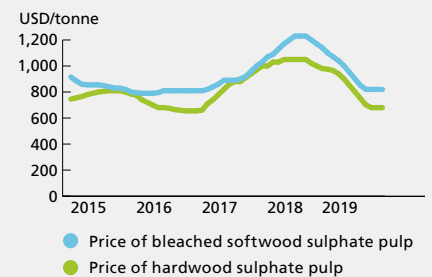
### Global trend for paper segment



The consumption of various publishing and writing paper is declining due to the rise in digitalisation around the world. Sectors such as tissue and packaging are rising in line with global economic development.

Source: RISI

### List price for softwood and hardwood pulp



During the year, prices fell for both softwood and hardwood pulp due to weaker economic growth combined with higher supplies of paper pulp following the completion of several expansion projects around the world. The diagram shows gross prices on the European market.

Source: RISI



# Vision, objective and strategy

*Södra's vision is to show the way and be a next-generation forest company. With industrial processing and strategic initiatives, Södra secures markets for its members' forest-based products, while also creating major value for society as a whole.*

## Vision

**Södra shows the way.** Södra goes its own way. We challenge expectations of what a forest company is. We have a strong sense of self-confidence and our actions are clear. Together with our members, Södra is showing what it means to be a next-generation forest company.

## Objective

**Södra's overall objective** is to be a more profitable, competitive, innovative and sustainable business, with a stronger global market position, by 2020. Södra's success is based on long-term profitability, and a strong financial position that enables business development and profit sharing with our owners. The key financial targets are defined through return on capital employed, equity ratio and profit distribution. The sustainability targets are fossil-fuel free, a higher rate of forest growth and a zero accident vision for occupational injuries.

### FINANCIAL TARGETS

■ The aim is to generate value for our owners by realising the strategy. Realisation of the strategy will lead to higher cost and capital efficiency. The long-term consolidated return on capital employed should be at least 10 percent.

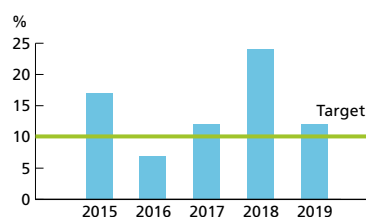
■ The financial position should be strong enough to provide the flexibility for making long-term business decisions. The long-term equity ratio should be at least 55 percent.

■ Decisions on profit distribution should be based on a consideration of the Group's profitability, investment plans and financial position. Overall long-term profit distribution should correspond to at least 50 percent of profit before tax.

#### Return

# 10%

The long-term return on capital employed should be at least 10 percent.

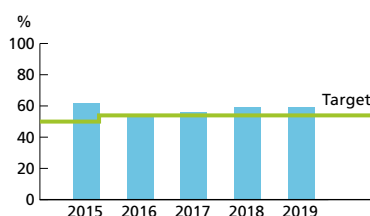


Return on capital employed was 12 percent and exceeded the long-term target of 10 percent.

#### Equity ratio

# 55%

The long-term equity ratio should be at least 55 percent.

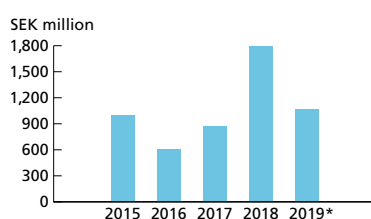


The balance sheet remains strong. The equity ratio was 59 percent, which exceeded the financial target.

#### Profit distribution

# 50%

Overall long-term profit distribution should correspond to at least 50 percent of profit before tax. The profit distribution policy was revised in 2015. The profit distribution was previously 40 percent of profit before tax.



The Board proposes a profit distribution of SEK 1,068 million for 2019, corresponding to 43 percent of profit before tax. The profit distribution for the past five years is 45 percent.

\* Proposed profit distribution.





## Strategy

**Group strategy.** Södra's Group strategy until 2020 is focused on being a value-generating and cohesive Group with profitable growth. In addition to the continuous development of existing products, we are also increasing our focus on new products, innovations and a strong commitment to sustainability.

### GROWTH

A company must grow in order to be competitive and generate long-term value. Södra's owners have growing timber stocks due to responsible forest management with replanting, proper management and a long-term approach. Södra therefore has access to large amounts of forest-based products that require markets. Södra has invested in higher production capacity to meet the growing needs of its owners for markets, and the rising demand from customers for products based mainly on Swedish wood as a raw material.

### PROFITABILITY AND CASH FLOW

Södra continuously evaluates its structures and processes in order to improve profitability and cash flow. Investments are based on cash flow analyses. Profitability is also achieved by increasing efficiency and improving the use of joint resources.

### FOCUS ON CORE BUSINESS

Södra is focused on maintaining and developing its strong position in forestry, pulp production, sawn and processed wood, and on developing its Trivselhus subsidiary. Substantial investment in recent years has expanded the core business, mainly pulp, but also sawn and processed wood. Investment in the development of new products and services is continuously increasing.

### GROWTH IN THE RIGHT MARKETS

Södra is a highly export-dependent company, with the international market – mainly Europe – accounting for almost two-thirds of sales. The rapidly growing Asian markets, where Södra is strengthening its presence, account for much of this demand.

### NEW PRODUCTS AND INNOVATION

Södra's product portfolio largely comprises high-volume products, such as pulp and sawn and processed wood. Innovations in existing product categories are essential for strengthening our customer offering. A greater focus is being placed on speeding up the development of new products for commercial use.

### SUSTAINABILITY

Södra's operations are based on responsible forestry. Södra is focused on six strategic areas – climate-positive operations, sustainable forestry, sustainable innovation, resource efficiency, responsible employer and committed employees, and responsible business. Södra has 15 Group-wide sustainability targets, of which three are prioritised and have the same status as financial targets.

### SUSTAINABILITY TARGETS

■ Södra's net emissions of greenhouse gases are to be less than zero. Södra's production will be fossil-free by 2020, and Södra's transportation will be fossil-free by 2030.

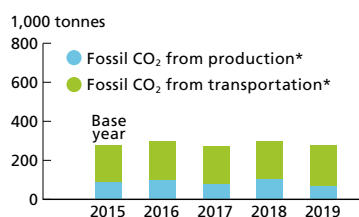
■ Growing forests have a key role to play in combatting climate change. By 2050, the annual rate of forest growth on estates owned by Södra's members will be 20 percent higher than in 2015.

■ Preventive and systematic efforts are taking place to improve health and safety. Södra has a zero accident vision and the lost-time-accident rate (LTAR) will decrease 15 percent per year until 2020.

#### Fossil-fuel free

# 0

Södra's production will be fossil-free by 2020, and transportation by 2030.



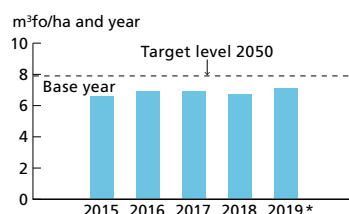
Fossil carbon dioxide emissions from production, operational machinery and internal transportation were 70 ktonnes, 20 percent lower compared with 2015. In 2019, the consumption of fossil fuel oil in the pulp mills was lower compared with previous years. Fossil carbon dioxide emissions from transportation were 207 ktonnes, 7 percent higher compared with 2015.

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

#### Forest growth

# 20%

By 2050, the rate of forest growth will be 20 percent higher than in 2015.



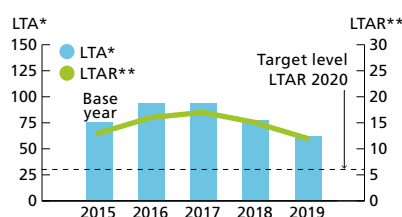
The annual rate of forest growth in Södra members' forests was 7.1 m³/ha, up 8 percent compared with 2015. The annual growth rate usually ranges from 0.5-1.0 percent. A longer observation series is required to read trends.

\* 2019 relates to average growth during the 2013-2017 period, the most recent value available. The rate of forest growth is based on the National Forest Inventory's data for land owned by Södra members.

#### Occupational injuries

# 0

Södra has a zero accident vision and the lost-time-accident rate (LTAR) will decrease 15 percent per year until 2020.



The number of occupational injuries with absence was 62, down 19 percent, and the lost-time-accident rate was 12, down 20 percent compared with 2018. Initiatives during the year were mainly focused on a safety culture and safe behaviour.

\* LTA (lost-time-accident). Occupational injury with absence.  
\*\* LTAR (lost-time-accident rate). The number of lost-time-accidents per million hours worked.



# Value generation at Södra

*Södra creates good conditions for conducting profitable and sustainable forestry. The renewable wood raw material is processed in Södra's well-invested mills into fossil-free and sustainable products and services that generate value for Södra's customers and end-consumers. These activities also create jobs and tax revenue, and attract capital and skills to rural areas and small towns in southern Sweden.*



**EXTERNAL FACTORS** – Global trends and drivers. → Refer to pages 10-11.



**VISION** – Södra shows the way. → Refer to pages 12-13.

## Resources

### Natural resources

- Wood raw material: 17 million m<sup>3</sup>sub, of which 10 million m<sup>3</sup>sub from Södra's members.
- Water: 79 million m<sup>3</sup>.
- Fuels for production: 14.1 TWh, of which 99.5 percent biofuels.

### Financial resources

- Equity: SEK 17 billion, of which SEK 5 billion in personally contributed capital.
- Borrowed capital: SEK 6 billion, of which SEK 4 billion from members.

### Industry

- 7 sawmills, 3 pulp mill, nurseries, timber-treatment facilities, timber terminals, bogs, port, seed orchard, wind turbines, haulage operations, forest machines, prefab home facility, sales offices.

### Employees

- 3,150 employees, 95 percent in Sweden and 5 percent in 9 other countries.

### Partners

- 428 forestry contractors, 139 carriers, other suppliers, joint ventures (SunPine, Silva Green Fuel), trade associations.

### Innovation

- SEK 167 million invested in research and development.

### Values

- Value-generating relationships and a long-term approach



## How we create value

### Sustainable and digitalised forestry

#### Forestry services

- Forest regeneration, cleaning, thinning, regeneration harvesting, management measures for nature conservation and forest management plans.

### Wood processing

#### Industrial processes

- Sawn timber 1.8 million m<sup>3</sup>, paper pulp 1.7 million tonnes, dissolving pulp 156,000 tonnes, electricity 397 GWh, district heating 405 GWh, solid biofuels 4,060 GWh.

### Customer and supplier partnerships and service

#### Business policy initiatives to promote the interests of members

#### Logistics solutions for both raw material and finished product

#### Development and innovation of new, sustainable products and services

### Strategy

- Growth
- Profitability and cash flow
- Focus on core business
- Growth in the right markets
- New products and innovation
- Sustainability

→ Refer to pages 12-13

### Governance

- Corporate governance  
→ Refer to pages 132-136
- Policies and guidelines  
→ Refer to pages 106-108



## Value generated

### Customers

Sustainable products and high-quality services with customised performance. Strong cash flow that enables competitive and well-invested mills.

### Owners/Members

Good conditions for conducting forestry. Profitable markets for forest-based products and more value for forest estates. Profit distribution: SEK 400/hectare, and net forest income for Södra's model forest estate: SEK 1,133/hectare.

### Employees

Salaries, benefits and social security costs: SEK 2,326 million. Competency development.

### Partners

Purchased goods and services. Innovation and business development. Business policy lobbying.

### Society

Taxes: Income tax paid: SEK 415 million, property tax: SEK 19 million. Research and innovation: SEK 167 million. The Södra Research Foundation has awarded funding of SEK 224 million since 1995. Community involvement, operations, employment and skills in smaller towns. The forest industry is becoming more competitive due to profitable business operations and innovation. Sponsorship.

### Environment

Södra's climate effect equates to 9.2 million tonnes of carbon dioxide equivalents per year. This effect is derived from growth in members' forests, and from using the company's forestry products to replace more emission-intensive products and energy sources. Voluntary allocations of forest land, and management measures to maintain and promote biodiversity.

#### Financial targets

- Return
  - Equity ratio
  - Profit distribution
- See page 12

#### Prioritised sustainability targets

- Fossil-fuel free
  - Forest growth
  - Occupational injuries
- See page 13



## Value delivered

1.8 million m<sup>3</sup> of sawn timber

In our customers' production, this would equate to: 100,000 timber-framed homes.

1.9 million tonnes of pulp

In our customers' production, this would equate to: 4.5 billion books and 530 million sweaters.

4,900 GWh of energy

For our customers, this would equate to: 50,000 times around the world with an electric car and 25,000 houses heated with district heating. Biofuel deliveries account for 6 percent of Sweden's total consumption of solid biofuels.

2.6 million hectares

of forest land in Södra's membership area.

Approx. 120,000 hectares

of own forest holdings in Sweden, Estonia and Latvia.

2/3 of the forest land

holds forest certification.





# A Sustainable Södra

*With a responsible sustainability strategy that is well integrated with the company's business and action plans, Södra is gradually meeting its sustainability targets.*

Sustainability is a key element of Södra's Group strategy and focuses on six strategic areas – climate-positive operations, sustainable forestry, sustainable innovation, resource efficiency, responsible employer and committed employees, and responsible business. The strategic focus areas and sustainability targets are based on analyses of Södra's material sustainability topics and are incorporated into the company's business and action plans.

All of the business areas' products and services are based on the processing of forest-based products. Growing forests, the use of wood and deliveries of renewable energy play a key role in combating climate change and the transition to a circular bioeconomy.

## **SÖDRA SHOWS THE WAY**

Södra is showing the way for sustainable development at all stages, from seed to customer, and gradually meeting its Group-wide sustainability targets such as fossil-fuel free and commercialising products with a better sustainability performance than today's alternatives.

The basis for this is sustainable and responsible forestry and effective industrial operations. Södra's corporate form, ownership structure and stable finances enable long-term, sound decisions and investments in research, development and digitalisation.



# Agenda 2030 – a challenging, inspiring and guiding framework

The 17 UN Sustainable Development Goals (SDGs) provide a framework for long-term sustainable global development. The business community has a major responsibility for achieving these goals over the next ten years. For Södra, Agenda 2030 provides a challenging, inspiring and guiding framework. Particularly for ensuring that the sustainability targets that are set are in line with Agenda 2030, and are sufficiently ambitious and relevant. Södra is well-positioned to contribute towards several SDGs by, for example, developing timber building systems and delivering renewable energy.

The analysis carried out in 2018 showed that Södra's sustainability targets are well-aligned with the SDGs and that Södra could have a significant impact in particular on seven of these goals. In 2019, the analysis was deepened by examining the company's ability to contribute towards of these goals throughout the entire value chain.

There is also a risk of negative impact on the SDGs if, for example, policies, processes or procedures are ineffective. In 2019, Södra continued to integrate the SDGs into its operations. By analysing which targets of the SDGs that the operations impact the most, the understanding of the efforts required by Södra to minimise the risk of negative impacts has increased. This also applies to insights into the activities that must be scaled up and initiated to increase the positive contributions to the SDGs, such as continuing to invest in sustainable innovations.

In order to determine what initiatives Södra should focus on, it is important that the entire company is involved in efforts to make Agenda 2030 into Södra's agenda. The SDGs are therefore one of several parameters that Södra will draw on when determining new sustainability targets during 2020.

## HIGHER LEVEL OF IMPACT








- 7 Affordable and clean energy
- 8 Decent work and economic growth
- 9 Industry, innovation and infrastructure
- 11 Sustainable cities and communities
- 12 Responsible consumption and production
- 13 Climate action
- 15 Life on land

## LOWER LEVEL OF IMPACT

- 3 Good health and well-being
- 5 Gender equality
- 6 Clean water and sanitation
- 10 Reduced inequalities
- 14 Life below water
- 16 Peace, justice and strong institutions
- 17 Partnerships for the goals

## INDIRECT IMPACT

- 1 No poverty
- 2 Zero hunger
- 4 Quality education

THE UN SUSTAINABLE DEVELOPMENT GOALS	SÖDRA'S STRATEGIC FOCUS AREAS	IMPACT AND CONTRIBUTION
 <b>AFFORDABLE AND CLEAN ENERGY</b>	<ul style="list-style-type: none"> <li>Climate-positive operations</li> <li>Sustainable innovation</li> <li>Resource efficiency</li> <li>Responsible business</li> </ul>	<ul style="list-style-type: none"> <li>– Energy-intensive industrial processes and transportation, pages 114-115.</li> <li>+ Renewable energy delivery, page 115.</li> <li>+ Systematic efforts to reduce electricity and heating consumption, page 26.</li> </ul>
 <b>DECENT WORK AND ECONOMIC GROWTH</b>	<ul style="list-style-type: none"> <li>Sustainable innovation</li> <li>Resource efficiency</li> <li>Responsible employer and committed employees</li> <li>Responsible business</li> </ul>	<ul style="list-style-type: none"> <li>– OHS risks in the operations and the supply chain, pages 28 and 30.</li> <li>+ Zero accident vision – a focus on preventive measures, page 28.</li> <li>+ Supplier risk assessment and audit with a focus on working conditions, etc, page 30.</li> <li>+ Continued investments and focus on innovation to strengthen Sweden's strong forest industry position, page 24.</li> </ul>
 <b>INDUSTRY, INNOVATION AND INFRASTRUCTURE</b>	<ul style="list-style-type: none"> <li>Climate-positive operations</li> <li>Sustainable innovation</li> <li>Resource efficiency</li> </ul>	<ul style="list-style-type: none"> <li>+ Effective utilisation of wood raw material, page 26.</li> <li>+ Production of new, sustainable products and services for a bio-based society, page 24.</li> <li>+ Collaborative business development and innovation, page 24.</li> </ul>
 <b>SUSTAINABLE CITIES AND COMMUNITIES</b>	<ul style="list-style-type: none"> <li>Climate-positive operations</li> <li>Sustainable innovation</li> <li>Resource efficiency</li> </ul>	<ul style="list-style-type: none"> <li>– Risk of negative impact on urban forests if Södra deviates from its procedures, pages 22 and 106-108.</li> <li>+ Development of timber building systems, page 34.</li> <li>+ Sustainable homes concept, page 30.</li> </ul>
 <b>RESPONSIBLE CONSUMPTION AND PRODUCTION</b>	<ul style="list-style-type: none"> <li>Resource efficiency</li> <li>Responsible business</li> </ul>	<ul style="list-style-type: none"> <li>– Risk of negative environmental impacts due to effluents and emissions from industrial activities, pages 26 and 116.</li> <li>+ Systematic efforts to reduce effluents and emissions from industrial activities, pages 26 and 116.</li> <li>+ New applications for residual products, pages 24 and 26.</li> </ul>
 <b>CLIMATE ACTION</b>	<ul style="list-style-type: none"> <li>Climate-positive operations</li> <li>Sustainable forestry</li> <li>Resource efficiency</li> <li>Responsible business</li> </ul>	<ul style="list-style-type: none"> <li>– Industrial processes and transportation use fossil fuels, pages 114-115.</li> <li>+ Long and short-term initiatives to achieve fossil-free production and fossil-free transportation, page 20.</li> <li>+ Increased forest growth leads to more carbon sequestration, pages 20 and 110.</li> </ul>
 <b>LIFE ON LAND</b>	<ul style="list-style-type: none"> <li>Climate-positive operations</li> <li>Sustainable forestry</li> <li>Responsible business</li> </ul>	<ul style="list-style-type: none"> <li>– Risk of negative impacts on ecosystems and biodiversity if Södra deviates from its procedures, pages 22 and 106-108.</li> <li>+ Sustainable forestry – balance between production and environmental considerations, page 22.</li> <li>+ Protected areas to promote biodiversity, page 113.</li> </ul>



# Södra's sustainability targets



## Climate-positive operations

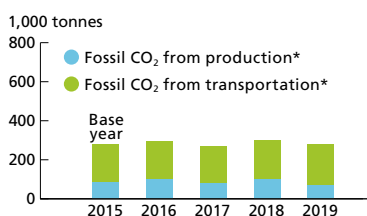
### TARGETS

- Södra's production will be fossil-free by 2020, and Södra's transportation will be fossil-free by 2030.
- By 2050, the annual rate of forest growth on estates owned by Södra's members will be 20 percent higher than in 2015.

### OUTCOMES 2019

- Fossil CO<sub>2</sub> from production: 70 ktonnes, 20 percent lower compared with the base year of 2015.
- Fossil CO<sub>2</sub> from transportation: 207 ktonnes, up 7 percent compared with the base year of 2015.
- Forest growth: 7.1 m<sup>3</sup>fo/ha per year, up 8 percent compared with 2015.

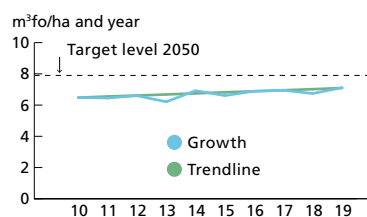
### Fossil-fuel free



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

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

### Forest growth



2019 relates to the average growth rate during the 2013-2017 period, the most recent value available. The rate of forest growth is based on the National Forest Inventory's data for land owned by Södra members.

Read more about climate-positive operations on pages 20-21 and 110-111.



## Sustainable forestry

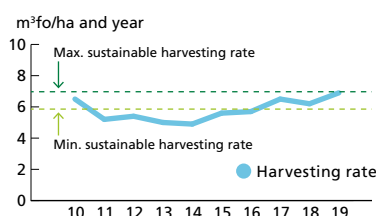
### TARGETS

- Södra's harvesting does not exceed the recommended, sustainable harvesting rate.
- By 2020, the approval rate for considerations in regeneration harvesting performed by Södra will be 95 percent.
- By 2020, the area where nature-conservation measures are performed will be 3,000 hectares per year.

### OUTCOMES 2019

- The harvesting rate was 7.1 m<sup>3</sup>fo/ha per year, 15 percent higher compared with 2018 and within the sustainable harvesting rate.
- The proportion of approved regeneration harvesting sites in the Green Balance Sheet was 93 percent, down 1 percent compared with 2018.
- The area in which nature-conservation measures were performed was 1,643 ha, 22 percent lower compared with 2018.

### Sustainable harvesting rate



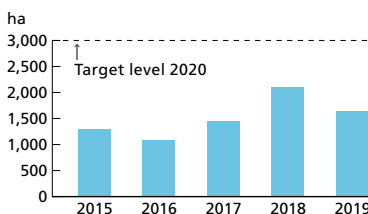
2019 refers to the mean for 2015-2017, in the same way as for other years. The sustainable harvesting rate is based on the National Forest Inventory's data for land owned by Södra members.

### Considerations in regeneration harvesting



\* The rate of approved regeneration harvesting sites in the Green Balance Sheet.

### Nature conservation measures



Read more about sustainable forestry on pages 22-23 and 112-113.



## Sustainable innovation

### TARGETS

- By 2020, Södra will have commercialised at least three products with a better sustainability performance than today's alternatives.

### OUTCOMES 2019

- The target was met in 2019, since Södra has commercialised five new products in recent years with a better sustainability performance than today's alternatives: paper wrapping to replace wires around pulp bales, primed cladding, nutrient recycling with bio-ash, cross-laminated timber and a new grade of pulp made from wood chips. Sustainability performance is assessed using a model that identifies the positive and negative impacts for a number of sustainability aspects. Both direct impacts from Södra's own operations and indirect impacts in the value chain are assessed.

Read more about sustainable innovation on pages 24-25 and 113.





## Resource efficiency

### TARGETS

- By 2025, Södra's electricity and heating consumption will have declined at least 10 percent compared with 2015.
- Södra's annual electricity generation will exceed its electricity consumption.

### OUTCOMES 2019

- Electricity and heating consumption for pulp was 6 percent (electricity) and 10 percent (heating) lower, respectively, compared with the base year of 2015.
- Electricity and heating consumption for sawn timber was 2 percent (electricity) and 15 percent (heating) lower, respectively, compared with the base year of 2015.
- Electricity generation exceeded electricity consumption – net delivery was 397 GWh.

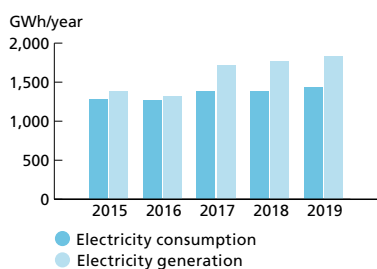
#### Electricity and heating consumption – Pulp

kWh/tonnes of pulp	Target level	2025	2019	2018	2017	2016	2015
Electricity		672	699	701	727	792	747
Heating		3,175	3,172	3,105	3,261	3,572	3,528

#### Electricity and heating consumption – Sawn timber

kWh/m <sup>3</sup> sawn timber	Target level	2025	2019	2018	2017	2016	2015
Electricity		57	62	63	64	65	64
Heating		236	224	241	248	251	262

#### Electricity consumption and electricity generation



Read more about resource efficiency on pages 26-27 and 114-117.



## Responsible employer and committed employees

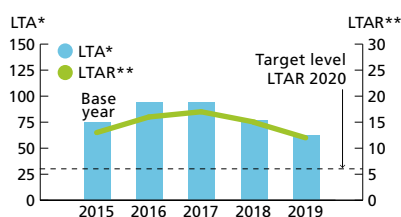
### TARGETS

- By 2020, Södra's sickness absence rate will not exceed 3 percent.
- Södra has a zero accident vision and the lost-time-accident rate (LTAR) will decrease 15 percent per year until 2020.
- By 2020, at least 30 percent of Södra employees will be women.
- Södra employees would be willing to recommend Södra as an employer, eNPS of 60 or higher by 2020.

### OUTCOMES 2019

- Sickness absence: 3.3 percent, 9 percent lower compared with 2018.
- Lost-time-accidents (LTA): 62, down 19 percent compared with 2018.
- LTAR: 12, down 20 percent compared with 2018.
- Percentage of women employees: 23 percent, up 3 percent compared with 2018.
- eNPS: no measurement was made during the year, the eNPS for 2018 was 14.

#### Occupational injuries



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

\*\* LTAR (lost-time-accident rate). The number of lost-time-accidents per million hours worked.

Read more about responsible employer and committed employees on pages 28-29 and 118-119.



## Responsible business

### TARGETS

- The Supplier Code is included in all of Södra's supplier agreements.
- By 2020, all suppliers who have signed supplier agreements with Södra will be risk-assessed, and high-risk suppliers will be evaluated on the basis of the requirements in Södra's Supplier Code.
- By 2020, sustainability-related criteria will be used as a basis for Södra's investments and business transactions.

### OUTCOMES 2019

- Percentage of suppliers that have signed the Södra Supplier Code: 79% (88) (excluding harvesting assignments and wood deliveries not covered by the Södra Supplier Code).
- Percentage of Södra's purchasing value for which suppliers had signed the Supplier Code: 97% (98).
- Percentage of Södra's purchasing value for which a risk assessment of suppliers was performed: 95% (94).
- The risk assessment resulted in 67 high-risk suppliers.
- Percentage of high-risk suppliers that completed a supplier self-assessment: 63%.
- Percentage of high-risk suppliers that were monitored on site (sustainability audit): 18%.
- Group-wide efforts with the target for using sustainability-related criteria as a basis for investments and business transactions continued during the year by initiating the process to define the criteria.

Read more about responsible business on pages 30-31 and 120-121.



# Climate-positive operations

*The growing forests bind more and more carbon dioxide and processed forest-based products can replace fossil-based products. Södra is working to achieve a higher rate of forest growth and lower fossil emissions, from both production processes and transportation.*

## POWERFUL CARBON SINK AND CLIMATE-SMART PRODUCTS

Forests bind carbon dioxide as they grow, especially if they are managed properly and the tree species are adapted to the growing conditions of each soil type. The uptake is highest when forests are 30–70 years old. Over a rotation period, a growing forest absorbs large amounts of carbon dioxide.

In Södra's mills, forest-based products are processed into paper pulp, dissolving pulp, sawn timber and renewable energy – products with limited or zero net emissions of carbon dioxide. Instead, they often replace fossil-based raw materials and help to create a more sustainable and climate-smart range of products.

## FOSSIL-FREE PROCESSES AND TRANSPORTATION

Södra's production processes are largely fossil-free and mostly powered by biofuels. At present, transportation accounts for most of Södra's greenhouse gas emissions. The target is to achieve fossil-free production by 2020, and fossil-free transportation by 2030.

In 2019, fossil carbon dioxide emissions from production, operational machinery and internal transportation amounted to 70 ktonnes (103), of which direct emissions accounted for 28 ktonnes (63) and indirect emissions for 42 ktonnes (40). The use of fossil fuel oil at the pulp mills was lower in 2019 compared with previous

years. For its own operational machinery and internal transportation, Södra has largely transitioned to HVO – a bio-based alternative to fossil diesel – which is now available at all filling stations at Södra's mills, and is also offered to external transport companies. A pilot with a large electric wood yard forklift commenced during the year.

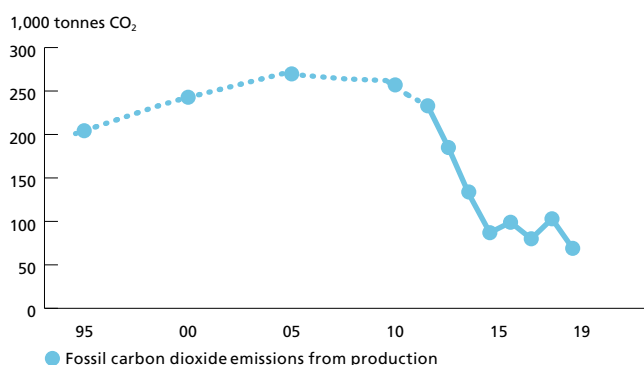
In 2019, fossil carbon dioxide emissions from transportation were 207 ktonnes (196). To reduce carbon dioxide emissions from freight transport, Södra had a special focus on external collaborations in 2019. In one such collaboration with Central European pulp customers, the logistics chain was developed so that rail transport could replace road transport. Södra also participated in the Swedish Energy Agency's project to create a sector strategy for the transition to fossil-free and energy-efficient freight transport, and in the Climate Crossroads project led by the Royal Swedish Academy of Engineering Sciences. Södra has been actively involved in the Fossil Free Sweden initiative for some time. To facilitate commuting with electric vehicles, Södra has also installed charging stations at its head office in Växjö and at its pulp mills. More than 100 charging stations have been installed in Södra's operations.

## FOREST GROWTH INITIATIVES

Swedish forests are growing faster than they are harvested and the wood stock increases every year. An increased stock in forests increases carbon sequestration. Södra's members plant at least three seedlings for every tree that is regeneration harvested.

The annual rate of forest growth on members' estates will be 20 percent higher by 2050 compared with 2015. One condition is that the natural functions and productive capacity of forest land must be maintained, and biodiversity promoted.

In 2019, the average rate of forest growth for Södra's members was 7.1 m<sup>3</sup>fo/ha (6.7). Many forest stands were severely impacted by spruce bark beetle damage, but the growth rate is still increasing. Södra's advisory services to members, effective forest management and forest damage control are key to achieving a higher rate of growth. Forest tree breeding and nutrient recycling with bio-ash are other important initiatives. During the year, there was a major focus on research into forest management, forest management methods and the production of better tree breeding material. Södra is also working to ensure that browsing damage reaches acceptable levels in at least half of moose management areas by 2021.



Historically, Södra's fossil carbon dioxide emissions from production have been higher than today's emissions. Since the mid-1990s, the use of fossil fuel oil in the pulp mills has decreased sharply and solid and liquid biofuels are now used to a greater extent. The accounting policies for data prior to 2012 (dotted line) have not been verified and may therefore differ from those currently applied. Södra's operations have also changed over this period of time. Production includes production, operational machinery (including external harvesting contractors who work on Södra's behalf) and internal transportation.



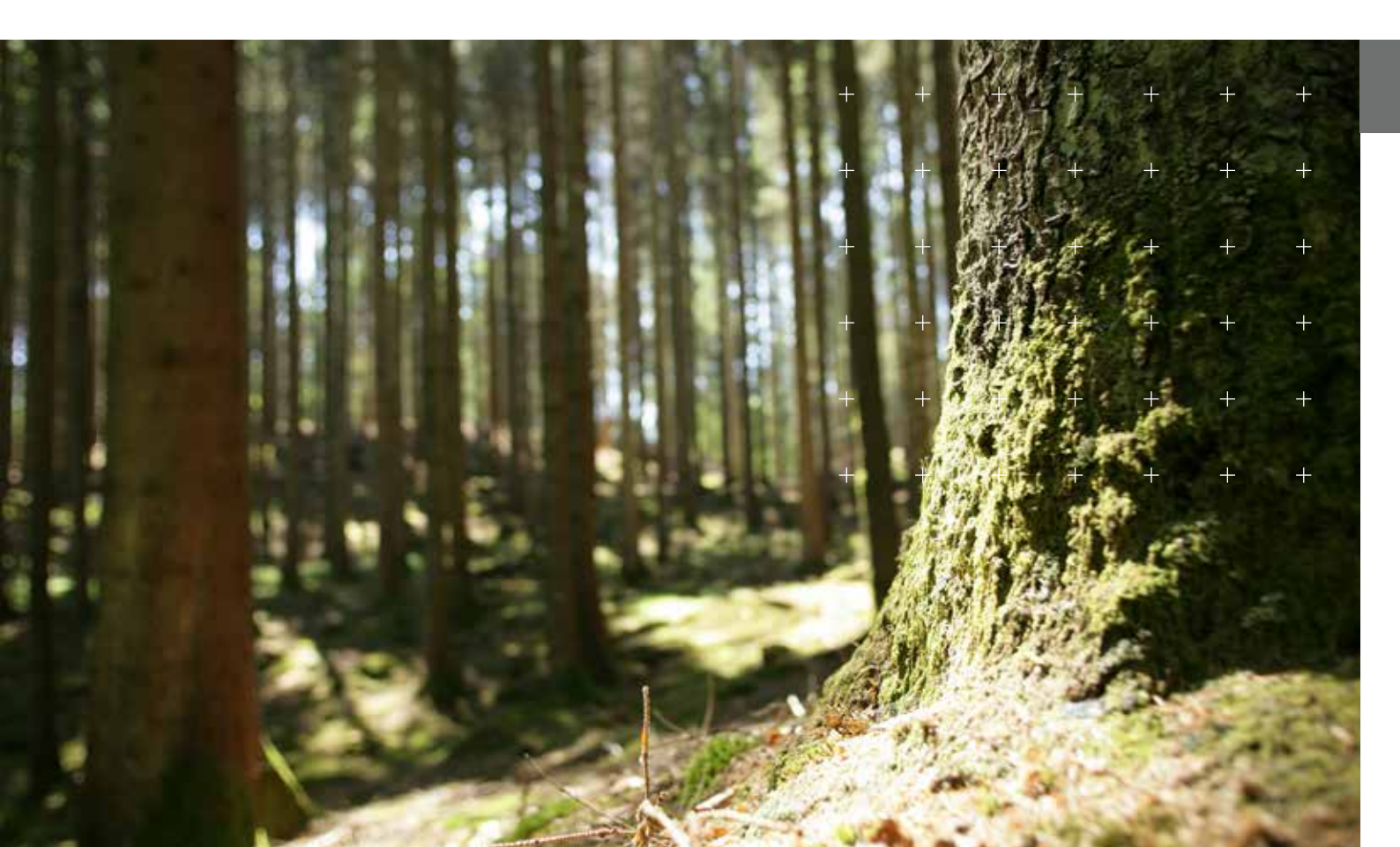
### FOR MORE INFORMATION ...

about Climate-positive operations, refer to Sustainability notes on pages 110–111. Read more about Södra's climate effect in the report at [www.sodra.com/en/sustainability/strategy-for-sustainability/sodras-net-impact-on-climate-change/](http://www.sodra.com/en/sustainability/strategy-for-sustainability/sodras-net-impact-on-climate-change/)



### Did you know that:

In 2019, Södra initiated a pilot with a large electric wood yard forklift, the first of its size in the forest industry.



# Södra's climate effect

## NET EFFECT OF 9.2 MILLION TONNES CARBON DIOXIDE

Södra's climate effect amounts to 9.2 million tonnes of carbon dioxide equivalents per year. The net effect is derived from the growth of members' forests and use of the company's forestry products to replace more emission-intensive products and energy sources. The climate effect is derived from forests and is fully realised when consumers choose forest-based products.

## CLIMATE BENEFITS GREATER THAN GROWING FOREST

The large amounts of carbon sequestered by trees is not the only climate benefit of forests. Biogenic carbon dioxide is part of a natural carbon cycle in which emissions are constantly reabsorbed by growing trees and other vegetation, while the combustion of fossil fuels releases emissions into the atmosphere.

In forest operations, Södra utilises every part of a tree and makes products that can essentially replace other products that are more emission intensive. Substitution therefore creates a climate benefit when products based on renewable forest-based products reduce the use of products that are more emission-intensive, such as steel, concrete, plastic and fossil fuels.

In recent years, researchers have become interested in how this effect can be measured. The substitution factor varies for each different type of material and is a measure of the amount of fossil carbon that is replaced per unit of biogenic carbon in the forest-based products. Using sawn timber for construction also has a high substitution factor. Replacing plastic food packaging with bio-based trays, or using biofuels instead of fossil fuels such as natural gas or oil, also have climate benefits.

However, Södra's value chain also has negative climate impacts. Since the Group's mills are almost completely fossil-free, fossil carbon dioxide emissions are mainly derived from the production of purchased input products, such as process chemicals and packaging materials, and from the transportation of raw materials to mills and products to customers. The calculations also include fossil carbon dioxide emissions from forestry operations and industrial processes. Other fossil carbon dioxide emissions in the value chain are not included.

## HOW SÖDRA MAKES ITS CALCULATIONS

To calculate its climate effect, Södra has measured conservatively in a model developed by Holmgren and Kolar (SCA, February 2019). The calculations of the three parameters – net carbon sequestration by forests, reduction of fossil emissions due to substitution, and emissions in the value chain – provide an estimate of Södra's climate impact. On an annual basis, Södra's total climate effect in 2018 was 9.2 million tonnes of carbon dioxide equivalents.

This climate effect corresponds to 20 percent of Sweden's greenhouse gas emissions, which are approximately 53 million tonnes of carbon dioxide equivalents per year. The greatest effect of substitution does not arise in Sweden, however, since Södra – and the rest of the Swedish forest industry – exports most of its products.

The calculations of the climate effect provide support for Södra's continued strategic choices for reaching its emission-reduction targets. Södra's climate effect also confirms that the Group is moving in the right direction – striving for a longer life for its products and obtaining a higher rate of substitution. This is achieved by investing in liquid biofuels and timber building systems and by recycling textiles in pulp production.

## SÖDRA'S CLIMATE EFFECT IN FIGURES

### 2.1 million tonnes

In 2018, the estimated carbon uptake of forests was equivalent to 2.1 million tonnes of carbon dioxide equivalents. This is the net carbon storage from forest growth of 13.1 million m<sup>3</sup>sub and harvesting of 11.9 million m<sup>3</sup>sub on Södra members' forest land, plus the management of one small forest estate on behalf of the Group.

### 7.7 million tonnes

In 2018, Södra's reduction of fossil emissions due to substitution amounted to 7.7 million tonnes of carbon dioxide equivalents.

### 0.6 million tonnes

In 2018, Södra's fossil carbon dioxide emissions amounted to 0.6 million tonnes of carbon dioxide equivalents. The emissions were mainly derived from the production of input products, and the transportation of raw materials to mills and products to customers.

# 9.2 million tonnes

In 2018, Södra's climate effect amounted to 9.2 million tonnes of carbon dioxide equivalents.





# Sustainable forestry

*Sustainable harvesting rates, considerations in forestry operations and nature-conservation measures are all aspects that create conditions for sustainable forestry. Forestry that was dominated by severe spruce bark beetle outbreaks in 2019.*

## MASSIVE SPRUCE BARK BEETLE OUTBREAKS

Massive spruce bark beetle outbreaks caused damage to 2.5 million m<sup>3</sup> of spruce forest on Södra members' estates and posed a major challenge to forestry in 2019. The main measures taken were to remove as many damaged trees from the forest as possible to protect the economic value of the wood, and to reduce the spread of the infestation. In protected areas, this can be a difficult balance between preventing the spread while maintaining the value of these areas in relation to spruce. Spruce growing in soils better suited to pine are more vulnerable to attack than spruce growing in soils well suited to spruce.

The spruce bark beetle problem was one reason why pine received a greater focus in 2019, including the significance of regenerating with pine on pine soil. Södra established the 'Kraftsamling Tall' (Pine mobilisation) project team, tasked with reducing wildlife damage to pine and increasing pine regeneration on pine soil. As part of this process, Södra's nurseries also increased their cultivation of pine seedlings.

## RENEWED FOREST MANAGEMENT CERTIFICATIONS

During the year, Södra renewed its FSC® and PEFC™ certifications, which is required every five years. At the end of 2019, about two-thirds of Södra's affiliated forest area was certified under Södra's group certification. In mid-2020, a new FSC® standard will come into effect, with a new requirement that 5 percent of stands must be managed with a focus on the development of either nature conservation or social values.

## GENERAL CONSIDERATION MANAGEMENT MEASURES

General considerations have applied to all forestry operations since the mid-1990s. This can include buffer strips, sensitive habitats or groups of trees. In 2019, Södra reviewed management measures for these areas, where it is now 25 years since the general considerations were applied during harvesting operations. The assessment is that approximately half of all areas in which general considerations were applied are now in need of management to promote nature conservation values, for example by removing spruce from these areas. The Swedish Forestry Association's autumn excursion, which was hosted by Södra in 2019, showed examples of general consideration areas where nature-conservation measures had been carried out during thinning operations.

## GROWING FOREST THROUGH RESPONSIBLE FORESTRY

Södra supports its members across the entire ecosystem – from seed to harvesting and new regeneration methods. Responsible forest management ensures regrowth for coming generations and future needs. Special considerations in forestry operations are essential for maintaining and promoting the multiple values of forests.

Södra also offers digital services to help its members manage their forests sustainably. These include the Forest Owner app, which provides access to the forest management plan and other

important information in the field. A new version of the Forest Owner app will be launched in 2020. Södra also maintains digital planning data for contractors, which helps machine operators, for example, find the best routes and avoid driving damage.

## SUSTAINABLE HARVESTING RATE

The aim is to maintain a sustainable harvesting rate. To determine this rate, the Swedish Forest Agency and the Swedish University of Agricultural Sciences (SLU) conduct forestry impact assessments every five years. The last assessment was made in 2015, and in 2017, Södra conducted its own assessment based on data from land owned by its members using the same methodology as the Swedish Forest Agency and the SLU. The results showed that a sustainable harvesting rate for Södra's members is 5.9-7.1 m<sup>3</sup> per hectare and year, corresponding to a total of 11-13 million m<sup>3</sup> per year, based on the current affiliated forest area. In 2019, the harvesting rate was 7.1 m<sup>3</sup> per hectare and year (6.2), which is within the sustainable harvesting rate interval.

## GREEN BALANCE SHEET

Various types of environmental considerations are applied in forestry operations. Regeneration harvesting, thinning, nature-conservation measures and regeneration methods are revised and rated in a Green Balance Sheet. In 2019, 379 sites (371) were inspected, equivalent to 1,791 hectares (2,031). The aim is that by 2020, the approval rate for considerations in regeneration harvesting will be 95 percent. The approval rate for regeneration harvesting in the Green Balance Sheet was 93 percent (94). Regeneration operations are also monitored 1-2 years after harvesting, including an assessment of the site preparation and planting performed, and whether special considerations were applied for cultural relics, buffer strips and sensitive habitats. A Green Balance Sheet also includes the handling of forest residues (branches and treetops), which are attractive habitats for many species, especially insects and fungi.

## NATURE-CONSERVATION MEASURES

Södra works actively with nature conservation. Members set aside 8 percent of their productive forest land voluntarily for nature conservation requiring management (NS, 4.2 percent) and for nature conservation, to be left untouched (NO, 3.8 percent). Many forest environments with high conservation value in southern Sweden have a history where grazing or use has created these values, such as former pastures with large deciduous trees. When this use ceases, the areas become overgrown with spruce and lose their nature conservation values. Södra applies nature-conservation measures to maintain and promote such environments. The aim is to apply nature-conservation measures on 3,000 hectares by 2020. In 2019, nature-conservation measures were applied on 1,643 hectares (2,100). The lower figure is due to the focus on handling forest damaged by spruce bark beetles in 2019.

In combination, formal protection, voluntarily allocated stands and general considerations all contribute to the national environmental objective of vibrant forests.



## New step for climate-adapted forests

**CASE** Using controlled pollination, Södra and the Forestry Research Institute of Sweden have produced a new generation of spruce seed that is better adapted to climate change. The seeds are about 20 years before their time compared with conventional methods, and produce healthier trees with 30 percent higher growth than trees growing in today's forests.

### CONSIDERATION AREAS

**Woodland** comprises both productive forest land and wooded wasteland (woodland that is unsuitable for forestry or agriculture, such as rocky outcrops, bogs and mountains).

**Productive forest land** grows at least one m<sup>3</sup> per hectare and year, and consists of production stands, areas with timber production as the primary management goal, and areas with various forms of nature conservation objectives.

There are several types of **formal protected areas** for forest land: nature reserves, which are designed to protect connected areas, habitat protection and nature conservation agreements that are used to protect smaller areas.

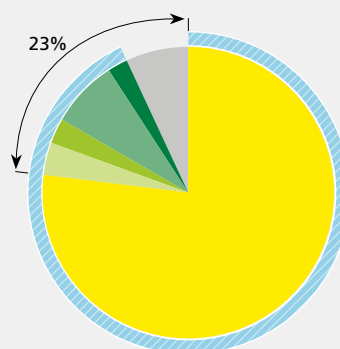
**General considerations** must be applied in all forestry operations, such as buffer strips, sensitive habitats or groups of trees.

The forest owners also set aside **stands voluntarily** to maintain and promote nature conservation values (NO/NS). According to forest certification schemes, these stands should amount to least 5 percent of their estates.

**NO** (nature conservation, to be left untouched) designates areas where nature conservation values are best maintained and promoted when the forest is left untouched.

**NS** (nature conservation, requiring management) designates the areas where special management methods are required to maintain and promote the nature conservation values.

**K stand** (combined targets) designates the areas with targets for both timber production and nature conservation, and where nature conservation values apply to a higher percentage of the stand than in production stands.



23 percent of the wooded forest land has another main use besides production.

### Consideration areas

- Production stand
- General considerations
- K stand
- NO/NS
- Reserve, habitat protection
- Wooded wasteland
- Productive forest land



### FOR MORE INFORMATION ...

about Sustainable forestry, refer to Sustainability notes on pages 112-113. The Green Balance Sheet report is available at [sodra.com](http://sodra.com)



### Did you know that:

Willow is a vital food source for hungry bumblebees in the spring, and did you know that willow bark contains acetylsalicylic acid? Which is the active ingredient in painkillers such as Magnecyl and Treo. Willow was an important medicinal plant hundreds of years before the compound was isolated in the 1830s. Many of our medicines are derived from a diversity of natural products.



# Sustainable innovation

*Södra pursues strategic innovation to meet the growing need for more sustainable products. In 2019, Södra was the first in the world to recycle textile fibres on a large-scale – a breakthrough that is contributing to circular flows in the fashion and textile industry.*

## STRATEGIC ARENAS FOR INNOVATION

Södra's innovation activities are conducted in several strategic arenas – forest, sawn timber, paper, textiles, chemicals and energy. They are mainly led by Södra's own innovation department together with the business areas, but also in collaboration with customers and in external networks with universities, research institutes and companies further upstream in various value chains.

Innovation projects are helping to increase the level of processing for forest-based products and to commercialise products with better sustainability performance than today's alternatives. Several projects can be linked to Södra's sustainability targets for fossil-free production by 2020 and fossil-free transportation by 2030. A large proportion of the development resources are invested in product and process development with the aim of strengthening the competitiveness of today's business transactions. Resource efficiency is a recurring theme in many projects, in addition to product performance and other factors that are important to Södra's customers.

In 2019, the Group invested SEK 167 million (88) in research and development, corresponding to 0.7 percent of sales. External research projects are often partially funded by public sources, such as national and international research programmes. In Sweden, for example, these include the Tresearch collaboration platform and the BioInnovation research programme with the vision that Sweden will have a bio-based economy by 2050. One European equivalent is the Bio-Based Industries Joint Undertaking with the vision: From fossil-based to bio-based products – Made in Europe.

## INNOVATIVE STEPS TOWARD A CIRCULAR BIOECONOMY

### Textile recycling

Only a negligible proportion of the global production of clothing and textiles is recycled today, nearly everything goes to landfill and incineration. Thanks to Swedish innovation and a willingness to contribute to the necessary transition to a low-carbon society, the playing field can now begin to change on a global level. Södra was the first in the world to introduce the large-scale recycling of textiles from mixed fibres. This technique is a globally unique solution that will enable circular flows in the fashion and textile industry. OnceMore™ – the name of the concept – was tested on a factory scale in 2019. Södra is looking for partners with ambitions for sustainable textiles. The long-term target is to add 25,000 tonnes of used textile to the company's pulp production.

### Liquid biofuels

At the end of 2019, Södra commenced biomethanol production at its pulp mill at Mönsterås. Methanol is a liquid biofuel that can replace fossil fuels and provides another use for forest-based products. Sales of biomethanol are a resource-efficient way to increase the yield from the raw materials used in the process. Another liquid biofuels project has begun within the framework of Silva Green Fuel, a joint venture created by Södra and Statkraft. At a

process facility in Tofte in Norway, forest biomass, such as shavings and bark, is used to produce bio-oil that can be upgraded to biodiesel.

### Cross-laminated timber

During the year, a cross-laminated timber (CLT) plant became operational at Värö. Södra sees major potential in value-added wood products in this area with strong and growing demand. Construction with CLT offers benefits the construction process with lower carbon dioxide emissions, lighter transport loads and shorter construction times compared with construction in concrete.

### Food packaging

Södra contributes knowledge about raw materials and manufacturing techniques to the EU-funded project FRESH, in partnership with Huhtamaki and Saladworks. The aim of the project is to develop and commercialise fibre-based packaging for fresh ready-made meals, as an alternative to CPET packaging. During the year, commercial tests were carried out in UK retail stores. This has already led to the replacement of nearly 7 million plastic packaging items with bio-based food packaging based on Södra's raw material.

## FOUNDATION FOR RESEARCH, DEVELOPMENT AND EDUCATION

The Södra Foundation for Research, Development and Education awards grants for research projects and training programmes that promote forest management and forest industry operations in southern Sweden.

In 2019, the Foundation issued an open call and a targeted call for research proposals in the field of resource efficiency and the successful research projects were focused on topics ranging from core products and processes in the forest industry, to new and innovative products from forest industry residue flows. Since it was founded in 1995, the Foundation has awarded funding of SEK 224 million.

## INNOVATION TARGET ACHIEVED

Södra's target for sustainable innovation is that the company will have commercialised at least three products with better sustainability performance than today's alternatives by 2020. The target was met in 2019, since Södra has commercialised five new products in recent years with a better sustainability performance than today's alternatives: paper wrapping to replace wires around pulp bales, primed cladding, nutrient recycling with bio-ash, cross-laminated timber and a new grade of pulp made from woodchips. In 2020, more innovations are expected to be commercialised. Sustainability performance is assessed using a model that identifies the positive and negative impacts for a number of sustainability aspects. Both direct impacts from Södra's own operations and indirect impacts in the value chain are assessed.





### Breakthrough for textile recycling

**CASE** With Södra's patent-pending solution OnceMore™, the pulp mill at Mörrum can now separate cotton and polyester fibres in blended textiles on a large-scale. The pure cotton fibres are then added to the production of dissolving pulp, which can be used to make new textiles. This is a globally unique solution and a major step forward for the circular bioeconomy that will create major value for customers, not least in the fashion industry.



### Did you know that:

Fuels can be produced from water and exhaust gases using electricity – electrofuels. Södra has the technical prerequisites to produce electrofuels based on carbon dioxide and excess electricity and is following advances in this area.



### FOR MORE INFORMATION ...

about Sustainable innovation, refer to Sustainability notes on page 113.



# Resource efficiency

*Efficient use of resources and by-products are helping to strengthen Södra's competitiveness and profitability. It also benefits society and reduces negative impacts on the climate and the environment.*

## RESOURCE EFFICIENCY

The main resources used in Södra's production processes are wood raw material, sawn timber, chemicals, packaging materials and water. The pulp mills use large amounts of alkaline cooking chemicals, which are nearly 100-percent recovered while also generating energy. Chemicals for bleaching the pulp are partly manufactured on site, but also purchased on an ongoing basis. The efficient use of wood raw material and chemicals is helping to reduce emissions, lower costs and strengthen profitability. Södra therefore intends to become even more competitive in this area. The company is driving several development projects to optimise the use of wood raw material from both a material and an energy perspective.

### Water consumption

The pulp mills use a number of water-conservation methods in the pulp washing system and nearly all sawmills recirculate the water used to wet logs. The climate control system adjusts the amount of water to quantity of water evaporated.

In 2019, water availability and use was a less urgent issue than during the extremely dry summer of 2018. However, water availability and use is always a relevant issue for Södra's activities and is expected to be increasingly important in the future.

## BY-PRODUCTS AND CIRCULAR FLOWS

Several important by-products are generated by Södra's operations. They are used in construction materials, as biofuels, for the production of liquid biofuels and as raw material for the chemical industry. One example is Södra's unique facility that produces pure biomethanol from crude methanol that commenced operation at the pulp mill at Mönsterås in 2019.

Another notable example of Södra's innovation capabilities when it comes to new materials and processes for circular flows during the year was the launch of OnceMore™ (refer to Sustainable Innovation, pages 24-25).

When extracting forest residues (branches and treetops) in regeneration harvesting operations, essential nutrients are removed from the forest. By offering nutrient recycling with bio-ash as a forestry service, Södra is helping to balance the ecosystem and ensure long-term forest productivity. The bio-ash was previ-

ously sent to landfill. That it can now be used to fertilise soil is yet another example of Södra's leading position when it comes to developing products and services for a more circular bioeconomy.

## MAJOR PRODUCER OF RENEWABLE ENERGY

Södra's industrial production is almost energy self-sufficient. The energy generated in the pulp mills and sawmills is derived from wood raw material. If needed, energy requirements are supplemented with purchased biofuel and, to a limited extent, fossil fuels.

Business area operations also supplies large amounts of excess energy to external customers in the form of renewable electricity, district heating and biofuels. These will increase due to a continued focus on energy efficiency.

Södra's targets are that electricity and heating consumption will decline by at least 10 percent by 2025 compared with 2015, and that Södra will generate more electricity per year than the Group consumes. In 2019, electricity and heating consumption continued to improve due to a continuous improvement programme and a high level of production efficiency. Electricity and heating consumption was 699 and 3,172 kWh/tonnes of pulp (701; 3,105), respectively, in the pulp mills, and 62 and 224 kWh/m<sup>3</sup> of sawn timber (63; 241), respectively, in the sawmills. Net electricity deliveries were 397 GWh (388).

## EMISSIONS, EFFLUENTS AND WASTE

Södra's emissions are primarily derived from the Group's pulp mills and transportation. Effluents are mainly attributable to the pulp mills and are processed by the mills' internal wastewater treatment systems. The treated wastewater maintains a high quality and complies with the EU's Industrial Emissions Directive.

Despite Södra's continuous efforts to minimise waste and find new methods for recycling and energy recovery, landfill waste dominates in terms of weight. This waste is mainly sent to Södra's own landfill sites and comprises inorganic materials, such as green liquor sludge, ash and lime sludge from the pulp mills. Hazardous waste is mainly comprised of oily wastes.

Other environmental impacts on surrounding areas from Södra's industrial and forestry operations are odour, dust and noise.



### Did you know that:

Södra's deliveries of electricity and district heating would take an electric vehicle around the world 50,000 times, and heat 25,000 homes.



### FOR MORE INFORMATION ...

about Resource efficiency, refer to Sustainability notes on pages 114-117.





### **Lower carbon dioxide emissions with biomethanol as a fuel**

**CASE** In 2019, Södra commenced biomethanol production in a new facility in the pulp mill at Mönsterås. Its production capacity is 5,500 tonnes per year. The combustion of biomethanol produces no fossil carbon dioxide emissions. However, the current production process emits small amounts of fossil carbon dioxide. When used as a marine fuel, it enables the most sustainable freight transport in the world.





# Responsible employer and committed employees

*Södra is committed to corporate social responsibility, encourages employees to take active responsibility for occupational health and safety, and develops the company's business within the framework of 'One Södra.'*

## VALUE-GENERATING RELATIONSHIPS, LONG-TERM APPROACH

Södra's HR strategy is based on four focus areas: values, occupational health and safety, strategic competency provision and performance management. Södra's values – Value-generating relationships, a long-term approach – permeate the company's day-to-day operations and are designed to deepen the corporate culture and lead Södra towards its goal of being a next-generation forest company. The values are included in the introduction programme for all new employees and are a permanent feature of leadership development programmes.

The corporate culture is summarised as 'One Södra' involves an approach whereby Södra is a cohesive and efficient Group with a focus on optimisation. This creates synergies and economies of scale, and an attractive and inclusive employer. The target is that Södra employees would recommend Södra as an employer, with an Employee Net Promoter Score (eNPS) of 60 or higher, by 2020. No employee satisfaction survey was conducted in 2019, but the eNPS score in 2018 was 14.

## OCCUPATIONAL HEALTH AND SAFETY

Together with trade unions, Södra continuously conducts preventive work for better occupational health and safety. Sickness absence is followed-up and a special insurance policy provides employees on long-term sick leave with support from professional rehabilitation managers in order to return to work. Employees on long-term sick leave receive higher sickness benefits and in the event of restructuring or organisational changes, benefits such as transitional support and relocation assistance are offered. Södra's target is that the sickness absence rate will be less than 3 percent by 2020. In 2019, the rate was 3.3 percent (3.6).

Södra also has a zero accident vision, and the target is to reduce the lost-time-accident rate (LTAR) by 15 percent per year until 2020. In 2019, the number of lost-time-accidents was 62 (77) and the LTAR was 12 (15). In January 2019, a contractor suffered a fatal accident at the pulp mill at Mönsterås. A preliminary investigation into an indictable health and safety offence has commenced. Both the police and the Work Environment Authority have completed

their investigations into a fatal accident involving a contractor at Långasjö in 2018. The fatal accident case at Mönsterås in 2017 has now been closed and resulted in corporate fines.

Södra has made major investments in increased safety, in the form of better safety equipment and technical solutions. In recent years, the company has increasingly focused on behaviour-based safety and worked extensively with values, attitudes and accountability. In 2017 and 2018, the CEO and HR Director conducted 'safety walks' at Södra's 25 operational sites and this will be followed up in 2020. Employees are also encouraged to photograph and report risk observations, using IT support and apps for example, so that prompt action can be taken.

## STRATEGIC COMPETENCY PROVISION

Like many other industries, Södra is facing a large number of employees retiring, and the company works strategically and continuously to attract, develop and retain the right competencies. These include positioning Södra as an attractive employer by showing the wide range of roles and assignments that the next-generation forest company can offer. Södra therefore participates in Teknisksprånget, for example, a project that offers young people a four-month paid placement to try life as an engineer and to inspire higher education in technology.

## DIVERSITY AND INCLUSION

Södra also works actively to increase the proportion of women in the organisation. The target is that at least 30 percent of employees will be women by 2020. In 2019, the proportion was 23 percent (22). There is also an explicit ambition to increase diversity by recruiting and retaining employees with diverse backgrounds, experience and perspectives. This is a long-term process, and Södra works hard in terms of both structure and culture to achieve its targets. One example is Södra's participation in Jobbsprånget, which offers a four-month placement to migrant academics with the aim of drawing on their expertise and enabling faster integration into the Swedish labour market.

To attract new employees, Södra must be a welcoming workplace where everyone shows respect for each other regardless of



### FOR MORE INFORMATION ...

about Responsible employer, refer to Sustainability notes on pages 118-119.



### Did you know that:

One in five Swedes would prefer to work for a socially responsible company and that many companies and organisations in forestry, packaging and food are considered to be among the most socially responsible.



age, sex, ethnic origin, faith, disability or sexual orientation. Södra has zero tolerance of bullying and harassment and all employees are responsible for ensuring that zero tolerance is maintained. At the end of 2019, 51 percent (33) of employees had completed training in Södra's efforts to prevent discrimination and bullying.

Södra offers a multitude of internal career opportunities that promote the development of individuals as well as the organisation. In 2019, the 'Utveckla din affär' (Develop your business) programme was launched in collaboration with the Stockholm School of Economics. The programme covers sustainability, lean production, leadership and economics, and the participants – management teams and specialists – gain knowledge and inspiration for developing their business with the support of academic expertise. The aim is to find new ways to develop business.

#### **WINNING COMMUNITY ENGAGEMENT**

The forest industry offers many of the solutions for the transition to a more circular bioeconomy and the industry is becoming increasingly attractive as an employer. In the 2019 Randstad Employer Brand Research report, Södra was ranked second among Sweden's 150 largest private employers in the area 'giving back to society'. Randstad Employer Brand Research is the largest employer brand survey in the world. Södra's high ranking is proof that potential employees see the company as a player with social, environmental and economically sustainable community engagement, that gives back to society and builds value-creating relationships with the communities in which it operates.



# Responsible business

*Södra places high demands on employees and suppliers in regard to business ethics, working conditions, human rights and the environment. Sound business ethics and high integrity make the company an attractive and credible business partner.*

## ACCOUNTABILITY THROUGHOUT THE VALUE CHAIN

To guarantee accountability throughout the entire value chain, Södra imposes the same demands on both suppliers and employees. Both the Code of Conduct and Supplier Code are based on Södra's values – Value-generating relationships, a long-term approach.

## CODE OF CONDUCT

The Code of Conduct contains guidelines for how employees and anyone representing Södra are expected to behave. It applies to all employees and sets out the rules that apply to gifts, benefits, remuneration and business-related entertainment, conflicts of interest and competition from a business ethics perspective.

## SUPPLIER CODE

Södra purchases large volumes of wood raw material from its members, as well as contracting and transportation services, input products, investments and other indirect materials and services. The suppliers of these goods and services are risk-assessed and evaluated according to the requirements of the Södra Supplier Code. The Code provides guidelines for governance and management, specification requirements for supply chain control, business practices, occupational health and safety, working conditions, human rights, the environment and quality. However, because Södra's members are private forest owners, they are not covered by the Supplier Code or the Group's harvesting assignments and wood delivery contracts.

Suppliers are classified using a number of sustainability criteria. Prioritised suppliers are those that have a higher risk of non-compliance. Should the risk of non-compliance be higher, the supplier is asked to complete a self-assessment and/or their operation is reviewed by following up the results or performing an on-site audit. Suppliers of wood raw material are also reviewed on the basis of compliance with the FSC® and PEFC™ standards. Certified and non-certified members who have delivered wood to Södra during the financial year are also reviewed.

The fact that most of Södra's suppliers and contracted parties are based in Sweden and the EU makes evaluation and control easier. The Group also has a purchasing office in China where there is a greater risk of non-compliance with the Supplier Code, which places higher demands on evaluation and control.

## MONITORING COMPLIANCE WITH THE SUPPLIER CODE IN 2019

The target is that the Supplier Code will be included in all supplier agreements by 2020. At the end of 2019, 79 percent (88) of suppliers had signed the Supplier Code and 97 percent (98) of Södra's purchasing value was derived from suppliers that had signed the Supplier Code.

In 2019, Södra's purchasing organisations were focused on improving their processes and also achieved better results in

regard to risk assessment and Supplier Code evaluation. The target is that by 2020, all suppliers who have signed supplier agreements with Södra have been risk-assessed, and that high-risk suppliers have been evaluated on the basis of the requirements in the Södra Supplier Code. Efforts with risk assessments improved and 95 percent (94) of Södra's purchasing value was risk-assessed during the year. 81 percent of the prioritised suppliers have been monitored using either self-assessment or on-site audits over the past three years.

## PRODUCT RESPONSIBILITY

Södra offers products from certified forests that hold Chain of Custody certification from FSC® or PEFC™. Since more and more consumers are demanding that raw materials come from sustainable forests and that its origin has been verified, this is becoming increasingly important for the company's suppliers and customers. In 2019, 62 percent (70) of Södra's revenue from external sales of physical products was derived from products with either FSC® or PEFC™ certification.

French company EcoVadis, which conducts Corporate Social Responsibility (CSR) assessments of companies, awarded Södra a top rating in the packaging, pulp and paper sector. In 2019, Södra's score was 73 of a possible 100, and the company received the gold medal rating for the second consecutive year. The average score in the assessments is 46.

Product labels and certifications are important tools for the traceability of raw materials and products and a confirmation that Södra meets a range of requirements and standards. The target from 2020 will be that Södra accounts for sustainability-related criteria in investments and business transactions, and efforts to produce these criteria were initiated in 2019. This process is linked to the new Group strategy.

## SOCIAL RESPONSIBILITY

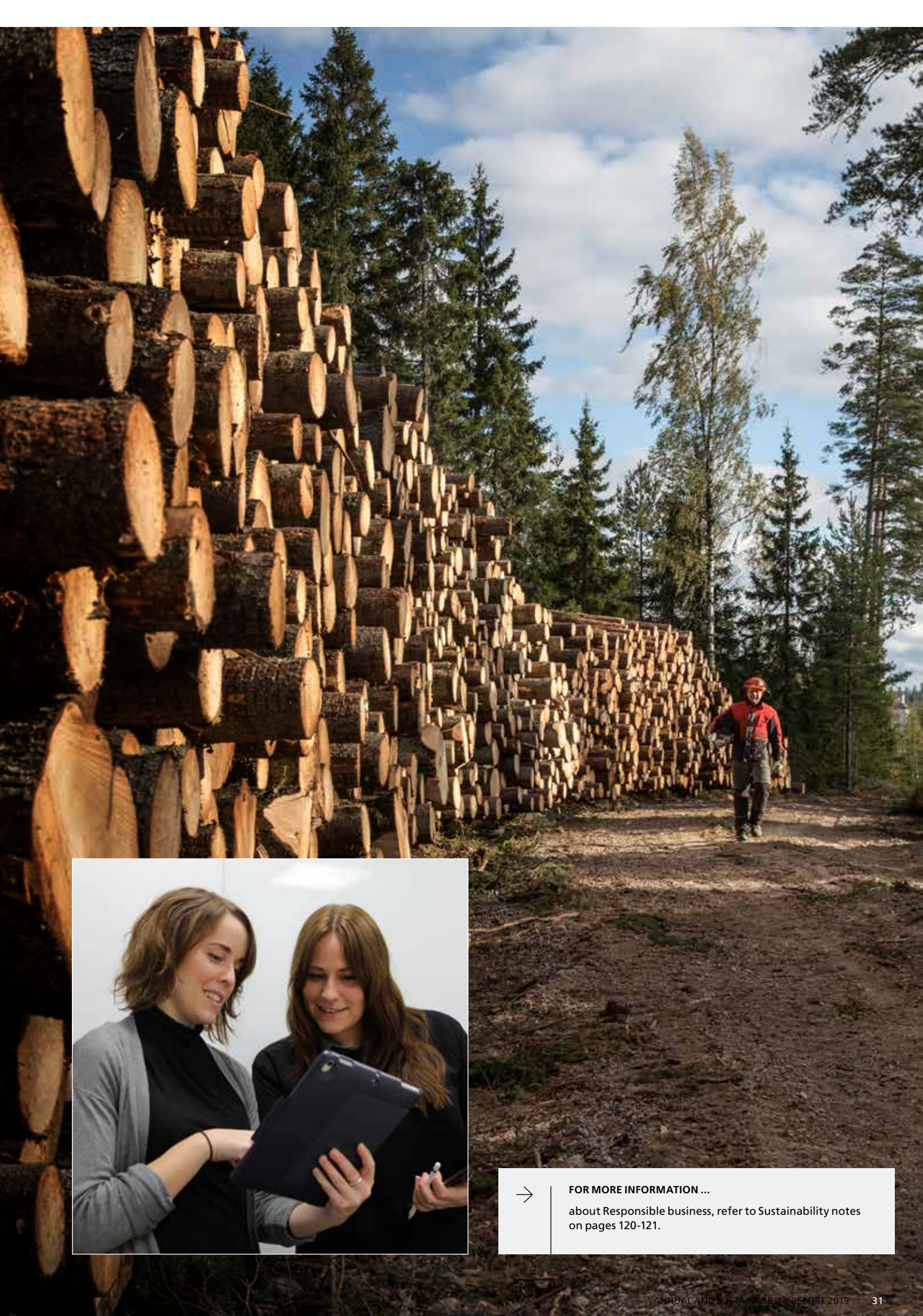
Södra is a major player in southern Sweden and creates jobs, sponsors local clubs and associations, supplies district heating and other added value. Representatives of Södra also contribute in schools with information about the company, forestry and other topics related to forests and the forest industry. For example, Södra arranges forest camps for children and young people and offers field trips, summer jobs, internships and degree projects.



### Did you know that:

All house models produced by Trivselhus under the Movehome brand carry the Nordic Swan Ecolabel. Solar panels and charging stations for electric vehicles are available as options.





**FOR MORE INFORMATION ...**

about Responsible business, refer to Sustainability notes on pages 120-121.





# Södra Skog

*Massive spruce bark beetle outbreaks caused large-scale damage and led to higher wood sales and a surplus of timber stocks. Södra Skog continued its development of digital services, including the 'My forest estate' app.*

## SPRUCE BARK BEETLE CAUSED EXTENSIVE TREE DAMAGE

Södra Skog purchases forest-based products from Södra's members and sells them to Södra's mills, and conducts external trade with wood. The business area offers a range of forestry services to members – from planting and forest management to regeneration harvesting. Södra Skog also develops digital tools that help forest owners conduct profitable and sustainable forestry.

2019 was characterised by massive spruce bark beetle outbreaks. The extent of the damage was greater than a few years ago and is estimated to amount to 2.5 million m<sup>3</sup> for Södra's members, which was twice as high as in 2018.

To reduce the growing populations of spruce bark beetles and preserve timber value for individual members, Södra Skog focused most of its resources on infected forests, which meant that the harvesting of undamaged forest was given lower priority.

Due to the damage caused by spruce bark beetles, the supply of wood raw material was high. The total increase in wood sales from members for the year was 6 percent. The spruce bark beetle outbreaks led to a higher percentage of spruce logs and softwood pulpwood, and a reduction of pine and hardwood products. The overall level of demand for pulpwood and sawlogs from Södra's forest operations was normal.

The damage caused by spruce bark beetles posed a major challenge in terms of the assortment distribution, since the grades of the damaged wood required extraordinary adjustments in the mills. Due to good cooperation between the industrial units, Södra succeeded in producing competitive pulp products and finding buyers for the damaged timber on the sawn timber market, albeit at a lower price.

To manage the damage caused by the spruce bark beetle, Södra Skog appointed a forest protection officer for each forestry district, in collaboration with the membership organisation. Every week, they measured the swarming intensity of the spruce bark beetle, which made it possible to offer advice about suitable inventory measures for forest owners. Södra could also make forecasts for the development of new spruce bark beetle generations.

## HIGHER LEVEL OF DIGITALISATION AND NEW APP

In 2019, a major system change was implemented to achieve full mobility and a higher level of digitalisation in all systems. The 'Skogsägare' (Forest owner) app will soon be replaced by the 'Min skogsgård' (My forest estate) app, which is compatible with all types of connected devices. The new app will offer a range of new services, more self-service, updating of completed services, history and the ability to add notes and images. The app will be a portal that is updated in real time, providing forest owners with a better overview of their activities.

## 'KRAFTSAMLING TALL'

In 2019, the 'Kraftsamling Tall' (Pine mobilisation) project was launched to increase the proportion of pine regeneration. Södra promotes site-adapted forestry, where methods and tree species are adapted to the soil conditions. Due to the browsing situation, spruce has replaced pine in many parts of Södra Skog's catchment area, despite the fact that pine is often the most suitable tree species in terms of damage risk and growth.

During the year, Södra Skog continued to develop and consolidate its forest holding in the Baltic region to strengthen its position in the Latvian wood market.

## OUTLOOK FOR 2020

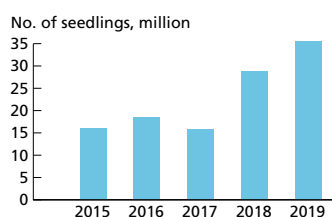
The extent to which the operations will be impacted by spruce bark beetle outbreaks in 2020 is largely dependent on weather conditions and is therefore difficult to predict. In order to limit the extent of the damage, as much damaged forest as possible should be removed. Södra Skog is also working to achieve simpler regulatory frameworks, coordination and support from authorities in management of the spruce bark beetle. One example is the possibility to fell infested forest in protected areas to limit damage to adjacent forest.



### Did you know that:

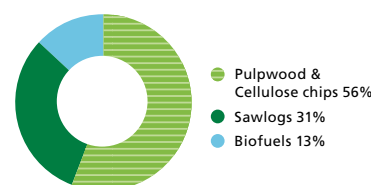
In Sweden, 12 seedlings are planted per second, a total of 380 million seedlings per year.

Sales of seedlings with mechanical protection



Total sales of seedlings rose to 38 million (30). Nearly all of these were coated with mechanical plant protection.

Wood sales



Pulpwood and cellulose chips accounted for more than half of all wood sales.



### Faster progress in processing stages

**CASE** In 2019, Södra Skog initiated a research project to accelerate the progress of seedling production.

#### SÖDRA SKOG

Key indicators	2019	2018
Net sales, SEK million	11,980	11,373
of which to own industry	7,415	7,019
Operating profit, SEK million	298	259
Operating profit, excl. changes in biological assets	173	101
Return on operating capital, %	6	10
Investments, SEK million	145	3,348
No. of employees	602	563

Acquisition of wood	2019	2018
Total, million m <sup>3</sup> sub	17.4	16.7
From members, total	10.4	9.8
– as wood deliveries	1.7	1.3
– as harvesting assignments	8.7	8.5
Imports	1.3	1.6
Other (including woodchips)	5.7	4.8

Wood volumes acquired from members rose 6 percent year-on-year. Total wood raw material purchased includes inventory changes of 0.3 million m<sup>3</sup>sub.

Forestry services	2019	2018
Harvesting, million m <sup>3</sup> sub	8.9	8.7
Site preparation, ha	11,900	9,150
Cleaning, ha	15,600	13,400
Forest management plans, 1,000 ha	131	110
Seedling sales, million	38	30

Södra's forestry services raise the value of forest properties by, for example, implementing management measures at the right time, certification of forest estates and breeding material. The harvested volume also includes non-member deliveries.

Growth in Södra's forests 2019, tree volume (m <sup>3</sup> fo)	Sweden	Baltics	Total
Opening volume 2019	1.0	13.9	14.9
Growth	0.0	0.5	0.6
Acquisitions/divestments	–	0.2	0.2
Harvesting/forest management	0.0	-0.4	-0.5
Closing volume 2019	1.0	14.2	15.2





# Södra Wood

*High supplies of wood raw material after storms and spruce bark beetle outbreaks led to falling prices for sawn timber in Europe. At the same time, Södra Wood gained market share in the UK and increased sales to the US. During the year, a decision was made to invest in a full-scale CLT facility.*

## INCREASED MARKET SHARE IN THE UK

Södra Wood offers sawn and processed wood for the building trade and construction, and packaging and wood processing industries. The business area also offers pellets, wood shavings and other by-products. The wood comes mainly from Södra members' forests and Södra Wood works closely with Södra Skog around timber harvesting and transport solutions.

Of the approximately 1.8 million m<sup>3</sup> of the processed wood products that Södra Wood produces every year, approximately 800,000 m<sup>3</sup> is sold to the UK and Ireland, which together represent the business area's largest market. The second-largest market is Sweden followed by the Netherlands. All remaining products are exported to the rest of Europe, the US and China.

In 2019, spruce bark beetle outbreaks in Sweden and Central Europe had a major impact on the sawmill industry, particularly during the second half of the year. Harvesting rose sharply in order to remove the damaged wood from forests, and led to high supplies of wood raw material. Combined with a slight slowdown in the economy, this led to a decline of 11 percent in prices for sawn timber in Europe. Despite the weaker market conditions, Södra Wood continued to gain market share in the UK, which is the business area's core market. In contrast to the trend in Europe, prices rose in the US and Södra Wood's sales to the US market rose nearly 26 percent. Södra Wood acquired the remaining shares of Södra Timber A/S and SWProject AB with the aim of further strengthening its presence in the Nordic market.

## COMMERCIAL LAUNCH OF CROSS-LAMINATED TIMBER

In line with Södra Wood's strategy for long-term profitability and increased processing, a first small-scale CLT facility, with a capacity of 15,000 m<sup>3</sup>, became operational in May 2019. During the year,

a decision was also made to invest in a full-scale CLT facility. The facility will be dimensioned for a production capacity of about 100,000 m<sup>3</sup>, with start-up scheduled for early 2022. The investment will be made in the bio-based combined plant at Värö.

## CONTINUED DIGITALISATION OF PRODUCTION PROCESSES

As part of the process to meet the growing demand for processed products that make building easier, Södra Wood invested in a second cladding coating facility at the sawmill in Kisa, with start-up scheduled for the first quarter of 2020.

The digitalisation of production processes for increased productivity and cost efficiency continued. One example was the installation of X-ray equipment for analysing logs at the business area's seven sawmills. 3D log measurements can be used to determine the wood's density, the presence of stones, spruce bark beetle damage and so forth, enabling a faster and more exact selection of timber for different applications.

2019 was also a year with a stronger focus on safety at the production facilities, which led to a 20 percent decline in occupational injuries and the lost-time-accident rate (LTAR).

## OUTLOOK FOR 2020

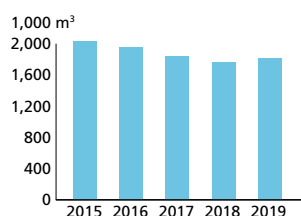
Södra Wood expects that the low price level for sawn timber will persist in early 2020, but that there is an underlying foundation for prices, and profitability is thereby expected to turn upwards later in the year. Södra Wood has been restructured in recent years, which means that the business area is now considerably stronger compared with a few years ago and is well-equipped for the future. With an office in Ireland and expanded inventories in the UK, Södra Wood is also well-prepared for Brexit.



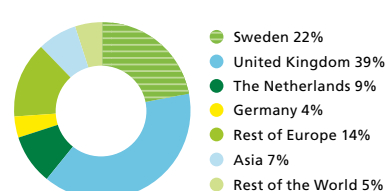
### Did you know that:

cross-laminated timber can be used to build really high buildings. Sweden's highest timber-frame building is 32.5 metres high and in 2021, Sweden will have one of the highest timber-frame buildings in the world, Skellefteå kulturhus with 19 storeys.

Sawn timber production



Sales per market





### Södra is investing in a full-scale facility for cross-laminated timber

**CASE** Södra is investing in a full-scale CLT facility at the bio-based combined plant at Värö. The focus is on driving the development of timber-based solutions in the building and residential sector, and becoming a leading player in the Nordic region. The facility will be co-located with Södra's pulp mill and sawmill. Södra's total production of CLT will gradually increase, enabling better climate choices in the housing market.

#### SÖDRA WOOD

Key indicators	2019	2018
Net sales, SEK million	5,756	5,474
Operating profit, SEK million	262	608
Return on operating capital, %	8	21
Investments, SEK million	384	124
No. of employees	910	853
Production, 1,000 m <sup>3</sup>	1,809	1,761
Sawlog consumption, 1,000 m <sup>3</sup> sub	3,582	3,468



# Södra Cell

*Previous investments in the pulp mills reached full effect and contributed to high and stable production volumes. Pulp production with used textiles commenced in the pulp mill at Mörrum and 'Bioproducts' became a separate product area.*

## GREATER FOCUS ON ASIAN MARKETS

Södra Cell's largest product range is softwood pulp (approximately 80 percent of production), but the business area also produces hardwood pulp and dissolving pulp. Södra Cell is also a major supplier of raw material for liquid biofuel production (tall oil), renewable electricity, district heating and other bio-based products for industrial applications. Customers are primarily manufacturers of tissue, fine paper, printing paper and various specialty papers.

In 2019, pulp prices fell heavily compared with 2018, when levels were historically high. The price decline was 33 percent. Operations at Södra's mills and those of its competitors remained stable without any major production disruptions, which led to large supplies of market pulp. At the same time, demand for market pulp declined due to a weaker economy in Europe, which is Södra Cell's domestic market. As a result, the business area began to actively seek other markets, such as China and other Asian countries. The US-China trade war and uncertainty around Brexit can also be added to factors underlying the general market slowdown.

## BIOPRODUCTS – A SEPARATE PRODUCT AREA

In 2019, production at Södra Cell's pulp mills was higher and more stable than in 2018, due to earlier investments taking effect during the year. The only major disruption for Södra Cell in 2019 was a lightning strike that caused a raw water leak in the pulp mill at Mörrum. However, production was affected by the major spruce bark beetle problems in Sweden and Europe, in terms of the wood used in production processes.

In 2019, Södra Cell divided its marketing organisation – Södra Cell International – into two product areas: Södra Cell Interna-

tional for paper pulp, and Södra Cell Bioproducts for dissolving pulp, tall oil, turpentine, biomethanol and chemicals that can be extracted from forest-based products. The aim of the strategy is to strengthen Södra's market position as a first-class supplier of paper pulp, while also increasing the underlying earning capacity of new product segments.

In 2019, Södra also launched OnceMore™, a new technique for the large-scale production of dissolving pulp from used textiles in the pulp mill at Mörrum. This is a huge step forward for the circular bioeconomy, which many in the fashion and textile industry have been requesting.

Under the Pulp+ concept, Södra Cell continued to create added value for customers with improved process efficiency, new product development and joint communication campaigns targeting their customers and end-consumers.

## OUTLOOK FOR 2020

The pulp and paper industry is emerging from a major global investment period. Södra Cell does not therefore expect any significant production additions in the market in the coming year. Since demand tends to increase slightly over time, a gradual improvement in the balance between supply and demand is expected in 2020. The price is also likely to increase sometime in 2020.

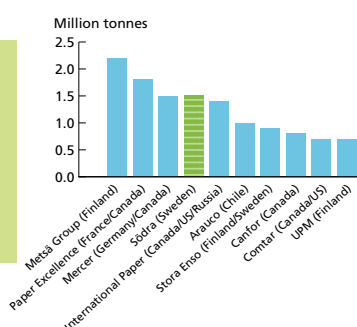
When it comes to geopolitical tensions, uncertainty is already a fact. Södra Cell does not therefore believe that uncertainty will have a greater effect on the market in 2020 than in 2019. In 2020, the business area will be seeking companies with sustainability ambitions that would like to collaborate around OnceMore™ and supply the pulp mill at Mörrum with textiles.



### Did you know that:

Cellulose, like titanium, is not rejected by the body and is therefore a highly interesting material for medical applications in the form of advanced wound dressings.

Leading global producers of bleached softwood sulphate pulp



Applications for Södra's pulp



Sales to the tissue product segment account for the largest portion of Södra Cell's pulp deliveries.





### Europe's most digitalised wood chipping plant

**CASE** In the wood house (wood chipping plant) at Mönsterås, Södra Cell has introduced a number of digital tools. One example is VR technology to control the cranes remotely from the control room. Digitalisation is used throughout the entire flow, from controlling the quality of wood fed into the process to debarking and chipping, which has led to better control of the wood and chip quality, fewer production disruptions and a safer workplace.

#### SÖDRA CELL

Key indicators	2019	2018
Net sales, SEK million	12,594	13,404
Operating profit, SEK million	2,511	4,032
Return on operating capital, %	19	31
Investments, SEK million	684	770
No. of employees	1,185	1,175
Production, 1,000 tonnes	1,869	1,786
– softwood sulphate pulp	1,568	1,469
– hardwood sulphate pulp	145	175
– dissolving pulp	156	142
Fibre consumption, million m <sup>3</sup> sub	8.9	8.5
– of which softwood fibre	7.6	7.1

Production	1,000 tonnes	2019	2018
Mörå		434	407
of which	softwood sulphate	278	265
	dissolving pulp	156	142
Värö	softwood sulphate	675	694
Mönsterås		760	685
of which	softwood sulphate	615	510
	hardwood sulphate	145	175
<b>Total</b>		<b>1,869</b>	<b>1,786</b>



# Other segments

*Other segments include subsidiaries and associates whose operations are in line with Södra's strategy for sustainable innovation and that are enabling the transition to a green economy. This includes Trivselhus, one of the largest house manufacturers in Sweden, as well as operations in renewable energy and fuel.*

## TRIVSELHUS AB

Södra's subsidiary, Trivselhus, is one of the largest house manufacturers in Sweden and sells premium homes under the Trivselhus brand, and Nordic Ecolabelled homes under the Movehome brand. Using the 'Bygg online' (Build online) concept, homebuyers can design their own homes on the website and receive a price immediately. The homes are delivered almost exclusively in turnkey contract form and in 2019 Trivselhus was named 'Årets Nollfelsaktör' (Zero Defect Player of the Year) by insurance company Gar-Bo for the company's efforts to deliver defect-free homes to end customers after final inspection.

Through its own land development company, Trivselhus collaborates with landowners to convert undeveloped sites into ready-to-build land. The company has just over 25 sales offices, from Malmö in the south to Luleå in the north, and is also represented in the UK. Trivselhus currently has approximately 200 employees. In 2019, the company delivered 285 homes, generated sales of SEK 1.2 billion and posted an operating loss of SEK 57 million (profit: 1), mainly as a result of the market slowdown.

## SÖDRA VIND AB

Through its subsidiary Södra Vind, Södra owns six wind turbines directly adjacent to the pulp mill at Mönsterås. In 2019, the wind turbines generated 32 GWh (30).

## SÖDRA MEDLEMSSEL AB

Södra's pulp mills are self-sufficient in electricity and even generate excess renewable electricity. Through its subsidiary, Södra Medlemsel, Södra offers renewable electricity from the pulp mills and wind turbines to its members, employees and partners. In 2019, the number of customers was 5,367 and the sales volume was 82 GWh (83).

## SUNPINE AB

SunPine is a world-leading biorefinery in which Södra owns 25 percent. The company produces second-generation biofuels from crude tall oil, a by-product of pulp production.

SunPine also converts crude tall oil into bio-oil, an alternative to fossil-based fuel oils and rosin, which is used in the production of printing inks and adhesives. In 2019, SunPine produced 89,000 tonnes of crude tall diesel and 19,000 tonnes of rosin. Södra's share of SunPine's profit was SEK 9 million (53). The other owners of SunPine are Preem, Sveaskog and Lawter.

## SÖDRA SILVA HOLDING AB

The wholly owned subsidiary Södra Silva Holding AB owns 49 percent of Silva Green Fuel. The remaining 51 percent is owned by Norwegian Statkraft. Silva Green Fuel's mission is to identify a cost-efficient technology for the profitable large-scale production of second-generation liquid biofuels based on forest biomass.

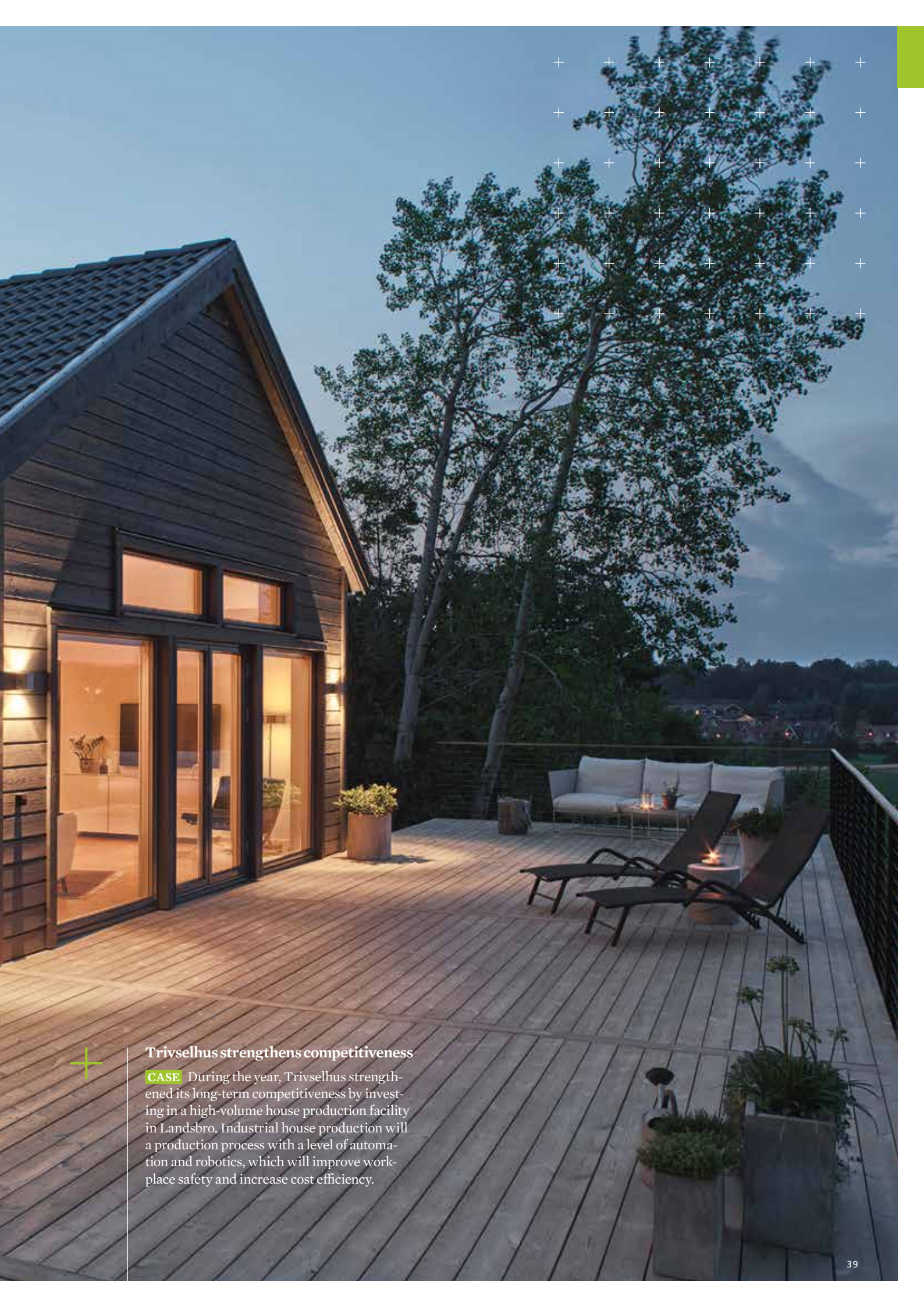
Both stakeholders have jointly invested approximately SEK 500 million in a demo facility in Tofte in Norway, which will have a production capacity of about 4,000 litres of liquid biofuel per day. Project planning and procurement was carried out in 2019 in order to begin construction of the process facility in 2020.



### Did you know that:

Tall oil is the most environmentally sound raw material for the production of HVO biodiesel. The use of tall oil can reduce carbon dioxide emissions from vehicles by 89 percent compared with conventional diesel.





### Trivselhus strengthens competitiveness

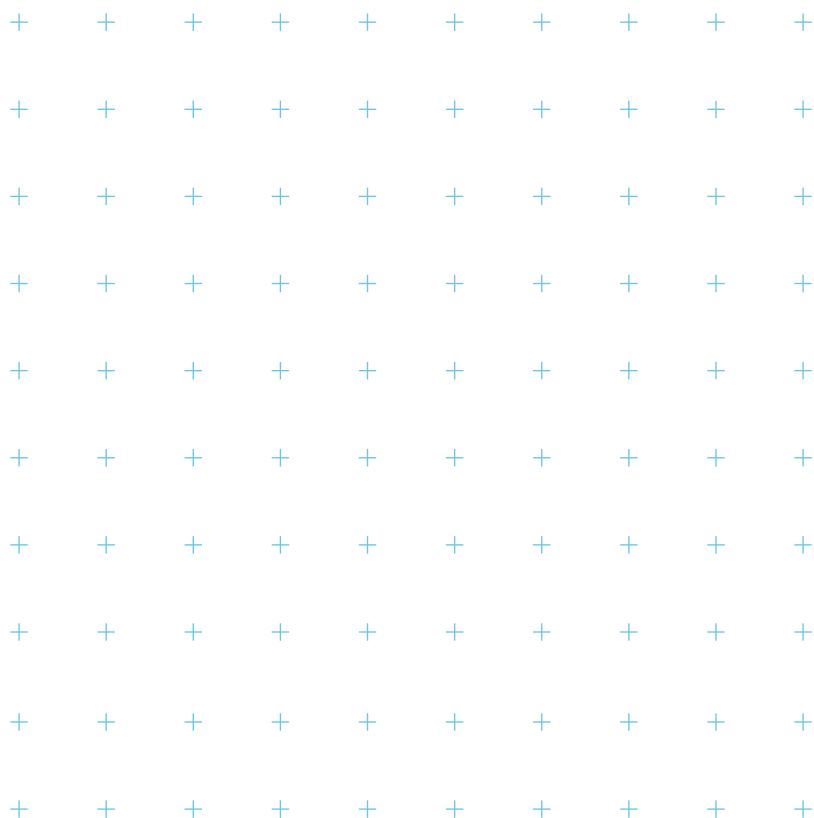
**CASE** During the year, Trivselhus strengthened its long-term competitiveness by investing in a high-volume house production facility in Landsbro. Industrial house production will a production process with a level of automation and robotics, which will improve workplace safety and increase cost efficiency.





FINANCIAL STATEMENTS

# Financial statements



# Strong full-year result in a weaker market

*In 2019, Södra posted a strong operating profit of SEK 2,582 million, despite weaker market conditions and falling prices. Net sales amounted to SEK 23,183 million. The proposed profit distribution is SEK 1,068 million.*

## 59%

Södra's equity ratio remained stable at 59 percent, which exceeds the long-term target of 55 percent.

## 12%

Return on capital employed exceeded the long-term target of 10 percent.

## 43%

The proposed profit distribution is 43 percent.



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# Multi-year summary

	2019 <sup>6)</sup>	2018	2017	2016 <sup>1)</sup>	2015	2014	2013	2012	2011	2010
<b>RESULT</b>										
Net sales, SEK million	23,183	24,230	20,518	18,482	18,267	17,339	16,580	16,807	18,191	19,727
Net sales, change in %	-4	18	11	1	5	5	-1	-8	-8	18
Operating profit before depreciation, amortisation and impairment, SEK million	3,897	5,654	3,009	1,887	3,146	2,552	937	145	2,183	3,722
Depreciation, amortisation and impairment of assets, SEK million	-1,315	-1,146	-1,092	-908	-984	-1,036	-1,354	-1,074	-1,177	-1,451
Operating profit/loss, SEK million	2,582	4,508	1,917	979	2,162	1,516	-417	-929	1,005	2,271
Operating margin, %	11	19	9	5	12	9	neg.	neg.	6	12
Financial income and expenses, SEK million	-87	-77	-87	-66	-90	-56	-33	10	-122	61
Profit/loss before tax, SEK million	2,495	4,431	1,830	913	2,072	1,460	-450	-919	883	2,332
<b>FINANCIAL POSITION</b>										
Non-current assets, SEK million	18,805	18,408	14,932	14,413	11,948	10,044	9,230	9,770	9,170	8,701
Inventories, SEK million	3,835	3,649	3,036	3,097	2,801	2,615	2,570	3,073	3,409	2,477
Equity, SEK million	17,382	16,011	12,884	11,766	11,945	10,524	9,495	10,242	11,101	11,416
Return on equity, %	12	24	12	6	14	11	neg.	neg.	6	16
Net debt, SEK million	3,415	4,558	3,901	3,879	1,290	1,050	1,048	1,291	252	-1,457
Debt/equity ratio, times	0.2	0.3	0.3	0.3	0.1	0.1	0.1	0.1	0.0	-0.1
Average capital employed, SEK million	21,104	19,029	16,493	14,600	12,639	11,349	11,434	11,909	11,026	10,013
Return on capital employed, %	12	24	12	7	17	13	neg.	neg.	9	23
Total assets, SEK million	29,337	27,094	23,104	21,671	19,248	17,229	15,998	16,874	18,262	18,845
Equity ratio, %	59	59	56	54	62	61	59	61	61	61
<b>CASH FLOW</b>										
Cash flow from operating activities, SEK million	3,343	4,270	1,915	2,315	3,123	1,988	1,455	770	918	3,121
Investments, SEK million	1,128	4,380	1,606	4,256	2,959	2,046	952	1,708	1,738	1,750
Cash flow after investments, SEK million	2,227	-142	356	-1,581	218	267	597	-815	-793	1,381
<b>VOLUMES</b>										
Wood volume, million m <sup>3</sup> sub	17.1	16.5	15.9	15.0	15.1	15.3	15.0	15.6	17.0	16.6
Deliveries of biofuels, 1,000 m <sup>3</sup>	5,077	4,630	4,393	4,632	4,678	4,758	4,997	4,337	5,071	5,043
Sawn timber production, 1,000 m <sup>3</sup>	1,809	1,761	1,841	1,955	2,031	1,932	1,624	1,451	1,381	1,601
Pulp production, 1,000 tonnes	1,869	1,786	1,712	1,429	1,512	1,521	1,774	1,782	1,912	2,012
Electricity generation, GWh	1830	1,772	1,719	1,326	1,379	1,419	1,664	1,625	1,701	1,747
<b>SUSTAINABILITY<sup>2)</sup></b>										
Fossil CO <sub>2</sub> from production, ktonnes	70	103	81	99	87	131	185	233	—	—
Fossil CO <sub>2</sub> from transportation, ktonnes	207	196	191	199	193	210	235	281	—	—
Rate of forest growth, m <sup>3</sup> fo/ha per year	7.1	6.7	6.9	6.9	6.6	6.9	6.2	6.6	—	—
Lost-time-accidents (LTA) <sup>3)</sup> , no.	62	77	94	94	75	104	89	81	—	—
Lost-time-accident rate (LTAR) <sup>4)</sup>	12	15	17	16	13	18	15	12	—	—
<b>OTHER</b>										
Profit distribution, SEK million	1,068 <sup>5)</sup>	1,795	868	602	1,002	553	281	295	436	851
No. of members	52,192	51,637	51,009	50,771	50,360	50,227	50,296	50,888	51,247	51,346
Affiliated forest area, 1,000 hectares	2,637	2,591	2,517	2,481	2,440	2,392	2,368	2,362	2,373	2,366
Members' wood deliveries, million m <sup>3</sup> sub	10.4	9.8	9.7	9.4	9.4	9.0	8.1	8.2	8.8	9.0
No. of employees	3,150	3,141	3,402	3,594	3,599	3,524	3,776	3,821	3,830	3,943
USD/SEK (average rate)	9.46	8.69	8.55	8.56	8.43	6.86	6.51	6.77	6.49	7.21
EUR/SEK (average rate)	10.59	10.26	9.64	9.47	9.35	9.10	8.65	8.71	9.03	9.55
NBSK (average rate, USD/tonne)	983	1,166	881	802	856	925	857	814	960	932

<sup>1)</sup> As of 2017, the accounting policy for Södra Cell's planned maintenance shutdowns has changed so that the cost is charged to profit for the current year, rather than being recognised as an improvement expense and subsequently amortised over the period until the next maintenance shutdown. The comparative figures affected have only been restated for 2016, while 2010-2015 are reconcilable with historical financial statements.

<sup>2)</sup> There are also comparative figures for 2010 and 2011 but these have not been audited and are therefore not presented.

<sup>3)</sup> LTA (lost-time-accident): occupational injury with absence.

<sup>4)</sup> LTAR (lost-time-accident rate): number of lost-time-accidents per million hours worked.

<sup>5)</sup> Proposed profit distribution.

<sup>6)</sup> IFRS 16 Leases has been applied since 2019, which means that leases are now recognised as non-current assets, instead of Other expenses. This has impacted income statements and balance sheets, as well as key indicators.



# Alternative performance measures

Södra manages its operations by analysing key indicators. Some of these financial key indicators are defined or specified in applicable regulations for financial information, or by other applicable laws. All others are referred to as alternative performance measures. Södra uses the following alternative performance measures and believes they provide valuable complementary information for analysing Södra's performance.

## NET SALES, CHANGE IN %

	2019	2018	2017	2016	2015
Opening	24,230	20,518	18,482	18,267	17,339
Closing	23,183	24,230	20,518	18,482	18,267
Change	-4	18	11	1	5

### Explanation

Shows Södra's growth.

### Definition

Net sales for the year relative to the previous year's net sales.

## OPERATING PROFIT BEFORE DEPRECIATION, AMORTISATION AND IMPAIRMENT, SEK MILLION

	2019	2018	2017	2016 <sup>1)</sup>	2015 <sup>1)</sup>
Operating profit	2,582	4,508	1,917	979	2,162
Depreciation, amortisation and impairment of assets	1,315	1,146	1,092	908	984
Operating profit before depreciation, amortisation and impairment	3,897	5,654	3,009	1,887	3,146

### Explanation

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

### Definition

Operating profit/loss excluding depreciation, amortisation and impairment of property, plant and equipment and intangible assets.

## EBITDA MARGIN, %

	2019	2018	2017	2016 <sup>1)</sup>	2015 <sup>1)</sup>
Operating profit before depreciation, amortisation and impairment	3,897	5,654	3,009	1,887	3,146
Net sales	23,183	24,230	20,518	18,482	18,267
EBITDA margin	17	23	15	10	17

### Explanation

The EBITDA margin shows the percentage of surplus on each SEK earned less operating costs, but before depreciation, amortisation and impairment. This measure gives an overall view of the cash flow generated. The measure is used to produce an overall trend analysis of Södra's performance, and for comparison with other companies.

### Definition

Operating profit/loss excluding depreciation and amortisation of property, plant and equipment and intangible assets expressed as a percentage of net sales.

## OPERATING PROFIT, SEK MILLION

	2019	2018	2017	2016 <sup>1)</sup>	2015 <sup>1)</sup>
Net sales	23,183	24,230	20,518	18,482	18,267
Other revenue	319	372	190	213	359
Operating expenses	-19,605	-18,948	-17,699	-16,808	-15,480
Depreciation, amortisation and impairment of assets	-1,315	-1,146	-1,092	-908	-984
Operating profit	2,582	4,508	1,917	979	2,162

### Explanation

Operating profit/loss shows the surplus on each sales SEK less operating costs, including depreciation, amortisation and impairment. This is an essential measure for producing a trend analysis of Södra's performance, and for comparison with other companies.

### Definition

Net sales and other revenue less operating costs including depreciation, amortisation and impairment.

## RETURN ON EQUITY, %

	2019	2018	2017	2016 <sup>1)</sup>	2015 <sup>1)</sup>
Equity OB	16,011	12,884	11,766	11,806	10,524
Equity CB	17,382	16,011	12,884	11,766	11,945
Average equity	16,697	14,448	12,325	11,786	11,235
Profit before tax	2,495	4,431	1,830	913	2,072
Standard tax	-534	-975	-403	-201	-456
Return	12	24	12	6	14

### Explanation

Return on equity is a measure of the interest that Södra pays on its members' capital.

### Definition

Profit after net financial items less standard tax in relation to average equity.

## OPERATING MARGIN, %

	2019	2018	2017	2016 <sup>1)</sup>	2015 <sup>1)</sup>
Operating profit	2,582	4,508	1,917	979	2,162
Net sales	23,183	24,230	20,518	18,482	18,267
Operating margin	11	19	9	5	12

### Explanation

The operating margin is a measurement of the proportion of surplus on each SEK earned less operating costs, including depreciation. This surplus is used to cover interest expense and tax, and to generate an acceptable profit. The measure is used to produce an overall trend analysis of Södra's performance, and for comparison with other companies.

### Definition

Operating profit/loss expressed as a percentage of net sales.

<sup>1)</sup> As of 2017, the accounting policy for Södra Cell's planned maintenance shutdowns has changed so that the cost is charged to profit for the current year, rather than being recognised as an improvement expense and subsequently amortised over the period until the next maintenance shutdown. The comparative figures affected have only been restated for 2016, while 2015 is reconcilable with historical financial statements.

IFRS 16 Leases has been applied since 2019, which means that leases are now recognised as non-current assets, instead of Other expenses. This has impacted income statements and balance sheets, as well as key indicators.

**NET DEBT, SEK MILLION**

	2019	2018	2017	2016	2015
Interest-bearing provisions	—	—	—	—	—
Interest-bearing liabilities	6,425	5,630	5,222	4,914	2,624
Financial receivables	—	—	—	-1	-1
Current investments and cash and cash equivalents	-3,010	-1,072	-1,321	-1,034	-1,333
<b>Net debt</b>	<b>3,415</b>	<b>4,558</b>	<b>3,901</b>	<b>3,879</b>	<b>1,290</b>

**Explanation**

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

**Definition**

Interest-bearing liabilities less interest-bearing assets and cash and cash equivalents.

**DEBT/EQUITY RATIO, TIMES**

	2019	2018	2017	2016 <sup>1)</sup>	2015 <sup>1)</sup>
Net debt	3,415	4,558	3,901	3,879	1,290
Equity	17,382	16,011	12,884	11,766	11,945
<b>Debt/equity ratio</b>	<b>0.2</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.1</b>

**Explanation**

The debt/equity ratio is used to measure Södra's financial strength and, in combination with the equity ratio, is the measurement most frequently used by management to monitor the Group's financial leverage.

**Definition**

Net debt in relation to equity.

**CAPITAL EMPLOYED, SEK MILLION**

	2019	2018	2017	2016 <sup>1)</sup>	2015 <sup>1)</sup>
Assets	29,337	27,094	23,104	21,671	19,248
– Financial assets	-3,046	-1,086	-1,341	-1,052	-1,351
– Provisions <sup>2)</sup>	-143	-141	-160	-180	-114
– Income tax <sup>2)</sup>	-1,566	-1,569	-1,201	-1,038	-1,257
– Operating liabilities	-3,344	-3,329	-3,313	-3,505	-3,083
<b>Capital employed</b>	<b>21,238</b>	<b>20,969</b>	<b>17,089</b>	<b>15,896</b>	<b>13,443</b>
Average	21,104	19,029	16,493	14,600	12,639

**Explanation**

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

**Definition**

Property, plant and equipment and intangible assets, biological assets, inventories and other operating assets, less operating liabilities and net tax liability.

Alternatively expressed as total assets less financial assets, provisions, tax and operating liabilities.

**RETURN ON CAPITAL EMPLOYED, %**

	2019	2018	2017	2016 <sup>1)</sup>	2015 <sup>1)</sup>
Average capital employed	21,104	19,029	16,493	14,600	12,639
Operating profit	2,582	4,508	1,917	979	2,162
<b>Return</b>	<b>12</b>	<b>24</b>	<b>12</b>	<b>7</b>	<b>17</b>

**Explanation**

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

**Definition**

Operating profit expressed as a percentage of average capital employed.

**EQUITY RATIO, %**

	2019	2018	2017	2016 <sup>1)</sup>	2015 <sup>1)</sup>
Equity	17,382	16,011	12,884	11,766	11,945
Assets	29,337	27,094	23,104	21,671	19,248
<b>Equity ratio</b>	<b>59</b>	<b>59</b>	<b>56</b>	<b>54</b>	<b>62</b>

**Explanation**

An established and key measure of Södra's financial strength. Measures the proportion of total assets financed by equity. The measure indicates the ability to pay long-term liabilities, since any future losses will be deducted from equity.

**Definition**

Equity expressed as a percentage of total assets.

# Other definitions

**Return on operating capital**

Operating profit in relation to average operating capital.

**Equity**

Consolidated equity is equal to taxed equity increased by the equity portion of untaxed provisions and non-controlling interests. Equity consists of member contributions, both paid-in and issued, and the earnings that have accumulated over the years and not been allocated to the members.

**Operating capital**

Property, plant and equipment and intangible assets, biological assets, inventories and other operating assets less operating liabilities and also, as of 2014, Group contributions.

**Dividends**

Includes dividends on paid-up contributed capital, through bonus issues and on wood deliveries.

<sup>1)</sup> As of 2017, the accounting policy for Södra Cell's planned maintenance shutdowns has changed so that the cost is charged to profit for the current year, rather than being recognised as an improvement expense and subsequently amortised over the period until the next maintenance shutdown. The comparative figures affected have only been restated for 2016, while 2014–2015 are reconcilable with historical financial statements.

<sup>2)</sup> Not considered in the calculation of Operating capital.

IFRS 16 Leases has been applied since 2019, which means that leases are now recognised as non-current assets, instead of Other expenses. This has impacted income statements and balance sheets, as well as key indicators





# Directors' Report

*The Board and the President of Södra Skogsägarna ekonomisk förening, Corp. ID. No. 729500-3789, hereby present the annual accounts and consolidated financial statements for the 2019 financial year.*

## Strong result for Södra

*Despite weak market conditions with falling prices, Södra posted a strong result for 2019. Net sales amounted to SEK 23,183 million (24,230) and operating profit totalled SEK 2,582 million (4,508). Return on capital employed was 12 percent (24) and the equity ratio was 59 percent (59).*

### ABOUT SÖDRA

Södra is a global, member-owned forest industry group and with more than 52,000 members, is the largest forest-owner association in Sweden. Södra is also an international forest industry group, and almost 80 percent of Södra's processed products are exported.

Södra's overall assignment is to secure markets for its members' forest-based products and to promote the profitability of their forest estates by providing advice and support to help members manage their forests responsibly and sustainably.

The wood from members is processed at Södra's mills and becomes either sawn timber or market pulp. Södra has one of the largest sawmill operations in Europe, and is one of the biggest European suppliers of softwood sulphate pulp. Dissolving pulp is also produced from hardwood. Södra also generates more than 1.8 TWh of electricity at its pulp mill, and supplies other energy producers with raw material. Södra owns also the house-manufacturing company Trivselhus.

### MARKET TREND

The year was characterised by favourable demand for Södra's core products, although demand for softwood sulphate pulp declined in Europe. However, price levels for market pulp and sawn timber deteriorated sharply during the year. Södra's well-invested facilities continued to deliver stable volumes with high quality, and outbound deliveries of both market pulp and sawn timber increased year-on-year.

After a sustained period of strong demand and positive price growth for Södra's core products, economic growth deteriorated for forestry. Production increased in Central Europe, partly attributable to higher harvesting rates due to widespread spruce bark beetle outbreaks. The rate of production for softwood sulphate pulp was also high. These factors changed inventory balances and led to significantly weakened pulp prices (PIX). Price levels for softwood sulphate pulp weakened from USD 1,200 per tonne at the beginning of the year to USD 820 per tonne at year-end. The average delivery price for sawn timber also fell sharply, from SEK 2,260/m<sup>3</sup>sw at the beginning of the year to SEK 1,886/m<sup>3</sup>sw at year-end.

The economic downturn impacted prices for Södra's core products, which reached relatively low levels by year-end. Demand for Södra's products in the market remained overall favourable. By maintaining the production rate at Södra's mills, demand for sawlogs and for softwood and hardwood pulp remained favourable.

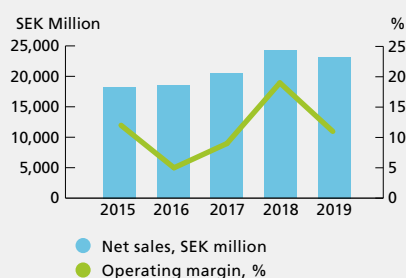
Demand for Södra's core products is expected to remain favourable throughout the coming year. At the end of the financial year, Södra's total fresh fibre inventory was well-balanced. However, 2020 is expected to be a weaker year financially due to the lower price level and continued uncertainty surrounding the economic forecast and price trends for market pulp and sawn timber.

Due to the upcoming presidential election in the US, President Trump will probably decide to hold off on any new tariffs on European cars. The election may also lead to progress in the US-China trade war, and several positive signals were seen in the fourth quarter of 2019. Forward-looking indicators are signalling weaker activity and GDP growth will continue to slow in the short term. The Federal Reserve cut interest rates three times during the year, offering some support for residential construction, but business investment remained relatively weak. However, progress in the trade dispute could have a positive effect on companies' willingness to invest.

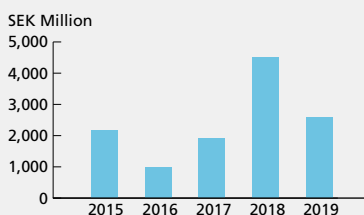
The economic slowdown in China appears to be slightly stronger than expected. The signs are most evident in the industrial sector, which accounts for about 40 percent of the economy. The labour market also appears to be softening and China will probably stimulate the economy through both infrastructure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

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

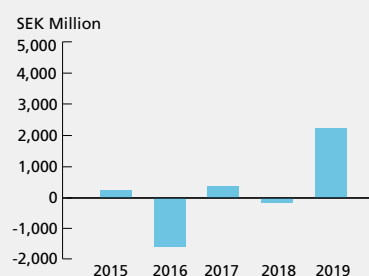
Net sales and operating margin



Operating profit



Cash flow after investments



expected to grow, despite weak public finances and problems in the banking sector.

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

The Swedish export industry benefited from the weakening of the SEK against the USD, GBP and EUR during the year. Due to the weak SEK, Södra could prevent the effects of falling prices for the company's core products to some extent. USD rates are most relevant for the pulp operations, while GBP rates affect the sawmill operations, since the UK is Södra's largest export market for sawn timber.

#### NET SALES

Consolidated net sales amounted to SEK 23,183 million (24,230), down 4 percent. The decline in sales was mainly the result of lower price levels for Södra's core products.

#### RESULT

Operating profit totalled SEK 2,582 million (4,508), representing an operating margin of 11 percent (19). The negative earnings trend was mainly attributable to lower price levels for both market pulp and sawn timber. Tax expense for the year was SEK 323 million (701). The Group's net financial items amounted to an expense of SEK 87 million (expense: 77).

Return on capital employed was 12 percent (24).

#### BUSINESS AREAS

**Södra Skog's** operating profit totalled SEK 173 million (101), excluding remeasurement of the biological assets. The result was positively impacted by both higher volumes and improved margins. The major challenges posed by spruce bark beetle outbreaks during the year had a negative impact on the result. Including the remeasurement effect of SEK 125 million (158) for biological assets, operating profit for the business area totalled SEK 298 million (259).

**Södra Wood's** operating profit totalled SEK 262 million (608). The lower result was primarily due to lower price levels for sawn timber. The negative price trend was offset by volume growth of 7 percent and a weak SEK.

**Södra Cell's** operating profit totalled SEK 2,511 million (4,032). The lower result was attributable to considerably lower price levels for softwood sulphate pulp, in particular. Volume growth of 6 percent and a favourable USD/SEK exchange rate had a positive impact on the result.

The earnings trend for each business area is presented in Note 2 Operating segments.

#### OTHER SEGMENTS

Operating loss for Trivselhus totalled SEK 57 million (profit: 1). The year-on-year decline was mainly attributable to a weaker housing market.

Södra's share of SunPine's profit was SEK 9 million (53).

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

#### CASH FLOW AND LIQUIDITY

Cash flow before investments amounted to SEK 3,343 million (4,270) and after investments to SEK 2,227 million (–142). At year-end, cash and cash equivalents and current investments amounted to SEK 3,010 million (1,072).

#### FINANCIAL POSITION

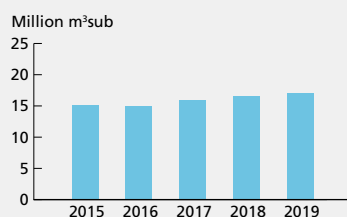
At 31 December 2019, equity amounted to SEK 17,382 million (16,011), of which paid-up and issued contributed capital accounted for SEK 4,636 million (3,620). Total assets increased to SEK 29,337 million (27,094). At 31 December 2019, the equity ratio was 59 percent (59). Södra's borrowings comprised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

#### USE OF FINANCIAL INSTRUMENTS

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, as adopted by the Board, provides a framework of guidelines and rules in the form of risk mandates and limits for financial activities.

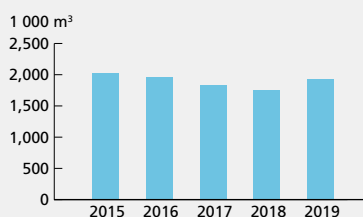
Refer to Note 24 for financial risk management.

**Wood volumes  
Södra Skog**



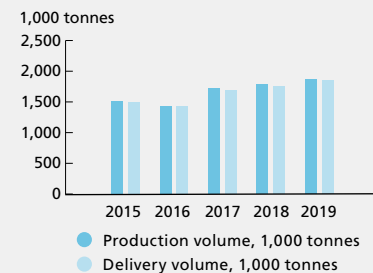
Wood supply in Södra's area was in line with the previous year.

**Sawn and planed timber production  
Södra Wood**



Production volume of sawn and planed timber was about 1.8 million m³.

**Production and delivery volume  
Södra Cell**



Production amounted to approximately 1.9 million tonnes, which is an increase year-on-year.



## RISKS AND RISK MANAGEMENT

Södra operates in a global market and is impacted by the general economic trend and currency fluctuations, as well as more industry and company-specific factors. The most significant risk areas for Södra's ability to achieve the Group's set targets and the management of each risk area are presented below.

Södra applies a systematic approach to risk management with the aim of protecting the Group from damage, uncertainty and lost opportunities.

Efforts to identify, assess and manage risks are an integral and key component of Södra's business management. The Treasury unit is responsible for managing financial risk, based on a financial policy established by the Board. Operational risks are controlled and managed by the President, management team and employees, in accordance with central policies and guidelines. Södra has also established a Business Ethics Council and a Safety Committee that work Group-wide with risk areas including corruption, cyber security and safety.

## STRATEGIC RISKS

Strategic risks are related to business development, long-term planning and Södra's competitiveness. The Board of Directors and Group Senior Management conduct an assessment of the strategic risks within the framework of strategy activities and in conjunction with important business decisions.

RISKS	CONTROL AND MANAGEMENT
<p><b>Climate and nature.</b> Climate change can affect conditions for Södra's operations in a variety of ways. The risk of storms, flooding and fires is rising. Over time, climate change could lead to decreases in, or a more uneven, water supply, resulting in longer dry periods. Boundaries between vegetation types may be displaced. Biological risk in the form of pest outbreaks, root rot and browsing damage primarily affect individual forest owners, but also Södra in the long term.</p>	<p>Forest management measures reduce the potential consequences and are communicated continuously with forest owners: thinning, selective breeding material, stump treatment and so forth. Major training initiatives are implemented through, for example, Södra School. Proven methods are followed to promote rapid clearing in windthrow areas. An established crisis organisation and flexible logistics ensure preparedness for responding to extraordinary events. According to agreement, forest owners are required to take out insurance to cover fire damage to standing, contracted wood. From an industry perspective, the assessment of risk in investment projects is linked to the potential effects of climate change. Initiatives are taken at local level to secure freshwater supplies for the pulp mills. The more gradual effects of climate change, which will change conditions for forestry, are addressed by adapting the existing seed orchard, and initiatives such as the 'Kraftsamling Tall' (Pine mobilisation) project. Efforts to limit and prevent spruce bark beetle damage, such as swarm monitoring in Götaland, free information and training material, and sales initiatives such as special ranges for spruce bark beetle-damaged pine. The OnceMore™ project with the aim of commercialising the recycling of blended textiles on an industrial scale. Reducing Södra's own carbon dioxide emissions by working to achieve set targets for a higher rate of forest growth, fossil-free production and fossil-free transportation.</p>
<p><b>Economy.</b> Södra's earnings are highly sensitive to economic trends, and directly reflected in price movements and changes in sales volumes. Adverse changes in both global and local economies could have a negative impact on Södra's sales, financial position and earnings.</p>	<p>A global market focus with sales to customers across many sectors and countries reduces vulnerability, and the effects of local economic trends. Alongside of continued investment in each business area's core markets, Södra has established a presence in new markets and developing regions.</p>
<p><b>Competition.</b> Both pulp and sawn timber industries are mature, with intense price competition. Price pressure intensifies due to new production capacity, or a weak economy. This is more noticeable in some segments due to changed consumption patterns, and the increase in digitalisation, for example, has led to declining demand for publishing paper, while e-commerce is increasing and, in turn, driving demand for packaging materials. In the construction sector, competition is impacted by the use of non-wood materials for buildings.</p>	<p>Ongoing development of strategic customer relationships, through longer contracts, for example, reduces Södra's vulnerability while also improving long-term planning and markets due to more accurate forecasting. Continued investments in the core business lead to greater efficiency, which strengthens Södra's competitiveness and market position in existing segments. Södra Wood's investment in CLT production for the building and residential construction industry has led to the development of a new business segment covering several stages of the value chain. The innovation strategy with a focus on faster commercialisation of innovations and new products, such as biomethanol and liquid biofuels, ensures long-term competitiveness.</p>
<p><b>Raw material risk.</b> The expansion of Södra's industrial capacity combined with intensifying market competition is increasing the significance of members' delivery loyalty and high-quality forestry, in terms of both production and environmental concerns. In terms of wood raw material, the major flow from Södra's members will be supplemented with a certain amount of imported wood. Both of these flows are also dependent on a well-functioning logistics chain. FSC® and PEFC™ certification of wood raw materials will be crucial to the competitiveness of Södra's end products, including pulp, sawn timber and interior wood products. The price of other raw material inputs will vary depending on the economy, supply and demand, and – in most cases – is beyond Södra's control, but also has a major impact on competitiveness.</p>	<p>The forestry field organisation is focusing on broad-based advisory services and active member dialogue, while the member strategy includes specific investments in training services and tools that provide forestry support for individual members. To secure the necessary transportation capacity in both the short and long term, Södra has undertaken several initiatives to promote a positive trend in the contracting and carrier sector. Södra holds both Sustainable Forest and Chain of Custody certification from FSC® and PEFC™. The number of certified members is continuously monitored and in 2019, was in line with the set target. Imported wood is subject to specific contractual requirements for traceability (Chain of Custody), and documented procedures for monitoring ensure compliance. The price of raw material inputs is continuously monitored. These input products are purchased centrally using index-based contracts and contract durations that balance supply, price and assessed market conditions.</p>
<p><b>Political risks.</b> Södra operates in a highly regulated industry. Policy decisions in a range of areas – tax legislation, environmental legislation, forest legislation, EU forest policy, data protection directives and so forth – can change conditions for the Group's operations, both directly and indirectly, by affecting the ability of forest estates to carry out productive forestry. In connection with policy decisions, there is also a risk of negative influence on public opinion.</p>	<p>Södra works actively with business policy initiatives to secure favourable conditions for family forestry and cooperative enterprise. Södra collaborates with the Swedish Forest Industries Federation, the Federation of Swedish Farmers (LRF) and Critical Ecosystem Partnership Fund (CEPF) at both national and international level. At regional level, Södra collaborates directly with LRF's regional organisation. In 2019, the focus was on achieving an effective implementation of the Land Use, Land-Use Change and Forestry Regulation (LULUCF), participation in the Swedish Forest Agency's consultation groups and bringing the forest owner's perspective into both opinion-shaping and EU administration in Brussels. The business policy pod initiative #skogenochframtiden will continue. Södra supports its members in legal proceedings related to integrity.</p>
<p><b>Brand risk.</b> Trust and confidence are fundamental to Södra's ability to contract the wood volumes required by its mills, and to maintain its customer relationships and sales volumes. Should Södra or any of the Group's business partners take measures that are inconsistent with the values and commitments that Södra represents, the brand could be damaged.</p>	<p>Södra engages in active internal work around the company's values and Code of Conduct. A supplier monitoring process is linked to the Supplier Code. The Södra Code of Conduct and Supplier Code contain guidelines and requirements related to business ethics, working conditions, human rights and the environment. Members' forests are covered by a firmly established revision programme. Responsibility for branding rights is centralised and includes dedicated resources for business policy communication. The Group's crisis management capacity is maintained by developing methodology and practical exercises.</p>



> Directors' Report, cont.

## OPERATIONAL RISKS

Operational risks are part of day-to-day procedures and managed in operating activities. Risks can often be influenced, and they are managed and controlled using policies and guidelines. Operational risk areas include property, plant and equipment, the organisation, personnel and IT, and these risks are often insurable.

RISKS	CONTROL AND MANAGEMENT
<b>Facilities.</b> Unforeseen events that can damage facilities, cause production losses and damage to goods during transport.	Systematic work with preventive maintenance. Property and business interruption insurance where facilities are insured up to their replacement value. In the event of production losses, the insurance covers the profits that would have been earned. Goods being transported are insured, when considered justified. The value of the seed orchard is secured through geographic distribution and crosswise ownership.
<b>Health and safety.</b> Södra's operations include facilities with hazardous work environments and activities that may be dangerous or entail health risks. This also includes the psychosocial work environment.	The Group works systematically with occupational health and safety management, according to the accepted methodology, with an explicit focus on continuous improvements. All pulp mills are certified according to the ISO 45001 occupational health and safety standard. Södra's occupational health and wellness initiatives are an important contribution to creating a healthy workplace. Employee surveys are conducted on a regular basis. The Södra Code of Conduct and Supplier Code contain guidelines and requirements related to occupational health and safety. The Supplier Code is to be included in Södra's supplier agreements. Training initiatives with a focus on Södra's efforts to prevent discrimination and bullying are implemented for all employees. The Group-wide project 'Säker mottagningsplats' (Safe delivery zone) is run in collaboration with external hauliers and contractors.
<b>Environmental risks.</b> Environmental impacts due to consumption of water, energy and raw materials, as well as emissions from transport. Risk of unexpected emissions and discharges into water and soil, and their impact on the environment/humans/local communities.	Södra complies with current environmental legal requirements, including the Seveso Directives, and conditions for industrial production, and works continuously to improve energy efficiency. The Södra Code of Conduct and Supplier Code contain environmental guidelines and requirements. The Supplier Code is to be included in Södra's supplier agreements. A major focus lies on preventive measures, the precautionary principle of the Swedish Environmental Code is applied, responsibility is taken for any remediation of contaminated soil and financial provisions are made to cover such costs. There are also a large number of area-specific initiatives to reduce Södra's environmental impacts, such as efforts to achieve fossil-free pulp production, HVO fuel for own and contracted hauliers, the classification of watercourses – blue management targets – in green forest management plans, and compulsory green and blue driving licenses for contractors to ensure that environmental considerations are applied on land and around watercourses.
<b>Product safety.</b> Several of Södra's products are used in the food and construction industries, of which both have clear and comprehensive regulations for safety and producer responsibility. Product defects could affect customers and/or consumers.	All business areas are certified according to international standards (ISO). Products hold the relevant labels/approvals, such as 'FDA acceptable' (U.S. Food and Drug Administration) and 'BfR approved' (Bundesinstitut für Risikobewertung) for use in the food industry, CE marking for construction products, and so forth. Information/recall procedures for defective products are in place. Liability insurance includes global product liability.
<b>Competency provision.</b> Södra is dependent on the ability to recruit, retain and develop competent leaders and employees. If people with the right expertise cannot be attracted to, and developed in, positions at Södra, this could have negative consequences in both the long and short term.	Södra's HR strategy and brand strategy, combined with systematic talent management and a clearly stated ambition to increase diversity and offer a welcoming workplace, work together to maintain and increase the company's attractiveness over time. Resources are invested in 'Tekniksprånget' (engineering placements), internships, 'Jobbsprånget' (short-term placements for migrant academic), Södra summer camp, summer job programmes and Södra Skog's Trainee Programme.
<b>Corruption.</b> Södra operates in national and international markets across several different types of buying and selling channels. The risk of corruption in these settings varies but is always present and is, therefore, a constant threat to Södra's basic value of responsible business for a sustainable value chain.	The applicable guidelines and business practices for employees and representatives of Södra are set out in the Södra Code of Conduct. Knowledge of the Code is ensured and maintained through basic training courses, refresher courses, follow-up tests and performance review dialogues. Södra's purchasing is managed by the Group's purchasing departments. All suppliers, in except to Södra's members, shall be covered by the Södra Supplier Code, which includes clear requirements in relation to business ethics. In cases where Södra engages sales agents, these are also covered by the Södra Code of Conduct, which includes clear requirements in relation to business ethics. Processes and procedures for internal control are developed continuously in dialogue with Södra's auditors. A whistleblower function has been established. Södra's Business Ethics Council is responsible for monitoring the Group's exposure to ethical risk and ensuring that measures are in place for managing identified risks.
<b>Information security and IT.</b> Södra's increasing dependence on information technology and digital tools in everything from production in the Group's facilities to internal and external communication – especially with our customers and members – renders the Group vulnerable to IT/cybersecurity risk. Risk in the form of malicious software, system disruptions, inadequate data quality and information loss/leakage could potentially have major consequences in terms of direct costs, an increased burden on the organisation and/or lost stakeholder trust. Failure to keep pace with technological advances and create commercial opportunities using digitalisation, big data, robotics, etc. could eventually erode Södra's competitiveness.	Administrative and technical controls are continuously updated to maintain a form of digital perimeter security. Redundant environments and a modern backup system are in place. Internal training in cybersecurity is provided for all employees. Advanced crisis management capability. Strategic plans for digital driven business development.

For information about financial risk and a sensitivity analysis, refer to Note 24.

**INVESTMENTS, ACQUISITIONS AND DIVESTMENTS**

Investments amounted to SEK 1,128 million (4,380), of which SEK 145 million (3,348) pertained to Södra Skog, SEK 384 million (124) to Södra Wood, SEK 136 million to intra-Group acquisitions and SEK 684 million (770) to Södra Cell. The investments were mainly focused on expansion, productivity and the environment.

**INNOVATION, RESEARCH AND DEVELOPMENT**

The Group's research and development costs amounted to SEK 167 million (88), corresponding to 0.8 percent (0.4) of operating expenses. This amount includes costs for Södra's own operations, support for external research projects and Södra's share of costs for the Silva Green Fuel development project.

Research and development is conducted in several strategic arenas – forest, sawn timber, paper, textiles, chemicals and energy. In the forest and sawn timber arenas, research is mainly conducted in collaboration with research institutes and universities. The overall objectives are to promote a high level of sustainable forestry production, product development for sawn timber and greater knowledge of timber construction.

In the other arenas, research and development is mainly conducted in Södra's Innovation department at Värö, and focuses on both product and process development in existing and new business. The research is conducted jointly with customers, partly through a number of external networks with universities and research institutes, but also with companies further upstream in various value chains.

Södra also supports research through the Södra Foundation for Research, Development and Education. The Foundation grants funding for research projects and training programmes that promote forest management and forest industry operations in southern Sweden. Over the years, the Foundation has awarded total funding SEK 224 million.

**REGULATED ACTIVITIES**

Of Södra's net sales, 77 percent (78) are subject to permits or mandatory notification requirements under the Swedish Environmental Code. At year-end, Södra conducted 53 (48) activities that were subject to permit or notification requirements in Sweden. Activities requiring a permit are conducted at Södra's pulp mills, sawmills, peat bogs and the port in Mönsterås. Facilities subject to notification requirements are wood and biofuel terminals and wind turbines. The permits contain conditions for activities, such as limits for emissions, effluents and noise.

In 2019, Södra Cell Värö presented results from provisional permits prior to the determination of final permit conditions. A new permit application was submitted for higher production in the sawmill at Orrefors. Due to the spruce bark beetle infestation, notice of timber storage at several biofuel terminals was provided. All peat bogs submitted applications to increase the amount of peat extracted for litter, energy and horticulture.

There were no other significant changes in permits in 2019.

**SUSTAINABILITY REPORT IN ACCORDANCE WITH THE SWEDISH ANNUAL ACCOUNTS ACT**

Södra has prepared a Sustainability Report in accordance with the Swedish Annual Accounts Act. The Sustainability Report contains relevant information about Södra's work and results in the areas of environment, social conditions and employment, human rights and anti-corruption.

In accordance with the Swedish Annual Accounts Act Chapter 6, Section 11, Södra Skogsägarna ekonomisk förening has elected to prepare a Sustainability Report that is separate from the Annual Report. The scope of the Sustainability Report is presented on page 126.

**EMPLOYEES**

At year-end, the number of employees was 3,150 (3,141), of whom 23 percent (22) were women.

**EVENTS AFTER THE CLOSE OF THE PERIOD**

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

The UK's withdrawal from the EU (Brexit), could have financial implications for Södra, mainly in relation to trade with sawn and planed timber where a hard Brexit could have a short-term impact on consolidated net sales and capital employed. While the impact of Brexit on Södra is difficult to predict, the preliminary assessment is that it will be relatively limited.

Otherwise, there were no significant events after the end of the reporting period.

**FUTURE OUTLOOK**

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

**PARENT COMPANY****Result**

Net sales rose to SEK 20,453 million (21,402) and operating profit to SEK 2,256 million (4,069). Profit after financial items was SEK 2,153 million (4,073).

**Members**

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

In 2020, contribution repayments to members who had left the association by 31 December 2019 will amount to SEK 27 million (36).

**Proposed appropriation of profits**

The Board proposes that the profits at the disposal of Södra's AGM, an amount of SEK 4,618,945,665, be appropriated as follows:

Dividend to members of 8 percent of contributed capital, totalling	SEK 370,911,948
Dividend to members of 10 percent on wood deliveries, totalling	SEK 530,132,155
The dividend is calculated on members' wood deliveries from 1 January 2019 to 31 December 2019 and on all ranges, excluding sold standing forest.	
To members' contribution capital accounts through a bonus issue	SEK 166,501,566
The bonus issue represents 10 percent of available paid-up contributed capital at 31 December 2019.	
Amount carried forward	SEK 3,551,399,996
	SEK 4,618,945,655



# Consolidated statement of comprehensive income

SEK million	Note	2019	2018
Net sales	2, 3	23,183	24,230
Other revenue	4	319	372
Change in inventories of finished products and products in process		-2	320
Capitalised work		13	12
Raw materials and consumables		-14,215	-13,668
Goods for resale		10	-61
Freight and transportation		-1,112	-1,142
Employee expenses	5	-2,396	-2,449
Other expenses	6	-1,938	-2,003
Depreciation, amortisation and impairment of assets	7	-1,315	-1,146
Share of profit of associates	8	35	43
<b>Operating profit</b>	<b>2</b>	<b>2,582</b>	<b>4,508</b>
Financial income		97	16
Financial expenses		-184	-93
Net financial items	9	-87	-77
<b>Profit before tax</b>		<b>2,495</b>	<b>4,431</b>
Income tax	10	-323	-701
<b>Profit for the year</b>		<b>2,172</b>	<b>3,730</b>
<b>Other comprehensive income</b>			
Actuarial gains and losses		-77	-99
Tax attributable to items that will not be reclassified to profit or loss		16	20
<b>Items that will not be reclassified to profit or loss</b>		<b>-61</b>	<b>-79</b>
Translation differences for the year on translation of foreign operations		71	39
Remeasurement of available-for-sale financial assets to fair value		0	0
Hedge accounting		-35	9
Tax attributable to items that will be reclassified to profit or loss		7	-2
<b>Items that will be reclassified to profit or loss</b>		<b>43</b>	<b>46</b>
<b>Other comprehensive income for the year</b>	<b>11</b>	<b>-18</b>	<b>-33</b>
<b>Total comprehensive income for the year</b>		<b>2,154</b>	<b>3,697</b>
<b>Profit attributable to:</b>			
Parent Company		2,172	3,730
<b>Profit for the year</b>		<b>2,172</b>	<b>3,730</b>
<b>Total comprehensive income for the year attributable to:</b>			
Owners of the Parent		2,154	3,697
<b>Total comprehensive income for the year</b>		<b>2,154</b>	<b>3,697</b>





# Consolidated statement of financial position

31 December, SEK million	Note	2019	2018
<b>ASSETS</b>	12, 13		
<b>Non-current assets</b>			
Intangible assets			
Goodwill		253	240
Other intangible assets		140	151
<b>Total intangible assets</b>	14	<b>393</b>	<b>391</b>
Property, plant and equipment			
Buildings and land		4,708	4,647
Machinery and equipment		9,871	9,713
Construction in progress		539	500
<b>Total property, plant and equipment</b>	15	<b>15,118</b>	<b>14,860</b>
Biological assets	16	2,918	2,738
Shares and participations in associates	8	324	310
Financial investments	17	36	14
Non-current operating receivables	18	12	90
Deferred tax assets	19	4	5
<b>Total non-current assets</b>		<b>18,805</b>	<b>18,408</b>
<b>Current assets</b>			
Inventories	20	3,835	3,649
Tax assets		142	23
Current operating receivables	21	3,545	3,942
Current investments	17	938	199
Cash and cash equivalents	22	2,072	873
<b>Total current assets</b>		<b>10,532</b>	<b>8,686</b>
<b>TOTAL ASSETS</b>		<b>29,337</b>	<b>27,094</b>



31 December, SEK million	Note	2019	2018
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Contributed capital		4,636	3,620
Other paid-up capital		1,413	1,413
Reserves		65	22
Retained earnings including profit for the year		11,268	10,956
Equity attributable to owners of the Parent		17,382	16,011
<b>Total equity</b>	23	<b>17,382</b>	<b>16,011</b>
<b>Liabilities</b>	12, 13		
<b>Non-current liabilities</b>			
Non-current interest-bearing financial liabilities	25	2,368	2,465
Non-current interest-bearing operating liabilities	26	210	—
Provisions for pensions	27	477	414
Non-current provisions	28	143	141
Deferred tax liabilities	19	1,554	1,478
Other non-current operating liabilities	29	35	—
<b>Total non-current liabilities</b>		<b>4,787</b>	<b>4,498</b>
<b>Current liabilities</b>			
Current interest-bearing financial liabilities	25	3,729	3,165
Current interest-bearing operating liabilities	26	118	—
Income tax liabilities		12	91
Current operating liabilities and provisions	28, 30	3,309	3,329
<b>Total current liabilities</b>		<b>7,168</b>	<b>6,585</b>
<b>Total liabilities</b>		<b>11,955</b>	<b>11,083</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>29,337</b>	<b>27,094</b>

For information about the Group's pledged assets and contingent liabilities, refer to Notes 37-38.



# Consolidated statement of changes in equity

## EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT

SEK million	Contributed capital	Other paid-up capital	Translation reserve	Fair value reserve	Retained earnings including profit for the year	Total equity
Opening balance 1 Jan 2019	3,620	1,413	15	7	10,956	16,011
Profit for the year	—	—	—	—	2,172	2,172
Other comprehensive income for the year	—	—	71	-28	-61	-18
<b>Comprehensive income for the year</b>	<b>—</b>	<b>—</b>	<b>71</b>	<b>-28</b>	<b>2,111</b>	<b>2,154</b>
Contributed capital, paid-up by members	121	—	—	—	—	121
Contributed capital, paid-out to members	-38	—	—	—	—	-38
Dividends to members	—	—	—	—	-861	-861
Bonus issue	933	—	—	—	-933	—
Other changes	—	—	—	—	-5	-5
<b>Closing balance 31 Dec 2019</b>	<b>4,636</b>	<b>1,413</b>	<b>86</b>	<b>-21</b>	<b>11,268</b>	<b>17,382</b>
Opening balance 1 Jan 2018	3,310	1,413	-24	0	8,185	12,884
Profit for the year	—	—	—	—	3,730	3,730
Other comprehensive income for the year	—	—	39	7	-79	-33
<b>Comprehensive income for the year</b>	<b>—</b>	<b>—</b>	<b>39</b>	<b>7</b>	<b>3,651</b>	<b>3,697</b>
Contributed capital, paid-up by members	128	—	—	—	—	128
Contributed capital, paid-out to members	-34	—	—	—	—	-34
Dividends to members	—	—	—	—	-652	-652
Bonus issue	216	—	—	—	-216	—
Other changes	—	—	—	—	-12	-12
<b>Closing balance 31 Dec 2018</b>	<b>3,620</b>	<b>1,413</b>	<b>15</b>	<b>7</b>	<b>10,956</b>	<b>16,011</b>

For additional information, refer to Note 23 Equity and Note 11 concerning other comprehensive income.





# Consolidated statement of cash flows

SEK million	Note	2019	2018
<b>Operating activities</b>			
Profit before tax		2,495	4,431
Adjustment for non-cash items			
Depreciation and amortisation		1,264	1,125
Impairment of non-current assets		51	21
Change in value of biological assets		-87	-158
Loss from sale of non-current assets		-22	-8
Other items not affecting cash flow		-372	64
Income tax paid		-415	-261
<b>Net cash flow from operating activities before change in working capital</b>		<b>2,914</b>	<b>5,214</b>
Change in			
Inventories (increase -)		-14	-628
Operating receivables (increase -)		497	-335
Operating liabilities (increase +)		-54	19
<b>Cash flow from operating activities</b>		<b>3,343</b>	<b>4,270</b>
<b>Investing activities</b>			
Acquisition of subsidiaries and associates	12	-6	-78
Divestment of companies	12	5	—
Acquisition of other financial assets		-23	-4
Divestment of other financial assets		2	14
Investments in intangible assets		-1	-28
Investments in property, plant and equipment		-1,127	-4,352
Divestment of property, plant and equipment		34	36
<b>Cash flow from investing activities</b>		<b>-1,116</b>	<b>-4,412</b>
<b>Cash flow after investing activities</b>		<b>2,227</b>	<b>-142</b>
<b>Financing activities</b>			
Contributed capital, paid-up		121	128
Contributed capital, paid out		-38	-34
Dividends paid		-861	-652
Loans from members		7,448	6,848
Payment from member deposits		-6,891	-6,425
New loans		33	5
Repayment of other loans		-138	-20
Dividends received and shareholders' contributions repaid		1	33
Change in current investments with maturity > 90 days		-711	0
<b>Cash flow from financing activities</b>		<b>-1,036</b>	<b>-117</b>
<b>CASH FLOW FOR THE YEAR</b>	<b>40</b>	<b>1,191</b>	<b>-259</b>
Cash and cash equivalents at beginning of year		873	1,122
Exchange gains/losses on cash and cash equivalents		8	10
Cash and cash equivalents at end of year	22	2,072	873

For additional information related to change in liabilities attributable to financing activities, refer to Note 25.



# Parent Company income statement

SEK million	Note	2019	2018
Net sales	2, 3	20,453	21,402
Change in inventories of finished products and products in process		106	325
Capitalised work		13	12
Other revenue	4	191	216
Raw materials and consumables		-12,413	-11,827
Other external expenses	6	-2,818	-2,766
Employee expenses	5	-2,173	-2,187
Depreciation, amortisation and impairment of assets	7	-1,098	-1,090
Other operating expenses	6	-5	-16
<b>Operating profit</b>	<b>2</b>	<b>2,256</b>	<b>4,069</b>
Profit from shares in Group companies		22	47
Profit from shares in associates		-34	25
Interest income and similar profit items		70	18
Interest expenses and similar loss items		-161	-86
Net financial items	9	-103	4
<b>Profit after financial items</b>		<b>2,153</b>	<b>4,073</b>
Appropriations	31	-317	-1,485
<b>Profit before tax</b>		<b>1,836</b>	<b>2,588</b>
Income tax	10	-196	-377
<b>Profit for the year</b>		<b>1,640</b>	<b>2,211</b>

Profit for the year matches Comprehensive income for the year.



# Parent Company balance sheet

31 December, SEK million	Note	2019	2018
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets			
Other intangible assets		1	3
<b>Total intangible assets</b>	14	<b>1</b>	<b>3</b>
Property, plant and equipment			
Buildings and land		3,193	3,252
Machinery and equipment		9,468	9,529
Construction in progress		317	379
<b>Total property, plant and equipment</b>	15	<b>12,978</b>	<b>13,160</b>
Financial assets			
Shares in Group companies	32	4,604	4,561
Interest-bearing receivables from Group companies		31	—
Shares and participations in associates	8	99	246
Endowment policies	27	40	36
Other non-current investments	33	35	14
Other non-current receivables	18	12	81
Deferred tax assets	19	60	47
<b>Total financial assets</b>		<b>4,881</b>	<b>4,985</b>
<b>Total non-current assets</b>		<b>17,860</b>	<b>18,148</b>
<b>Current assets</b>			
Inventories	20	2,906	2,610
Current receivables			
Interest-bearing receivables from Group companies	34	710	846
Deferred tax receivables		119	—
Operating receivables	21	3,254	3,475
<b>Total current receivables</b>		<b>4,083</b>	<b>4,321</b>
Current financial investments	17	1,329	198
Cash and bank balances		1,482	742
<b>Total current assets</b>		<b>9,800</b>	<b>7,871</b>
<b>TOTAL ASSETS</b>		<b>27,660</b>	<b>26,019</b>





> Parent Company balance sheet, cont.

31 December, SEK million	Note	2019	2018
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Restricted equity			
Contributed capital		4,636	3,620
Statutory reserve		1413	1,413
Total restricted equity		6,049	5,033
Non-restricted equity			
Profit carried forward		2,980	2,563
Profit for the year		1,640	2,211
Total non-restricted equity		4,619	4,773
<b>Total equity</b>	23	<b>10,669</b>	<b>9,807</b>
<b>Untaxed reserves</b>	35	<b>7,483</b>	<b>7,184</b>
<b>Provisions</b>			
Provisions for pensions	27	40	36
Other non-current provisions	28	143	132
<b>Total provisions</b>		<b>183</b>	<b>168</b>
<b>Non-current liabilities</b>			
Non-current interest-bearing liabilities from Group companies	36	8	8
Non-current interest-bearing liabilities	25	2,368	2,465
Non-current operating liabilities		8	—
<b>Total non-current liabilities</b>		<b>2,384</b>	<b>2,473</b>
<b>Current liabilities</b>			
Current interest-bearing liabilities from Group companies	36	154	182
Current interest-bearing liabilities	25	3,687	3,165
Current tax liabilities		—	81
Current operating liabilities and provisions	30	3,100	2,959
<b>Total current liabilities</b>		<b>6,941</b>	<b>6,387</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>27,660</b>	<b>26,019</b>

For information about the Parent Company's pledged assets and contingent liabilities, refer to Notes 37-38.



# Parent Company statement of changes in equity

SEK million	Restricted equity		Non-restricted equity		Total equity
	Contributed capital	Statutory reserve	Profit carried forward	Profit for the year	
Opening balance 1 Jan 2019	3,620	1,413	2,563	2,211	9,807
Transfer of profit/loss for the period	—	—	2,211	–2,211	—
Profit for the year	—	—	—	1,640	1,640
<b>Total equity excluding owner transactions</b>	<b>3,620</b>	<b>1,413</b>	<b>4,774</b>	<b>1,640</b>	<b>11,447</b>
Contributed capital, paid-up by members	121	—	—	—	121
Contributed capital, paid-out to members	–38	—	—	—	–38
Appropriation of profits	—	—	—	—	—
Dividends to members	—	—	–861	—	–861
Bonus issue	933	—	–933	—	—
<b>Closing balance 31 Dec 2019</b>	<b>4,636</b>	<b>1,413</b>	<b>2,980</b>	<b>1,640</b>	<b>10,669</b>
Opening balance 1 Jan 2018	3,310	1,413	2,506	925	8,154
Transfer of profit/loss for the period	—	—	925	–925	—
Profit for the year	—	—	—	2,211	2,211
<b>Total equity excluding owner transactions</b>	<b>3,310</b>	<b>1,413</b>	<b>3,431</b>	<b>2,211</b>	<b>10,365</b>
Contributed capital, paid-up by members	128	—	—	—	128
Contributed capital, paid-out to members	–34	—	—	—	–34
Appropriation of profits	—	—	—	—	—
Dividends to members	—	—	–652	—	–652
Bonus issue	216	—	–216	—	—
<b>Closing balance 31 Dec 2018</b>	<b>3,620</b>	<b>1,413</b>	<b>2,563</b>	<b>2,211</b>	<b>9,807</b>

For additional information, refer to Note 23 Equity.

Profit for the year matches Comprehensive income for the year.



# Parent Company statement of cash flows

SEK million	Note	2019	2018
<b>Operating activities</b>			
Profit after financial items		2,153	4,073
<b>Adjustment for non-cash items</b>			
Depreciation and amortisation according to plan		1,098	1,085
Impairment		67	5
Reversal of impairment		—	—
Profit from divestment of non-current assets		–16	0
Profit/loss from sale of Group companies		22	1
Other items not affecting cash flow		92	134
Income tax paid		–410	–230
<b>Net cash flow from operating activities before change in working capital</b>		<b>3,006</b>	<b>5,068</b>
<b>Change in</b>			
Inventories (increase –)		–291	–558
Operating receivables (increase –)		386	–302
Operating liabilities (increase +)		76	0
<b>Cash flow from operating activities</b>		<b>3,177</b>	<b>4,208</b>
<b>Investing activities</b>			
Acquisition of associate/Group companies	12	–15	–3,405
Sale of shares in subsidiaries		—	—
Group contributions received		22	77
Group contributions paid		0	—
Investments in property, plant and equipment and intangible assets		–935	–976
Divestment of property, plant and equipment		28	17
Acquisition of financial assets		–54	8
Decrease in financial receivables		2	0
<b>Cash flow from investing activities</b>		<b>–952</b>	<b>–4,279</b>
<b>Cash flow after investing activities</b>		<b>2,225</b>	<b>–71</b>
<b>Financing activities</b>			
Contributed capital, paid-up		121	128
Contributed capital, paid out		–38	–34
Dividends paid		–861	–652
Loans from members		7,448	6,848
Payment from member deposits		–6,891	–6,425
New loans		—	—
Repayment of loans		–133	—
Change in current investments with maturity > 90 days		–711	2
<b>Cash flow from financing activities</b>		<b>–1,065</b>	<b>–133</b>
<b>CASH FLOW FOR THE YEAR</b>	<b>40</b>	<b>1,160</b>	<b>–204</b>
Cash and cash equivalents at beginning of year		742	946
Cash and cash equivalents at end of year	22	1,902	742

For additional information related to change in liabilities attributable to financing activities, refer to Note 25.



# Notes

## Note 1 | Overall accounting policies, changes in accounting policies and disclosures

### GENERAL INFORMATION

Södra Skogsägarna ekonomisk förening (corporate identity number 729500-3789) is a Swedish-registered economic association with its registered office in Växjö, Sweden. The head office is located at Skogsudden, Växjö, Sweden. The consolidated financial statements for 2019 consist of the Parent Company and its subsidiaries, jointly named the Group. The Group also includes shares owned in associates.

The purpose of Södra Skogsägarna ekonomisk förening is to promote the economic interests of its members by trading and processing forest-based products; securing a market for its members' forest-based products at market prices; promoting high-value, advanced forest production that integrates conservation and cultural considerations; supporting and developing private forestry; monitoring and lobbying the business policy interests of its members; and conducting operations otherwise compatible with the above.

Södra Skogsägarna ekonomisk förening is a forest industry Group that offers forestry services, sawn timber, timber building systems and pulp for the pulp market. The Group consist of three business areas: Södra Skog, Södra Wood and Södra Cell.

The annual report and consolidated financial statements for the 2019 financial year were approved for publication by the Board of Directors and the President on 12 February 2020. The consolidated statement of comprehensive income, statement of financial position and Parent Company income statement and balance sheet are subject to adoption by the Annual General Meeting on 3 June 2020.

Overall accounting policies and new accounting standards are described below. Other significant accounting policies are presented under each Note. The same policies are normally applied by both the Parent Company and the Group. In cases where the Parent Company applies other policies than the Group, these policies are specified under the respective Note for the Parent Company.

All figures in the report have been rounded off to the nearest million, unless otherwise stated. As a result, some percentages and figures in the report may not correspond with the total shown, and may also differ from previously published information.

### CONFORMITY WITH STANDARDS AND LEGISLATION

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the European Commission, with certain supplementary requirements in the Swedish Annual Accounts Act. The standards and interpretations applied are those that were in force and adopted by the EU on 1 January 2019. The Swedish Financial Reporting Board's recommendation RFR 1 Supplementary accounting rules for groups has also been applied.

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

The Parent Company has prepared its Annual Report in accordance with the Annual Accounts Act (1995:1554) and the recommendation of the Swedish Financial Reporting Board RFR 2 Accounting for legal entities. The Parent Company applies the same accounting policies as the Group except as specified in the section Parent Company's accounting policies and measurement principles.

### MEASUREMENT BASIS IN PREPARATION OF THE FINANCIAL STATEMENTS

Assets and liabilities are recognised at historic cost, except for certain financial assets and liabilities and biological assets that are measured at fair value. Financial assets and liabilities measured at fair value consist of derivative instruments, financial assets classified as financial assets at fair value through either other comprehensive income or profit or loss.

### FUNCTIONAL CURRENCY AND PRESENTATION CURRENCY

The companies in the Group prepare their financial statements in the currency that is used in the financial environment in which they are primarily operative, known as the functional currency. 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 presentation currency. All amounts are in SEK million, unless otherwise indicated.

### AMENDMENTS TO ACCOUNTING POLICIES AND DISCLOSURES New or revised accounting standards applied

IFRS 16 Leases became effective on 1 January 2019 and superseded IAS 17 Leases and related IFRIC interpretations – IFRIC 4, SIC-15 and SIC-27. For more information about leases, refer to Notes 15 and 26.

IFRIC 23 Uncertainty over Income Tax Treatments became effective on 1 January 2019 and explains how deferred and current tax receivables and liabilities should be recognised and measured when there is uncertainty over income tax treatments. For more information about deferred and current tax, refer to Notes 10 and 19.

### New and revised accounting policies not yet applied

A number of new or revised standards and interpretations are not yet effective, and have not been applied in advance in the preparation of these financial statements. The standards and interpretations likely to impact the Group's and the Parent Company's financial statements are described below.

Definition of Material (Amendments to IAS 1 and IAS 8) became effective on 1 January 2020. The IASB has issued narrow-scope amendments to IAS 1 Presentation of Financial Statements, and to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of materiality throughout IFRSs and in the Conceptual Framework for Financial Reporting, to clarify when information is material and to incorporate some of the guidance in IAS 1 regarding immaterial information.

Definition of a Business (Amendments to IFRS 3) became effective on 1 January 2020. Under the changed definition of a business, an acquisition must, at a minimum, include an input and a substantive process that together significantly contribute to the ability to create outputs. The definitions of a business and outputs have been narrowed to focus on goods and services provided to customers. The current definition does not include 'a return in the form of dividends, lower costs or other economic benefits.' The amendments will probably mean that more acquisitions are recognised as asset acquisitions.

There are no other standards not yet effective that are expected to have any material effect on the Group in the current or coming financial years.

**CLASSIFICATION**

Non-current assets and non-current liabilities essentially consist of amounts that are expected to be recovered or paid more than 12 months from the balance-sheet date. Current assets and current liabilities essentially consist of amounts that are expected to be recovered or paid within 12 months from the balance-sheet date.

**CONSOLIDATION POLICIES****Subsidiaries**

Subsidiaries are entities over which the Parent Company Södra Skogsägarna ekonomisk förening has a controlling influence. A controlling influence is achieved when the Group is exposed or entitled to variable returns from its commitments in the company and can influence the returns by exercising its controlling influence. Such influence arises when the Group has existing rights that allow it to control the relevant operations, meaning the operations that significantly influence the company's returns. Potential voting shares that can be immediately utilised or converted are taken into consideration when assessing whether a controlling influence exists.

**CHANGES IN NON-CONTROLLING INTERESTS**

Acquisitions and divestments of non-controlling interests are recognised as transactions in equity, meaning between owners of the Parent (in retained earnings) and non-controlling interests.

**FOREIGN CURRENCIES****Transactions in foreign currencies**

Foreign currency transactions are translated into the functional currency using the exchange rates that prevailed at the dates of the transactions. Functional currency is the currency of the primary economic environments in which the entity operates. Monetary assets and liabilities in foreign currency are translated into the functional currency using the closing rate. Exchange-rate differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities recognised at historic cost are translated to the exchange rate at the date of the transaction. Non-monetary assets and liabilities measured at fair value are translated into the functional currency at the rate on the date of fair value measurement.

**FINANCIAL STATEMENTS OF FOREIGN ENTITIES**

Assets and liabilities of foreign entities, including goodwill and other consolidated surplus values, are translated from the functional currency of the foreign entity into the Group's presentation currency, SEK, at the closing rate. Revenue and expenses in a foreign entity are translated into SEK at an average rate that represents an approximation of the exchange rates at each transaction date.

**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, since a financial hedge is reflected in the accounts by the underlying receivable or liability and the hedging instrument being carried at the closing rate and the changes in exchange rates are recognised in the consolidated statement of comprehensive income.

## 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 Reporting Board's RFR 2 Accounting for legal entities. RFR 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 and the Pension Obligations Vesting Act, and with regard 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 in the financial statements of the Parent Company.

**CLASSIFICATION AND PRESENTATION**

The Parent Company's income statement and balance sheet are presented in accordance with the Annual Accounts Act layouts. The main difference to IAS 1 Presentation of Financial Statements as applied in the presentation of the consolidated financial statements is the recognition of financial income and expense, non-current assets, equity and the presence of provisions as a separate heading in the balance sheet.

**SUBSIDIARIES AND ASSOCIATES**

Shares in subsidiaries and associates are recognised in the Parent Company at cost less any cumulative impairment.

The recoverable amount of the subsidiary or associate is calculated where there are indications of impairment. Impairment is recognised when the carrying amount of the subsidiary or associate exceeds the recoverable amount. An impairment is recognised as a loss on the income statement.

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

## Note 2 | Operating segments

Södra's operations are divided into operating segments based on how the company's highest executive decision-makers, Group Senior Management, follow the operations. An operating segment is an essential part of the Group that engages in activities that generate revenue and incur costs, which are reported as independent financial information.

The follow-up of the business areas is focused on Net sales, operating profit/loss including margins, operating capital and returns, cash flow after investments and investments.

The Group has three main reportable segments: Södra Skog, Södra Wood and Södra Cell. The reportable segments correspond to business areas.

Södra Skog purchases forest-based products from its members and delivers them to Södra's mills, and conducts external trade with wood raw material and biofuels. Södra Skog also provides forestry services and, on behalf of Södra's members, manages the entire ecosystem of their forests – from planting and forest management to regeneration harvesting, site preparation and replanting for future-generation forestry.

Södra Wood, with sawmills in Sweden and Finland, comprises two product segments: sawn timber and timber building systems. High-grade sawn and planed construction materials are produced at Södra's own sawmills. Customers are primarily in the building trade, and the housing, packaging and wood-processing industries.

With its three pulp mills at Värö, Mörrum and Mönsterås, Södra Cell is one of Europe's leading manufacturers of pulp for the pulp market. Softwood pulp accounts for some 80 percent of the production volume, and hardwood pulp for the remaining portion. Dissolving pulp is also produced in the mill at Mörrum. Södra is a major supplier of biofuel, renewable electricity and district heating.

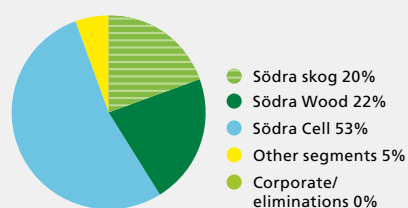
Other segments include the activities conducted in Trivselskus, Södra Vind, Södra Medlemsel and the effect on earnings of SunPine and Silva Green Fuel.

All other activities, called Group Functions, are included in the Group's financial operations and other Group-wide functions such as management, staff units and service units.

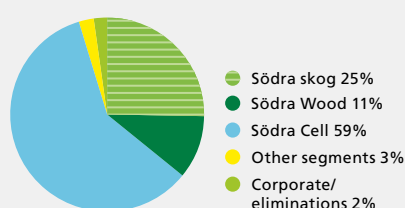
The Swedish operations in Södra Skog, Södra Wood and Södra Cell are included in the Parent Company.

&gt; Note 2, cont.

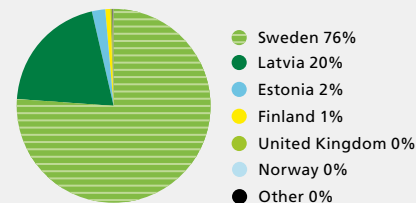
### External net sales by segment



### Facilities by segment



### Facilities by geographic market



Group	Södra Skog		Södra Wood		Södra Cell		Other segments		Group Functions		Eliminations		Total consolidated	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Net sales														
from external customers	4,565	4,354	5,006	4,792	12,383	13,218	1,229	1,866	—	—	—	—	23,183	24,230
from other segments	7,415	7,019	750	682	211	186	2	3	—	3	-8,378	-7,893	—	—
	11,980	11,373	5,756	5,474	12,594	13,404	1,231	1,869	—	3	-8,378	-7,893	23,183	24,230
Depreciation, amortisation and impairment of assets	-68	-43	-200	-174	-921	-862	-55	-46	-71	-21	—	—	-1,315	-1,146
Share of profit of associates	0	0	5	0	—	—	30	43	—	—	—	—	35	43
Operating profit/loss	298	259	262	608	2,511	4,032	-52	-25	-437	-366	—	—	2,582	4,508
Net financial items													-87	-77
Profit before tax													2,495	4,431
Assets	3,772	3,071	3,017	2,658	17,484	15,067	1,269	1,601	4,869	5,745	-1,074	-1,048	29,337	27,094
Operating profit/loss excl. biological change in value	173	101	262	608	2,511	4,032	-52	-25	-437	-366	—	—	2,457	4,350
Operating profit/loss before depreciation, amortisation and impairment	366	301	462	782	3,433	4,894	3	21	-367	-344	—	—	3,897	5,654
Operating margin, %	2	2	5	11	20	30	neg.	neg.	neg.	—	—	—	11	19
Operating capital*	4,871	4,720	3,207	3,014	13,074	13,015	1,141	1,327	—	—	—	—	21,238	20,969
Return on operating capital*	6	10	8	21	19	31	neg.	neg.	—	—	—	—	12	24
Cash flow after investments	129	-3,770	131	430	2,653	3,857	137	32	-823	-691	—	—	2,227	-142
Investments	145	3,348	384	124	684	770	11	3	40	135	-136	—	1,228	4,380

\* 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 Group. Capital employed = Operating capital less net tax liability.  
The figures reported for Södra Wood refer only to the sawmill operations.

### SEGMENT ALLOCATION

Segment profit and assets include directly attributable items. The assets consist of property, plant and equipment and intangible assets, biological assets, other non-current receivables, inventories and current receivables.

Assets and investments for the period in property, plant and equipment and intangible assets are grouped geographically by where the assets are located. Investments comprise property, plant and equipment and intangible assets, as well as biological assets. Assets deemed to be held or used in the operation for a minimum of 12 months are recognised as non-current assets. The non-current assets are mainly distributed between the geo-

graphic markets of Sweden SEK 14,070 million (13,873), Latvia SEK 3,736 million (3,602), Estonia SEK 400 million (313), Finland SEK 123 million (172), the UK SEK 79 million (19), Denmark SEK 13 million (0) and Norway SEK 7 million (7).

### PARENT COMPANY

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

Parent Company	Södra Skog		Södra Wood		Södra Cell		Other segments		Group Functions		Eliminations		Total consolidated	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Net sales														
from external customers	4,433	4,275	2,712	2,695	12,383	13,218	—	264	—	—	—	—	19,528	20,452
from other segments	7,415	7,019	1,656	1,598	213	188	—	13	—	3	-8,359	-7,871	925	950
	11,848	11,294	4,368	4,293	12,596	13,406	—	277	—	3	-8,359	-7,871	20,453	21,402
Depreciation, amortisation and impairment of assets	-42	-41	-175	-157	-864	-861	-4	-14	-13	-17	—	—	-1,098	-1,090
Operating profit/loss	114	50	145	519	2,508	4,043	18	-84	-529	-459	—	—	2,256	4,069
Net financial items													-103	4
Profit after financial items													2,153	4,073

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





# Result

## Note 3 | Net sales

Revenue from sales of goods for the main operations, comprising sales of sawlogs, pulpwood and biofuel; sawn, planed and pressure-treated timber. Softwood, hardwood and dissolving pulp are recognised when the buyer obtains control of an asset (goods or service). Control is obtained when the customer can direct and realise all of the remaining benefits associated with the use of the asset. Revenue from service assignments, primarily forestry services such as harvesting, transportation, forest management plans, site preparation etc., is recognised in net profit or loss according to the same principle as for sales of goods meaning when control of the service transfers to the customer. Any promise to transfer an asset to a customer that can be separated from other promises in a contract represents a performance obligation. Every distinct performance obligation is recognised separately and an obligation is considered fulfilled when the customer obtains control of the asset.

Control of goods or services can be transferred to the buyer either at a point in time, or over time. Whether each distinct performance obligation in a contract will be satisfied at a point in time or over time is determined at the start of the contract. For sales of forestry services, revenue is recognised over time since the customer is able to obtain the asset and simultaneously realise all of its remaining benefits. For sales of the company's other ordinary activities, revenue is recognised at a point in time. Södra considers this point in time to be when the goods are delivered to the customer under the current delivery terms of contractual agreements. Revenue from new residential construction on the buyer's land is recognised when the asset is created, meaning when control over the asset is transferred to the buyer as it is created.

Revenue is recognised at transaction price, which is the consideration to which the Group expects to be entitled in exchange for those goods or services. When determining the transaction price, consideration is mainly made for any discounts but also for the time value of money for long-term agreements. The transaction price is not adjusted to reflect the customer's credit risk, but any impairment of a consideration is made in accordance with IFRS 9 and the credit loss is recognised in profit or loss as an impairment loss. For those performance obligations for which revenue is recognised over time, Södra assesses that an output method is most appropriate for determining the degree of completion and thereby the amount recognised on the balance-sheet date. As a practical solution, since it essentially leads to a correct determination of the degree of completion, revenue is recognised in the same amount to which the company is entitled to invoice the customer. For contractor assignments, however, an input method is deemed most appropriate.

Payment is made on the basis of agreed payment terms in contractual agreements, which is normally on a date occurring after delivery has taken place. The Södra Group does not have any financing solutions.

Net sales includes revenue related to primary activities. Most of the Group's revenue is generated by sales of manufactured goods. Net sales also include revenue derived from electricity and district heating, sold and delivered electricity certificates, emission permits, remuneration for delivery costs and sales commissions.

Revenue is recognised excluding value-added tax, since the Group does not collect tax on its own account, but acts as a representative for the state.

### CONSOLIDATED NET SALES BY GEOGRAPHIC MARKET

	2019	Share, %	2018	Share, %
Sweden	11,025	47	9,965	41
UK	2,789	12	3,413	14
Italy	2,027	9	2,431	10
Germany	1,375	6	1,781	7
Austria	844	4	992	4
The Netherlands	778	3	585	3
France	712	3	714	3
Poland	540	2	456	2
Slovakia	361	2	384	2
Hungary	268	1	293	1
Ireland	235	1	183	1
Finland	227	1	243	1
Rest of Europe	1,062	5	1,779	7
Asia	430	2	655	3
Africa	74	0	107	0
US	436	2	249	1
<b>Total</b>	<b>23,183</b>	<b>100</b>	<b>24,230</b>	<b>100</b>

The table shows total external net sales according to the invoice recipient's geographic location.

### CONSOLIDATED NET SALES OF PROCESSED PRODUCTS BY END CUSTOMER'S GEOGRAPHIC MARKET

	2019	Share, %	2018	Share, %
Sweden	4,452	23	4,978	25
Rest of Europe	11,046	56	12,856	63
Asia	3,561	18	1,988	10
Africa	173	1	214	1
North America	436	2	244	1
Rest of World	19	0	0	0
<b>Total</b>	<b>19,687</b>	<b>100</b>	<b>20,280</b>	<b>100</b>

The table shows net sales of processed products from sales to those countries where Södra has its end customers.

### GEOGRAPHIC SEGMENTS

Net sales by geographic market are shown as revenue grouped by the location of the invoice recipient.

### PARENT COMPANY NET SALES BY GEOGRAPHIC MARKET

	2019	2018
Sweden	9,740	8,771
Italy	2,027	2,431
UK	1,758	2,460
Germany	1,376	1,782
Austria	844	992
The Netherlands	777	585
France	712	714
Poland	540	456
Slovakia	361	384
Hungary	268	293
Rest of Europe	1,190	1,523
Asia	430	655
US	356	249
Africa	74	107
<b>Total</b>	<b>20,453</b>	<b>21,402</b>

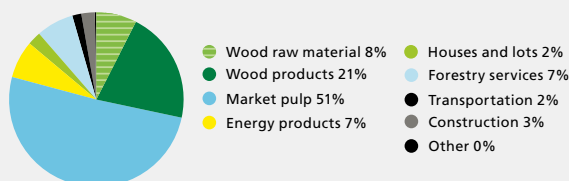
&gt; Note 3, cont.

**NET SALES PER REVENUE CATEGORY:**

2019	Södra Skog	Södra Wood	Södra Cell	Other segments	Group
Wood raw material	1,784	—	—	—	1,784
Wood products	—	4,791	—	3	4,794
Market pulp	—	—	11,805	—	11,805
Energy products	755	215	578	60	1,608
Houses and lots	—	—	—	563	563
Forestry services	1,621	—	—	—	1,621
Transportation	378	—	—	—	378
Construction contracts	—	—	—	592	592
Other	27	—	—	11	38
<b>Net sales, goods and services</b>	<b>4,565</b>	<b>5,006</b>	<b>12,383</b>	<b>1,229</b>	<b>23,183</b>

2018	Södra Skog	Södra Wood	Södra Cell	Other segments	Group
Wood raw material	1,763	—	—	—	1,763
Wood products	—	4,623	—	314	4,937
Market pulp	—	—	12,710	—	12,710
Energy products	654	169	508	81	1,412
Houses and lots	—	—	—	736	736
Forestry services	1,501	—	—	—	1,501
Transportation	410	—	—	—	410
Construction contracts	—	—	—	730	730
Other	26	—	—	5	31
<b>Net sales, goods and services</b>	<b>4,354</b>	<b>4,792</b>	<b>13,218</b>	<b>1,866</b>	<b>24,230</b>

**External net sales by revenue category**


## Note 5 | Employee expenses

**EMPLOYEE EXPENSES**

SEK million	Group		Parent Company	
	2019	2018	2019	2018
Salaries, benefits and social security costs	1,606	1,627	1,415	1,426
Contractual social security contributions	229	233	232	224
Other social security contributions	486	497	446	454
Other employee expenses	75	92	80	83
<b>Total</b>	<b>2,396</b>	<b>2,449</b>	<b>2,173</b>	<b>2,187</b>

**AVERAGE NUMBER OF EMPLOYEES**

	2019			2018			2017		
	No. of	men, %	women, %	No. of	men, %	women, %	No. of	men, %	women, %
<b>Parent Company</b>									
Sweden	2,773	79	21	2,749	77	23	2,889	81	19
<b>Subsidiaries</b>									
Sweden	197	67	33	227	99	1	277	69	31
Finland	44	75	25	44	82	18	42	81	19
UK	42	50	50	41	51	49	43	58	42
Latvia	36	62	38	30	60	40	6	67	33
Germany	13	46	54	13	46	54	14	43	57
Estonia	7	57	43	5	60	40	5	60	40
US	4	25	75	5	20	80	5	20	80
Norway	4	100	—	4	100	—	78	85	15
China	4	50	50	4	50	50	3	33	67
Lithuania	—	—	—	—	—	—	34	41	59
Denmark	2	50	50	—	—	—	—	—	—
<b>Total</b>	<b>3,126</b>	<b>76</b>	<b>24</b>	<b>3,122</b>	<b>77</b>	<b>23</b>	<b>3,396</b>	<b>79</b>	<b>21</b>

## Note 4 | Other revenue

Revenue from activities outside the company's core operations is recognised as other revenue. Other revenue consists primarily of rental and lease income, insurance compensation and capital gains on property, plant and equipment.

Other revenue also includes exchange-rate gains on operating receivables and liabilities arising from translation to the closing-day rate, gains on unhedged derivatives, and changes in the carrying amount of biological assets when the effects are credited to Södra's result.

**OTHER REVENUE BY REVENUE TYPE**

	Group		Parent Company	
	2019	2018	2019	2018
Sale of goods	13	20	29	40
Services	6	3	11	17
Rental income	15	11	11	6
Change in fair value of biological assets	125	158	—	—
Exchange-rate effect	61	93	62	92
Capital gains	28	25	21	16
Government grants	8	3	5	2
Insurance/strike compensation	29	9	29	9
Other	34	50	23	34
<b>Total</b>	<b>319</b>	<b>372</b>	<b>191</b>	<b>216</b>

Other government grants of SEK 8 million (3) in the consolidated total mainly comprise SEK 3 million (0) for forest management, SEK 2 million (2) for personnel and SEK 3 million (1) for innovation.



## MEN/WOMEN IN MANAGEMENT

	Group						Parent Company					
	2019		2018		2017		2019		2018		2017	
%	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women
<b>Boards</b>												
<30 years	—	—	—	—	—	—	—	—	—	—	—	—
30–50 years	89	11	91	9	100	—	100	—	100	—	100	—
>50 years	82	18	78	22	70	30	70	30	62	38	67	33
<b>Total proportion</b>	<b>85</b>	<b>15</b>	<b>83</b>	<b>17</b>	<b>81</b>	<b>19</b>	<b>75</b>	<b>25</b>	<b>67</b>	<b>33</b>	<b>70</b>	<b>30</b>
<b>Management groups</b>												
<30 years	—	—	—	—	—	—	—	—	—	—	—	—
30–50 years	62	38	62	38	64	36	75	25	67	33	67	33
>50 years	95	5	85	15	88	12	83	17	57	43	62	38
<b>Total proportion</b>	<b>80</b>	<b>20</b>	<b>76</b>	<b>24</b>	<b>78</b>	<b>22</b>	<b>80</b>	<b>20</b>	<b>60</b>	<b>40</b>	<b>64</b>	<b>36</b>

## SALARIES, BENEFITS AND SOCIAL SECURITY COSTS

Salaries, benefits and social security costs	2019		2018	
	Board and President	Other employees	Board and President	Other employees
Parent Company	16	1,404	13	1,418
Subsidiaries	10	181	6	195
<b>Total</b>	<b>26</b>	<b>1,585</b>	<b>19</b>	<b>1,613</b>

	2019		2018	
	Salaries, benefits and social security costs	Social security contributions	Salaries, benefits and social security costs	Social security contributions
Parent Company <sup>1)</sup>	1,420	679	1,431	678
(of which pension costs in operating profit) <sup>2)</sup>		(232)		(224)
Other Group	191	36	201	52
(of which pension costs)		(–3)		(9)
<b>Total</b>	<b>1,611</b>	<b>715</b>	<b>1,632</b>	<b>730</b>
(of which pension costs in operating profit) <sup>3)</sup>		(229)		(233)

<sup>1)</sup> Board fees are recognised as administration expenses under Other expenses.

<sup>2)</sup> Of the Parent Company's pension costs, SEK 4 million (4) pertains to current and previous Presidents. Outstanding pension obligations to previous Presidents amounted to SEK 40 million (36).

<sup>3)</sup> Of the Group's pension costs, SEK 5 million (5) pertains to the current and previous Presidents and Board members. Outstanding pension obligations to previous Presidents amounted to SEK 40 million (36).

## SALARIES, REMUNERATION AND BENEFITS TO THE BOARD AND GROUP SENIOR MANAGEMENT

2019, SEK 000s	Board fees		Salary <sup>3)</sup>	Pension cost <sup>4)</sup>	Benefits <sup>5)</sup>	Total
	Fixed <sup>1)</sup>	Vari-able <sup>2)</sup>				
Elected Board members in Södra Skogsägarna ekonomisk förening	3,278	1,316	—	—	—	4,595
President Lars Idermark	—	—	11,775	4,432	351	16,558
Group Senior Management, other*	—	—	20,102	12,513	1,124	33,739
<b>Total</b>	<b>3,277</b>	<b>1,318</b>	<b>31,877</b>	<b>16,945</b>	<b>1,475</b>	<b>54,892</b>

2018, SEK 000s	Board fees		Salary <sup>3)</sup>	Pension cost <sup>4)</sup>	Benefits <sup>5)</sup>	Total
	Fixed <sup>1)</sup>	Vari-able <sup>2)</sup>				
Elected Board members in Södra Skogsägarna ekonomisk förening	3,435	1,232	—	—	—	4,667
President Lars Idermark	—	—	11,580	4,171	361	16,112
Group Senior Management, other *	—	—	24,128	10,982	910	36,020
<b>Total</b>	<b>3,435</b>	<b>1,232</b>	<b>35,708</b>	<b>15,153</b>	<b>1,271</b>	<b>56,799</b>

\* Including estimated variable remuneration of SEK -1,000 (1,500).

<sup>1)</sup> Fixed Board fees pertain to fees adopted by the AGM.

<sup>2)</sup> Variable remuneration to Board members pertains to the hourly and per diem fees according to remuneration levels adopted by the AGM.

<sup>3)</sup> Salary including holiday compensation, changes in holiday pay liability and the estimated variable remuneration for Group Senior Management.

<sup>4)</sup> Pension cost including special employer's contribution.

<sup>5)</sup> Applicable benefits are company cars, cleaning services and accommodation.

## FEES TO ELECTED BOARD MEMBERS

2019, SEK 000s	Board fees		
	Fixed	Variable	Total
Lena Ek (Chairman)	900	376	1,276
Paul Christensson (Vice Chairman)	465	161	626
Karin Andersson	270	99	369
Hans Berggren	270	69	339
Pål Börjesson	270	99	369
Ylva op den Velde Hammargren	270	34	304
Ola Hildingsson <sup>1)</sup>	135	13	148
Ulf Johansson	270	199	469
Anders Roman	270	243	513
Mats Sandgren <sup>2)</sup>	158	23	181
<b>Total</b>	<b>3,278</b>	<b>1,316</b>	<b>4,595</b>

<sup>1)</sup> Board fees for the January-May period

<sup>2)</sup> Board fees for the June-December period

2018, SEK 000s	Board fees		
	Fixed	Variable	Total
Lena Ek (Chairman)	900	351	1,251
Paul Christensson (Vice Chairman)	465	184	649
Karin Andersson	270	87	357
Kjell Andersson <sup>1)</sup>	180	49	229
Hans Berggren	270	68	338
Pål Börjesson	270	83	353
Ylva op den Velde Hammargren	270	59	329
Ola Hildingsson	270	66	336
Ulf Johansson	270	152	422
Anders Roman	270	133	403
<b>Total</b>	<b>3,435</b>	<b>1,232</b>	<b>4,667</b>

<sup>1)</sup> Board fees for the January-May period and the June-August discontinuation period

No remuneration is paid for committee assignments.

No Board fees were paid for subsidiaries in 2018 or 2019.

## SALARIES AND REMUNERATION TO SENIOR MANAGEMENT

### Senior Management

Senior Management in this Note refers to Group Senior Management, which consists of the President, business area presidents and heads of Group functions. Members of Group Senior Management may be employed in the Parent Company or in subsidiaries. In 2019, Senior Management consisted of 11 people (11).

### Variable salaries/pensions

The President/CEO has a fixed salary only. In addition to fixed salaries, other members of Senior Management receive variable remuneration in



> Note 5, cont.

accordance with the Group-wide policy (maximum of one month's salary). The President/CEO and most other senior executives have a defined-contribution pension, ITP 1. At year-end, one member of Senior Management had a defined-benefit pension, ITP 2.

#### Preparation and proposal process prior to determination of remuneration to Senior Management

The Fees and Benefits Committee is appointed by the Board and comprises at least three Board members, although not the President. In addition to preparing matters and principles for remuneration and other terms of employment for Group Senior Management, the Committee also regularly approves compilations of expenses in relation to the Board, Chairman and Vice Chairman, and personal expenses in relation to the President.

#### Redundancy payments/termination

Between Södra and the President/CEO, a notice period of six months applies for termination of employment by the company, and six months for termination of employment by the employee. Should Södra terminate the employment, the employee will receive termination payment plus a redundancy payment amounting to 12 months' salary. Other members of Senior Management have a notice period of six months and redundancy payments of up to 12 months' salary. Redundancy payments are deducted in the event of new employment.

## Note 6 | Other expenses

Group	2019	2018
Repairs, maintenance and other operating costs	566	567
Other services and subcontracted personnel	429	331
Vehicle costs	165	192
Travel expenses and cost of sales	159	150
Cost of premises and property	75	153
R&D costs	89	35
Company insurances and other risk costs	104	217
Rent of non-current assets	31	30
Administration expenses	39	35
Other expenses	281	293
<b>Total</b>	<b>1,938</b>	<b>2,003</b>

R&D costs also include employee expenses of SEK 45 million (48) and amortisation of SEK 3 million (3). Other expenses include costs of SEK 187 million (245) for scheduled maintenance shutdowns in the Group's pulp mills.

#### OTHER OPERATING EXPENSES

Parent Company	2019	2018
Capital loss	5	16
Exchange-rate effect	—	—
<b>Total</b>	<b>5</b>	<b>16</b>

#### LEASES WHERE SÖDRA IS LESSEE.

	Parent Company	
	2019	2018
Non-terminable lease payments amounted to:		
Within 1 year	86	68
Between 1 and 5 years	192	24
More than 5 years	—	0
<b>Total</b>	<b>279</b>	<b>92</b>

Of the Parent Company's future lease payments, SEK 208 million (39) relates to time-charter vessels, SEK 3 million (3) to operational machinery, SEK 37 million (38) to equipment and SEK 30 million (12) to rents. The amount of future lease payments for rented premises is based on the consumer price index. No variable fees otherwise occur.

	Parent Company	
	2019	2018
Expensed charges for operating leases amounted to:		
Minimum lease payments	104	96
<b>Total</b>	<b>104</b>	<b>96</b>

#### AUDITOR FEES

	Group		Parent Company	
	2019	2018	2019	2018
PwC				
auditing assignments	4	4	3	3
auditing activities other than the audit assignment	0	0	0	0
tax consultancy services	0	0	0	0
other assignments	2	0	2	0
Other				
auditing assignments	2	1	—	—
tax consultancy services	0	0	—	—
other assignments	1	0	—	—

Auditing assignments refer to reviews of the annual report and accounting records as well as the management of the Board and the President, any other duties delegated to the company's auditor, and consultation or other advisory services in connection with findings observed in such reviews or the performance of such duties.

The fees specified above pertain to the following: PwC Sweden, auditing assignments SEK 3,560,000 (3,443,000) and other services SEK 2,123,000 (110,000).

## Note 7 | Depreciation, amortisation and impairment of assets

#### Impairment

The Group's recognised assets are tested regularly to determine whether there is any indication of impairment.

The recoverable amounts of assets are calculated where impairment indicators are present. An asset is impaired if its carrying amount exceeds its recoverable amount. Losses arising from impairment are recognised 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 reversals

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 to the extent 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.

#### Depreciation and amortisation

Depreciation is made straight-line 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 individual components. Machinery and other technical facilities comprise components with different useful lives. They are recognised and depreciated as separate components. 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.



# ESTIMATED USEFUL LIVES

	Group No. of years	Right-of-use assets No. of years
Wind turbines	20	—
Pulp mills	17-25	—
Factory buildings	20-25	—
Administration buildings	20-50	1-7
Housing	25-50	—
Land improvements	20	—
Sawmills	10-25	—
Machinery	5-13	3-5
Equipment	3-15	3-5

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, mechanical equipment, etc.	25 years

Depreciation methods, residual values and useful lives are reviewed at the end of each financial year.

	2019			2018		
Group	Depreciation and amortisation	Impairment <sup>1)</sup>	Total	Depreciation and amortisation	Impairment <sup>1)</sup>	Total
Goodwill	—	—	—	—	2	2
Other intangible assets	12	—	12	11	8	19
Buildings	204	31	235	162	—	162
Land	1	20	21	—	6	6
Land improvements	53	—	53	52	—	52
Machinery	748	—	748	739	4	743
Equipment	246	—	246	161	1	162
<b>Total</b>	<b>1,264</b>	<b>51</b>	<b>1,315</b>	<b>1,125</b>	<b>21</b>	<b>1,146</b>

	2019			2018		
Parent Company	Depreciation and amortisation	Impairment <sup>1)</sup>	Total	Depreciation and amortisation	Impairment <sup>1)</sup>	Total
Other intangible assets	2	—	2	3	—	3
Buildings	158	—	158	157	—	157
Land	—	—	—	—	—	—
Land improvements	52	—	52	52	—	52
Machinery	730	—	730	724	4	728
Equipment	156	—	156	149	1	150
<b>Total</b>	<b>1,098</b>	<b>—</b>	<b>1,098</b>	<b>1,085</b>	<b>5</b>	<b>1,090</b>

<sup>1)</sup> Lack of profitability initiated a calculation, which showed that the carrying amounts of the assets exceeded their recoverable amount. The recoverable amount was calculated using the principles described in Note 16.

## Note 8 | Shares in associates

Associates in which Södra has a significant influence are recognised using the equity method, which means that the Group's share of profit in the associates is recognised in the consolidated income statement. The Group's investment in an associate is recognised in the consolidated balance sheet at an amount corresponding to the Group's share of the associate's net assets. Associates are all companies in which the Group has a significant but not controlling influence, which generally entails holding 20–50 percent of the voting rights and ownership that constitutes a lasting relationship. This 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 consolidated goodwill and any remaining consolidated surplus and deficits. The Group's share of profit from associates attributable to owners of the Parent is recognised in the consolidated statement of comprehensive income, with adjustment for any depreciation or amortisation, impairment and reversals of acquired surplus or deficits. 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 the holding and the owner's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is recognised using the same policies as for the 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 against non-current, unsecured financial dealings, which in economic terms represents part of the owner's net investment in the associate. Continuing losses are only recognised if the Group has provided guarantees to cover them. The equity method is applied until the date that control ceases.

### Impairment of shares in associates

The Group's recognised assets are tested regularly to determine whether there is any indication of impairment.

The recoverable amounts of assets are calculated where impairment indicators are present. An asset is impaired if its carrying amount exceeds its recoverable amount. Losses arising from impairment are recognised 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 reversals

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 to the extent 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.

	Group		Parent Company	
	2019	2018	2019	2018
At the beginning of the year	310	222	246	166
Reclassification	–13	—	–13	—
Share of profit of associates	35	43	—	—
Acquisitions and shareholders' contributions received	—	70	—	80
Divestments and shareholders' contributions paid	—	—	–134	—
Dividends	–3	–25	—	—
Translation difference	–5	0	—	—
<b>Carrying amount at the end of the year</b>	<b>324</b>	<b>310</b>	<b>99</b>	<b>246</b>

> Note 8, cont.

The following information pertains to associates in full.

#### SPECIFICATION OF ASSOCIATES/JOINT VENTURES

2019	Country	Revenue	Result	Assets	Liabilities	Adjusted equity	Ownership share in %
SunPine AB	Sweden	1,329	99	1,001	288	713	25
Södra Timber A/S	Denmark	341	10	—	—	—	—
Silva Green Fuel AS	Norway	0	48	223	4	218	49
Prestige Exclusive Homes Ltd	UK	3	-3	6	1	5	50
Other associates	Sweden	6	1	4	0	4	—

2018	Country	Revenue	Result	Assets	Liabilities	Adjusted equity	Ownership share in %
SunPine AB	Sweden	1,326	235	901	221	680	25
Södra Timber A/S	Denmark	328	4	95	72	23	50
Silva Green Fuel AS	Norway	25	-16	190	23	167	49
Prestige Exclusive Homes Ltd	UK	17	-2	9	1	8	50
Other associates	Sweden	6	0	11	0	11	—

The information is based on the reports available at the time of Södra's reporting. On 14 November 2019, Södra acquired all outstanding shares in Södra Timber A/S.

## Note 9 | Income from financial items

Financial income and expenses consist of interest income and expenses, dividend income and remeasurements of certain 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 established. Issue expenses and arrangement fees for loans are accrued over the term of the loan, using the effective interest method. For measurement principles, refer to Note 13 Financial instruments.

#### NET FINANCIAL ITEMS

Group	2019	2018
<b>Financial income</b>		
Net profit		
Assets and liabilities at fair value through profit or loss	45	9
Dividends	7	1
Other interest income	33	5
Net exchange rate fluctuations	11	0
Other financial income	1	1
	<b>97</b>	<b>16</b>
<b>Financial expenses</b>		
Net loss		
Assets and liabilities at fair value through profit or loss	0	-10
Net exchange rate fluctuations	0	-8
Impairment of shares in external companies	—	0
Impairment of non-current operating receivables	-73	—
Interest expenses on defined-benefit pension obligations	-10	-5
Other interest expenses	-92	-59
Other financial expenses	-9	-11
	<b>-184</b>	<b>-93</b>
<b>Total</b>	<b>-87</b>	<b>-77</b>
<b>Of which:</b>		
Interest income from instruments measured at amortised cost	32	5
Interest expenses from instruments measured at amortised cost	-86	-59

#### PROFIT FROM FINANCIAL INSTRUMENTS RECOGNISED IN OPERATING PROFIT/LOSS

Group	2019	2018
Exchange-rate effect in trade receivables	61	93
Net profit from currency derivatives	—	—
	<b>61</b>	<b>93</b>

Value changes for hedging instruments pertaining to fair value hedging had a positive impact of SEK 0 million (5) for derivatives, and an impact of SEK 0 million (neg: 5) for hedged items.

#### Parent Company

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

#### 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 made this decision before the financial statements are published.

#### NET FINANCIAL ITEMS

Parent Company	2019	2018
<b>Profit from shares in Group companies</b>		
Dividends from Group companies	111	48
Impairment of shares in Group companies	-67	—
Profit from sale of shares in Group companies	-22	-1
	<b>22</b>	<b>47</b>
<b>Profit from shares in associates</b>		
Dividends from associates	3	25
Profit/loss from sale of shares in associates	-37	—
	<b>-34</b>	<b>25</b>
<b>Interest income and similar profit items</b>		
Dividends on shares in other companies	7	1
Interest income from Group companies	8	10
Interest income from others	32	4
Exchange-rate gain	12	0
Profit on sale of current investments	10	3
Other	1	0
	<b>70</b>	<b>18</b>
<b>Interest expenses and similar loss items</b>		
Interest expenses from Group companies	-2	-1
Interest expenses from others	-83	-56
Impairment	-66	-11
Foreign exchange rate loss	0	-8
Other	-10	-10
	<b>-161</b>	<b>-86</b>
<b>Total</b>	<b>-103</b>	<b>4</b>

The value of shares in Group companies is tested for impairment. When equity in Group companies is less than the value of the shares and future earnings cannot be demonstrated, the value of the Parent Company's shares is downgraded.





## Note 10 | Taxes

The Group's total tax consists of current tax and deferred tax. Income taxes are recognised in net profit or loss except when the underlying transaction is recognised in other comprehensive income or in equity, in which case the associated tax effect is recognised in other comprehensive income 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 substantially enacted at the balance-sheet date. Adjustments of current tax relating to previous periods are also recognised here.

The regulations for economic associations have been applied in the calculation of current tax. These mean that dividend proposal for the financial year (which will be paid out in the following year) is tax deductible in the current year and has been treated as a deduction in the calculation of current tax. The deduction has affected the tax expense recognised in net profit or loss.

Deferred tax is calculated using the liability method, based on the temporary difference between the carrying amount of assets and liabilities and their tax base. Temporary differences arising on initial recognition of goodwill or on initial recognition of assets and liabilities that are not business combinations that at the time of the transaction do not affect either accounting or taxable earnings are not taken into account. Nor are temporary differences pertaining to shares in subsidiaries and associates that are not expected to be reversed in the foreseeable future taken into account. Measurement 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 the balance-sheet date.

Deferred tax assets related to deductible temporary differences and loss carryforwards are recognised only to the extent it is probable they can be used in the future. The value of deferred tax assets is reduced when it is no longer considered likely they can be utilised.

### Parent Company

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.

### RECOGNISED TAX EXPENSE

	Group		Parent Company	
	2019	2018	2019	2018
Tax expense for the period	-222	-390	-210	-367
Adjustment of tax pertaining to previous years	3	-1	0	0
<b>Current tax expense</b>	<b>-219</b>	<b>-391</b>	<b>-210</b>	<b>-367</b>
Deferred tax expense pertaining to temporary differences	-104	-310	14	-10
<b>Deferred tax expense</b>	<b>-104</b>	<b>-310</b>	<b>14</b>	<b>-10</b>
<b>Total</b>	<b>-323</b>	<b>-701</b>	<b>-196</b>	<b>-377</b>

### RECONCILIATION OF EFFECTIVE TAX

	Group		Parent Company	
	2019	Tax rate, %	2019	Tax rate, %
Profit before tax	2,495		1,836	
Tax based on current tax rate for Parent Company	-534	21.4	-393	
Effect of special tax rules for economic associations <sup>1)</sup>	198		198	
Effect of other tax rates for foreign subsidiaries	13		—	
Non-deductible expenses incl. restructuring costs	-15		-33	
Non-taxable income	6		30	
Share of profit of associates	8		—	
Remeasurement of loss carryforwards <sup>2)</sup> / temporary differences	0		—	
Standard interest on tax allocation reserve	0		0	
Tax pertaining to previous years	1		2	
Changed tax rate	—		—	
<b>Effective tax recognised</b>	<b>-323</b>	<b>13</b>	<b>-196</b>	<b>16</b>

<sup>1)</sup> According to the tax 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 proposed dividend to be paid in the following year has been treated as a deduction in the calculation of current tax for the current year.

<sup>2)</sup> Loss carryforwards can be used indefinitely.

Income tax pertaining to other comprehensive income is recognised in Note 11 Other comprehensive income.

### CHANGE IN DEFERRED TAX IN TEMPORARY DIFFERENCES AND LOSS CARRYFORWARDS

Group 2019	At the beginning of the year	Recognised in profit or loss	Acquisitions	Recognised in other comprehensive income	Carrying amount at the end of the period
Non-current assets	-1,512	-108	—	—	-1,620
Biological assets	-38	-27	—	—	-65
Non-current operating receivables	-2	-5	—	7	0
Inventories	14	-12	—	—	2
Current receivables and liabilities	-2	7	—	—	5
Current investments	2	-8	—	—	-6
Provisions	118	8	—	16	142
Untaxed reserves excluding depreciation and amortisation in excess of plan	-53	43	—	—	-10
Other	0	-2	4	—	2
<b>Total</b>	<b>-1473</b>	<b>-104</b>	<b>4</b>	<b>23</b>	<b>-1,550</b>

&gt; Note 10, cont.

Group 2018	At the beginning of the year	Recognised in profit or loss	Acquisitions	Recognised in other comprehensive income	Carrying amount at the end of the period
Non-current assets	-1,271	-241	—	—	-1,512
Biological assets	-1	-37	—	—	-38
Non-current operating receivables	—	—	—	-2	-2
Inventories	17	-3	—	—	14
Current receivables and liabilities	2	-4	—	—	-2
Current investments	0	2	—	—	2
Provisions	118	-20	—	20	118
Untaxed reserves excluding depreciation and amortisation in excess of plan	-53	0	—	—	-53
Other	7	-7	—	—	0
<b>Total</b>	<b>-1,181</b>	<b>-310</b>	<b>—</b>	<b>18</b>	<b>-1,473</b>

## Note 11 | Other comprehensive income

### FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Assets held to collect contractual cash flows and for trading are measured at fair value through other comprehensive income, refer to Note 13 Financial Instruments. Changes in the carrying amount are recognised through other comprehensive income, except for the recognition of interest income, exchange-rate differences and impairment losses, which are recognised in profit or loss. When the financial asset is removed from the balance sheet, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

Translation differences on the translation of currency of foreign entities are recognised in other comprehensive income and accumulated in the translation reserve in equity, refer to Note 13 Financial Instruments. When a foreign entity is divested, the cumulative translation differences attributable to the divested foreign operation are reclassified from equity to net profit or loss as an adjustment on the same date on which the gain or loss from the sale is recognised.

Group 2019	Translation reserve	Hedging reserve	Actuarial gain/loss <sup>1)</sup>
At the beginning of the year	15	7	-457
Translation differences for the year	71	—	—
Fair value change for the year in hedge accounting derivatives	—	-35	—
Actuarial gains and losses	—	—	-77
Tax pertaining to components in other comprehensive income	—	7	16
<b>Carrying amount at the end of the period</b>	<b>86</b>	<b>-21</b>	<b>-518</b>

<sup>1)</sup> Actuarial gain/loss included in retained earnings.

Group 2018	Translation reserve	Hedging reserve	Actuarial gain/loss <sup>1)</sup>
At the beginning of the year	-24	0	-378
Translation differences for the year	39	—	—
Fair value change for the year in hedge accounting derivatives	—	9	—
Actuarial gains and losses	—	—	-99
Tax pertaining to components in other comprehensive income	—	-2	20
<b>Carrying amount at the end of the period</b>	<b>15</b>	<b>7</b>	<b>-457</b>

<sup>1)</sup> Actuarial gain/loss included in retained earnings.

### HEDGE ACCOUNTING DERIVATIVES – TRANSFERRED TO PROFIT FOR THE YEAR

	2019	2018
Net sales	—	—
Other expenses	—	—
	—	—

### 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 cumulative 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 cumulative net change in fair value of cash flow hedging instruments attributable to hedging transactions that have not yet occurred.

## Financial position

## Note 12 | Business combinations

### Business combinations

Subsidiaries are recognised using the purchase method. This method means that the acquisition of a subsidiary is viewed as a transaction whereby the Group indirectly obtains the subsidiary's assets and assumes its liabilities.

The acquisition analysis determines the fair value of the identifiable assets acquired and liabilities assumed, as well as any non-controlling interest, at the date of acquisition. Transaction expenses, except those attributable to

the issue of equity or debt instruments, are recognised directly in net profit or loss.

In business combinations where the consideration transferred, any non-controlling interests and fair value of previously owned participations (in step acquisitions) exceed the fair value of acquired assets and assumed liabilities that are recognised separately, the difference is recognised as goodwill. A negative difference, known as a bargain purchase, is recognised directly in net profit or loss.



Consideration transferred on acquisition does not include payments pertaining to the settlement of earlier business relationships. Such settlement is recognised in profit or loss.

Contingent consideration is measured at fair value at the date of acquisition. When the contingent consideration is classified as an equity instrument, no remeasurement is carried out and settlement takes place in equity. Other contingent considerations are remeasured at each reporting date and the change is recognised in net profit or loss.

Non-controlling interests arise for acquisitions not involving 100 percent ownership of the subsidiary. There are two options available for recognition: recognising the non-controlling interest's proportionate share of net assets, or measuring the non-controlling interest at fair value, meaning that the non-controlling interest has a share of goodwill. The choice between the options for recognising non-controlling interests are made by Södra on an acquisition-by-acquisition basis.

For step acquisitions, goodwill is determined on the date on which the controlling influence arises. Previous interests are measured at fair value and the change in value is recognised in net profit or loss.

For divestments leading to the loss of a controlling influence but where a residual holding exists, the holding is measured at fair value and the change in value is measured in net profit or loss.

The financial statements of subsidiaries are included in the consolidated financial statements from the acquisition date until the date that control ceases.

In cases where the subsidiary's accounting policies are not consistent with the Group's accounting policies, adjustments have been made to comply with the Group's accounting policies.

Losses attributable to non-controlling interests are allocated to non-controlling interests, even when the non-controlling interests will be recognised as a debit item under equity.

#### Asset acquisitions

The determination of whether an acquisition represents a business combination or an asset acquisition is based on assumptions and assessments made by management on the acquisition date. A critical factor for the determination is whether the return from the acquisition is substantially generated by the acquired business or the acquired assets.

#### ACQUISITIONS IN 2019

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

SEK million	Södra Timber A/S	SW Project AB
Consideration paid	18	6
Additional previous non-controlling interests	18	6
Total consideration	36	12
Cash consideration	9	6
Contingent consideration	9	—

#### Carrying amounts, identifiable assets and assumed liabilities:

Goodwill	12	2
Other non-current assets	4	0
Inventories	66	7
Current receivables	37	12
Cash and cash equivalents	8	1
Provisions	—	-1
Interest-bearing liabilities	-47	-1
Non-interest-bearing liabilities	-53	-8
<b>Identifiable net assets acquired</b>	<b>27</b>	<b>12</b>
Cash and cash equivalents in acquired entities	-8	-1
<b>Net effect on cash and cash equivalents</b>	<b>1</b>	<b>5</b>

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

#### ACQUISITIONS IN 2018

On 13 November 2018, Södra acquired Bergvik Skog AB's forest holding in Latvia. The total area acquired was 111,100 hectares, of which 80,300 hectares is forest land. The acquisition is classified as an asset acquisition, since the acquisition essentially consists of forest land and biological assets. The determination of whether an acquisition represents a business combination or an asset acquisition is based on assumptions and assessments made by management on the acquisition date. A critical factor for the determination is whether the return from the acquisition is substantially generated by the acquired business or the acquired assets. Information about the purchase amount and net assets acquired is presented below.

SEK million	
Consideration paid	3,324
Cash consideration	3,324
Contingent consideration	—
<i>Carrying amounts, identifiable assets and assumed liabilities:</i>	
Non-current assets	4
Forest land and biological assets	3,285
Current receivables	15
Cash and cash equivalents	39
Provisions	-6
Interest-bearing liabilities	—
Non-interest-bearing liabilities	-13
<b>Identifiable net assets acquired</b>	<b>3,324</b>
Cash and cash equivalents in acquired entities	-39
<b>Net effect on cash and cash equivalents</b>	<b>3,285</b>

The total purchase amount was SEK 3,324 million, while the net effect on cash and cash equivalents was SEK 3,285 million.

#### DIVESTMENTS IN 2018

On 1 February 2018, Södra Wood AS was divested to Sörnsen Holzleiten. In 2017, Södra Wood AS generated sales of SEK 363 million and loss for the year totalled SEK 39 million.

In May, Södra entered into an agreement with Sörnsen Grimslov AB to transfer the Interior Wood operations in Kallinge and Umeå. The transfer took place on 1 September 2018. The value of the assets transferred was approximately SEK 90 million. In 2017, the Swedish Interior Wood segment generated sales of SEK 514 million with an operating loss of SEK 56 million.

## Note 13 | Financial instruments

A financial asset or financial liability is recognised in the consolidated statement of financial position when the company becomes party to the contractual terms of the instrument.

### Classification

As of 1 January 2018, financial assets have been classified into the categories of financial assets at either fair value through other comprehensive income or fair value through profit or loss, and financial assets measured at amortised cost. The classification of investments in debt instruments depends on Södra's business model for managing financial assets and their contractual cash flow characteristics. The Group only reclassifies debt instruments when its business model for managing those instruments changes.

For investments in equity instruments that are not held for trading, recognition depends on whether or not the Group, on the date of acquiring the instruments, has made an irrevocable choice to recognise equity instruments at fair value through other comprehensive income.

### Measurement

Non-derivative financial instruments are initially measured at cost corresponding to the fair value of the instrument, plus transaction costs for all

financial instruments except those defined as financial assets measured at fair value through profit or loss, which are measured at fair value excluding transaction costs. Acquisition and divestment of financial assets is recognised on the settlement date, which is the date on which the asset is delivered to or from the company. The following measurement of investments in debt instruments depends on the Group's business model for managing the asset and contractual cash flow characteristics of the asset.

A financial asset, or part thereof, is derecognised from the consolidated statement of financial position when the rights in the contract are realised, expire or the company loses control of them. A financial liability, or part thereof, is derecognised from the consolidated statement of financial position when the obligation in the contract is fulfilled or otherwise extinguished.

A financial asset and 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.

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

### FAIR VALUE AND CARRYING AMOUNT IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION:

Group 2019	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost	Total carrying amount	Fair value
<b>Financial investments</b>					
Other shares and participations	36	—	—	36	36
	<b>36</b>			<b>36</b>	<b>36</b>
<b>Operating receivables</b>					
Trade receivables	—	—	2,493	2,493	2,493
LTFP*, current	1	—	—	1	1
	<b>1</b>		<b>2,493</b>	<b>2,494</b>	<b>2,494</b>
Current investments	938	—	—	938	938
Cash and cash equivalents	—	—	2,072	2,072	2,072
<b>Total assets, financial instruments</b>	<b>975</b>	<b>—</b>	<b>4,565</b>	<b>5,540</b>	<b>5,540</b>
Other assets, non-financial instruments				23,797	
<b>Total assets</b>				<b>29,337</b>	
<b>Non-current liabilities</b>					
Bond loans	—	—	1,000	1,000	1,024
Loans from banks and other credit institutions	—	—	832	832	882
Member deposits	—	—	536	536	556
Non-current lease liabilities	—	—	210	210	211
Derivatives, non-current	—	27	—	27	27
	<b>—</b>	<b>27</b>	<b>2,578</b>	<b>2,605</b>	<b>2,700</b>
<b>Current liabilities</b>					
Loans from banks and other credit institutions	—	—	136	136	142
Member deposits	—	—	3,550	3,550	3,580
Current lease liabilities	—	—	118	118	119
Other liabilities, current	—	—	43	43	49
	<b>—</b>	<b>—</b>	<b>3,847</b>	<b>3,847</b>	<b>3,890</b>
<b>Current operating liabilities</b>					
Trade creditors	—	—	2,389	2,389	2,389
Derivatives, current	1	—	—	1	1
	<b>1</b>	<b>—</b>	<b>2,389</b>	<b>2,390</b>	<b>2,390</b>
<b>Total liabilities, financial instruments</b>	<b>1</b>	<b>27</b>	<b>8,814</b>	<b>8,842</b>	<b>8,980</b>
Other liabilities, non-financial instruments				3,113	
<b>Total liabilities</b>				<b>11,955</b>	

\* Customer contracts tied to financial instruments.



**Investments in debt instruments**

Södra classifies investments in debt instruments into three measurement categories:

**FAIR VALUE THROUGH PROFIT OR LOSS**

Assets that do not meet the conditions for recognition at amortised cost, or fair value through other comprehensive income, are measured at fair value through profit or loss.

This category has two subgroups: available-for-sale financial assets, and other financial assets, which are initially placed in this category based on Södra's business model. The latter subgroup includes shares, share index bonds and share index certificates. 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 measured at fair value with changes in value recognised in net profit or loss. Interest on debt instruments, dividend income and exchange-rate effects are recognised in net profit or loss.

**FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

Assets held to collect the contractual cash flows and for trading are measured at fair value through other comprehensive income. Changes in the carrying amount are recognised through other comprehensive income, except for the recognition of interest income, exchange-rate differences and impairment losses, which are recognised in profit or loss. When the financial asset is removed from the balance sheet, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

**FAIR VALUE THROUGH AMORTISED COST**

Assets held to collect contractual cash flows and where these cash flows consist solely of payments of principal and interest, are measured at amortised cost using the effective interest rate calculated on the date of acquisition. This measurement category includes loans and receivables with fixed or determinable payments that are not quoted in an active market.

Group 2018	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost	Total carrying amount	Fair value
<b>Financial investments</b>					
Other shares and participations	14	—	—	14	14
Derivatives, non-current	—	9	—	9	9
	<b>14</b>	<b>9</b>	<b>—</b>	<b>23</b>	<b>23</b>
<b>Operating receivables</b>					
Trade receivables	—	—	2,802	2,802	2,802
Derivatives, current	0	—	—	0	0
	<b>0</b>	<b>—</b>	<b>2,802</b>	<b>2,802</b>	<b>2,802</b>
Current investments	199	—	—	199	199
Cash and cash equivalents	—	—	873	873	873
<b>Total assets, financial instruments</b>	<b>213</b>	<b>9</b>	<b>3,675</b>	<b>3,897</b>	<b>3,897</b>
Other assets, non-financial instruments				23,197	
<b>Total assets</b>				<b>27,094</b>	
<b>Non-current liabilities</b>					
Bond loans	—	—	1,000	1,000	1,035
Loans from banks and other credit institutions	—	—	954	954	1,011
Member deposits	—	—	511	511	529
	<b>—</b>	<b>—</b>	<b>2,465</b>	<b>2,465</b>	<b>2,575</b>
<b>Current liabilities</b>					
Loans from banks and other credit institutions	—	—	143	143	143
Member deposits	—	—	3,018	3,018	3,044
Other liabilities, current	—	—	4	4	4
	<b>—</b>	<b>—</b>	<b>3,165</b>	<b>3,165</b>	<b>3,191</b>
<b>Current operating liabilities</b>					
Trade creditors	—	—	2,321	2,321	2,321
Derivatives, current	—	—	—	—	—
LTFFP <sup>1)</sup> , current	0	—	0	0	0
	<b>0</b>	<b>—</b>	<b>2,321</b>	<b>2,321</b>	<b>2,321</b>
<b>Total liabilities, financial instruments</b>	<b>0</b>	<b>—</b>	<b>7,951</b>	<b>7,951</b>	<b>8,087</b>
Other liabilities, non-financial instruments				3,132	
<b>Total liabilities</b>				<b>11,083</b>	

<sup>1)</sup> Customer contracts tied to financial instruments.

Financial instruments were reclassified in the application of IFRS 9. In the transition to IFRS 9, the reclassification did not result in any differences in measurement.

Other shares and participations consist of shares and participations in external companies.

Current investments comprise interest-bearing investments with a duration of more than three months from the date 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 date of acquisition with insignificant risk of value fluctuation and unsubstantial interest-rate risk.

> Note 13, cont.

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

#### SHARES AND PARTICIPATIONS AND CURRENT INVESTMENTS

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

The fair value of unquoted shares measured at cost due to the difficulty in determining a reliable market value is represented by the 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 the balance-sheet date for the remaining period of the contract. Discounting is done using the risk-free interest based on government bonds.

The following tables present information about how fair value is determined for the financial instruments that are measured at fair value in the consolidated statement of financial position. Allocation of fair value determination is based on three levels.

Group 2019	Level 1	Level 2	Level 3	Total
Other shares and participations	—	—	36	36
LTFP <sup>1)</sup> , current	—	—	1	1
Current investments	938	—	—	938
Cash and cash equivalents	2,072	—	—	2,072
<b>Total assets</b>	<b>3,010</b>	<b>—</b>	<b>37</b>	<b>3,047</b>
Derivatives, non-current	27	—	—	27
Derivatives, current	—	—	1	1
<b>Total liabilities</b>	<b>27</b>	<b>—</b>	<b>1</b>	<b>28</b>

<sup>1)</sup> Customer contracts tied to financial instruments.

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

#### TRADE RECEIVABLES AND TRADE CREDITORS

For trade receivables and trade creditors 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 payments of capital and interest, discounted using the current market rate at the balance-sheet date.

#### INTEREST RATES USED TO DETERMINE FAIR VALUE

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

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

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

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

Group 2018	Level 1	Level 2	Level 3	Total
Other shares and participations	—	—	14	14
Derivatives, non-current	9	—	—	9
Derivatives, current	—	—	0	0
Current investments	189	10	—	199
Cash and cash equivalents	873	—	—	873
<b>Total assets</b>	<b>1,071</b>	<b>10</b>	<b>14</b>	<b>1,095</b>
LTFP <sup>1)</sup> , current	—	—	0	0
Derivatives, current	—	—	—	—
<b>Total liabilities</b>	<b>—</b>	<b>—</b>	<b>0</b>	<b>0</b>

<sup>1)</sup> Customer contracts tied to financial instruments.

The following table presents a reconciliation of opening and closing balances for financial instruments measured at fair value in the consolidated report of financial position using a valuation method based on unobservable inputs (level 3).

Group 2019	Assets			Liabilities	
	Other shares and participations	Derivatives	LTFP*	Derivatives	LTFP <sup>1)</sup>
At the beginning of the year	14	9	0	0	0
Total recognised gains and losses:					
– recognised in profit for the year	—	–1	1	—	—
– recognised in other comprehensive income	—	7	—	28	—
Acquisitions	22	—	—	—	—
Capital contributions	2	—	—	—	—
Sold and terminated	–2	–15	—	—	—
<b>Carrying amount at the end of the period</b>	<b>36</b>	<b>0</b>	<b>1</b>	<b>28</b>	<b>0</b>

<sup>1)</sup> Customer contracts tied to finance leases.

Group 2018	Assets			Liabilities	
	Other shares and participations	Derivatives	LTFP*	Derivatives	LTFP <sup>1)</sup>
At the beginning of the year	20	1	0	5	1
Total recognised gains and losses:					
– recognised in profit for the year	—	0	—	–5	0
– recognised in other comprehensive income	—	9	—	—	—
Sold and terminated	–6	–1	0	—	–1
<b>Carrying amount at the end of the period</b>	<b>14</b>	<b>9</b>	<b>0</b>	<b>0</b>	<b>0</b>

<sup>1)</sup> Customer contracts tied to finance leases.



## Note 14 | Intangible assets

Goodwill represents the difference of the cost of a business combination and the fair value of acquired identifiable assets, assumed liabilities and contingent liabilities. Goodwill is carried at cost less any cumulative 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 shares in associates.

In business combinations, brands are capitalised at the discounted net present value of a market-value share of the particular company's annual sales. Annual sales are based on the company's business plan and discounting is carried out using a risk-adjusted discount rate based on the company's market situation. The useful life of a brand, which can be definite or indefinite, is assessed on a case-by-case basis.

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 consolidated net profit or loss as incurred.

Major investments in IT systems and licences are also recognised as intangible assets. Intangible assets are measured at cost less cumulative amortisation and impairment.

Assets with a finite useful life are amortised on a straight-line basis over each asset's estimated useful life. The useful life of an asset is retested every year. The Trivselhus brand is considered to have an indefinite useful life and is not amortised.

### Impairment of material and intangible assets

The Group's recognised assets are tested regularly to determine whether there is any indication of impairment.

The recoverable amounts of assets are calculated where impairment indicators are present. An asset is impaired if its carrying amount exceeds its recoverable amount. Losses arising from impairment are recognised 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 reversals

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 to the extent 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.

### PARENT COMPANY

#### Research and development

All expenditure for scientific research and development is expensed in profit or loss.

Group 2019	Brand	Development costs, licences	Goodwill	Total
<b>Cost</b>				
At the beginning of the year	123	145	262	530
Business combinations	—	—	14	14
Investment	—	1	—	1
Divestment and disposals	—	-36	—	-36
Translation differences	—	—	0	0
	<b>123</b>	<b>110</b>	<b>275</b>	<b>508</b>
<b>Depreciation</b>				
At the beginning of the year	—	-109	—	-109
Divestment and disposal	—	36	—	36
Depreciation according to plan for the year	—	-12	—	-12
	—	<b>-85</b>	<b>—</b>	<b>-85</b>
<b>Impairment</b>				
At the beginning of the year	—	-8	-22	-30
Translation differences	—	—	0	0
	—	<b>-8</b>	<b>-22</b>	<b>-30</b>
<b>Carrying amount at the end of the period</b>	<b>123</b>	<b>17</b>	<b>253</b>	<b>393</b>

Group 2018	Brand	Development costs, licences	Goodwill	Total
<b>Cost</b>				
At the beginning of the year	123	119	290	532
Investments	—	2	—	2
Reclassifications	—	25	—	25
Divestment and disposals	—	-1	-32	-33
Translation differences	—	—	4	4
	<b>123</b>	<b>145</b>	<b>262</b>	<b>530</b>
<b>Depreciation</b>				
At the beginning of the year	—	-99	—	-99
Divestment and disposal	—	1	—	1
Depreciation according to plan for the year	—	-11	—	-11
	—	<b>-109</b>	<b>—</b>	<b>-109</b>
<b>Impairment</b>				
At the beginning of the year	—	—	-49	-49
Divestment and disposals	—	—	35	35
Impairment for the year	—	-8	-2	-10
Translation differences	—	—	-6	-6
	—	<b>-8</b>	<b>-22</b>	<b>-30</b>
<b>Carrying amount at the end of the period</b>	<b>123</b>	<b>28</b>	<b>240</b>	<b>391</b>

### TESTING OF IMPAIRMENT REQUIREMENT FOR GOODWILL AND BRANDS

Impairment testing of the carrying amount of goodwill, and brands with indefinite useful lives, was performed prior to the balance-sheet date of 31 December 2019. In the Consolidated statement of financial position, the carrying amount of goodwill is SEK 253 million (240). The following table presents the carrying amount of goodwill allocated by business area.

Södra Wood and Södra Trivselhus are the cash-generating units to which goodwill has been allocated. Following acquisition, acquired operations are integrated into the Group's existing business areas in order to generate the intended 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 carried out at business area level, since it is at this level that goodwill is monitored internally.

> Note 14, cont.

The recovery amount of the business areas 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 form the basis for discounting cash flows. Thereafter, average cash flow growth of approximately 2 percent (2) per year has been adopted. Growth rate and operating margins have been determined based on historic experience and judgements of business trends in the coming five-year period that draw on external and internal sources of information. Cash flow was discounted by approximately 9 percent (9), on average, before tax. The most significant valuation parameter is the discount rate, and if this was changed by +/-1 percent, the value of the underlying asset would be impacted by SEK -161/+198 million. Even minor changes in management's projections of future cash flows could lead to impairment.

For other cash-generating units, no reasonable changes in key assumptions in the calculation of value in use are expected to lead to impairment.

#### GOODWILL/BRAND PER CASH-GENERATING UNIT

	2019	2018
Södra Wood	74	61
Intra-Group, Södra Trivselhus Holding AB (incl. brand)	302	302
<b>Total</b>	<b>376</b>	<b>363</b>

Parent Company 2019	Development costs, licences	Goodwill	Total
<b>Cost</b>			
At the beginning of the year	61	22	83
Divestment and disposal	-36	—	-36
	<b>25</b>	<b>22</b>	<b>47</b>
<b>Depreciation</b>			
At the beginning of the year	-58	-16	-74
Divestment and disposal	36	—	36
Depreciation according to plan for the year	-2	—	-2
	<b>-24</b>	<b>-16</b>	<b>-40</b>
<b>Impairment</b>			
At the beginning of the year	—	-6	-6
	<b>—</b>	<b>-6</b>	<b>-6</b>
<b>Carrying amount at the end of the period</b>	<b>1</b>	<b>—</b>	<b>1</b>

Parent Company 2018	Development costs, licences	Goodwill	Total
<b>Cost</b>			
At the beginning of the year	61	23	84
Divestment and disposal	0	-1	-1
Investments	0	—	0
	<b>61</b>	<b>22</b>	<b>83</b>
<b>Depreciation</b>			
At the beginning of the year	-55	-17	-72
Divestment and disposal	0	1	1
Depreciation according to plan for the year	-3	—	-3
	<b>-58</b>	<b>-16</b>	<b>-74</b>
<b>Impairment</b>			
At the beginning of the year	—	-6	-6
	<b>—</b>	<b>-6</b>	<b>-6</b>
<b>Carrying amount at the end of the period</b>	<b>3</b>	<b>—</b>	<b>3</b>

## Note 15 | Property, plant and equipment

Property, plant and equipment are recognised on a consolidated basis at cost less accumulated depreciation and any impairment. The cost includes the purchase price plus any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The cost of own-generated non-current assets includes expenses for material, for remuneration of employees, if applicable, other manufacturing costs directly attributable to the non-current asset, and the estimated costs of dismantling and removing the item and restoring the site on which it is 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 of property, plant and equipment is derecognised from the consolidated statement of financial position on disposal or divestment or when no future economic benefits are expected from the use or disposal/divestment of the asset. The gain or loss arising on the divestment or disposal of an asset represents the difference between the selling price and the carrying amount of the asset less direct selling costs. The gain 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. 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. The expense is also

added to the cost in situations where new components are created. 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.

#### LEASES

The Group's leased assets mainly comprise vessels, premises/buildings and vehicles. The Group applies the simplified approach available under IFRS 16 for the recognition of right-of-use assets and lease liabilities attributable to all leases on the balance sheet. Under this approach, the lessee has the right to use an asset for a period of time in exchange for consideration from the commencement of the lease. When assessing leases, lease components are separated from non-lease components, and when determining the lease term, any options to extend or terminate the lease prematurely are taken into account.

Lease liabilities are initially recognised at the present value of the lease payments that are not paid at that date, discounted using the Group's incremental borrowing rate. Lease payments included in the liability comprise fixed payments, variable lease payments that depend on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees and payments of penalties for terminating the lease. The right-of-use asset is initially measured at amortised cost, which is the same amount as the initial measurement of the liability. The Group applies the low-value and short-term lease exemptions, which means that these leases are recognised as an expense on a straight-line basis over the lease term.

Deferred tax is recognised net on the balance sheet and in supplementary disclosures.





**BUILDINGS AND LAND**

**2019**

Group	Buildings	Leased buildings <sup>1)</sup>	Land	Leased land <sup>1)</sup>	Land improvements	Total Buildings and land
<b>Cost</b>						
At the beginning of the year	4,417	—	1,561	—	1,217	7,195
Lease reclassification	—	111	—	1	—	112
Business combinations	—	—	10	—	—	10
Investments	—	40	79	1	—	120
Reclassifications <sup>2)</sup>	128	—	—55	—	33	106
Divestments and disposals	—17	—2	—8	—	—1	—28
Translation differences	7	—	34	—	1	42
	<b>4,535</b>	<b>149</b>	<b>1,621</b>	<b>2</b>	<b>1,250</b>	<b>7,557</b>
<b>Depreciation</b>						
At the beginning of the year	—1,975	—	—	—	—509	—2,484
Divestments and disposals	6	1	—	—	1	8
Depreciation according to plan for the year	—161	—43	—	—1	—53	—258
Translation differences	0	0	—	—	0	0
	<b>—2,130</b>	<b>—42</b>	<b>—</b>	<b>—1</b>	<b>—561</b>	<b>—2,734</b>
<b>Impairment</b>						
At the beginning of the year	—37	—	—16	—	—11	—64
Impairment for the year	—	—31	—20	—	—	—51
	<b>—37</b>	<b>—31</b>	<b>—36</b>	<b>—</b>	<b>—11</b>	<b>—115</b>
<b>Carrying amount at the end of the period</b>	<b>2,368</b>	<b>76</b>	<b>1,585</b>	<b>1</b>	<b>678</b>	<b>4,708</b>

<sup>1)</sup> IFRS 16 Leases has been applied since 2019, which means that leases are now recognised as non-current assets, instead of Other expenses.

<sup>2)</sup> Reclassifications predominantly relate to capitalised work in progress, which are considered investments.

**2018**

Group	Buildings	Leased buildings	Land	Leased land	Land improvements	Total Buildings and land
<b>Cost</b>						
At the beginning of the year	4,464	—	290	—	1,207	5,961
Business combinations	—	—	—	—	—	—
Investments	2	—	1,271	—	1	1,274
Reclassifications <sup>2)</sup>	73	—	—4	—	22	91
Divestments and disposals	—126	—	—15	—	—13	—154
Translation differences	4	—	19	—	—	23
	<b>4,417</b>	<b>—</b>	<b>1,561</b>	<b>—</b>	<b>1,217</b>	<b>7,195</b>
<b>Depreciation</b>						
At the beginning of the year	—1,916	—	—	—	—468	—2,384
Divestments and disposals	103	—	—	—	11	114
Depreciation according to plan for the year	—162	—	—	—	—52	—214
Translation differences	0	—	—	—	—	0
	<b>—1,975</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—509</b>	<b>—2,484</b>
<b>Impairment</b>						
At the beginning of the year	—55	—	—10	—	—13	—78
Divestments and disposals	18	—	—	—	2	20
Impairment for the year	—	—	—6	—	—	—6
Translation differences	—	—	—	—	—	—
	<b>—37</b>	<b>—</b>	<b>—16</b>	<b>—</b>	<b>—11</b>	<b>—64</b>
<b>Carrying amount at the end of the period</b>	<b>2,405</b>	<b>—</b>	<b>1,545</b>	<b>—</b>	<b>697</b>	<b>4,647</b>

<sup>2)</sup> Reclassifications predominantly relate to capitalised work in progress, which are considered investments.



&gt; Note 15, cont.

Parent Company	2019				2018			
	Buildings	Land	improvements	Total Buildings and land	Buildings	Land	improvements	Total Buildings and land
<b>Cost</b>								
At the beginning of the year	4,312	264	1,200	5,776	4,315	257	1,192	5,764
Reclassifications <sup>1)</sup>	128	2	33	163	74	12	21	107
Divestments and disposals	-17	-1	-1	-19	-77	-5	-13	-95
	<b>4,423</b>	<b>265</b>	<b>1,232</b>	<b>5,920</b>	<b>4,312</b>	<b>264</b>	<b>1,200</b>	<b>5,776</b>
<b>Depreciation</b>								
At the beginning of the year	-1,964	—	-502	-2,466	-1,875	—	-461	-2,336
Divestments and disposals	6	—	—	6	68	—	11	79
Depreciation according to plan for the year	-158	—	-52	-210	-157	—	-52	-209
	<b>-2,116</b>	<b>—</b>	<b>-554</b>	<b>-2,670</b>	<b>-1,964</b>	<b>—</b>	<b>-502</b>	<b>-2,466</b>
<b>Impairment</b>								
At the beginning of the year	-37	-10	-11	-58	-42	-10	-13	-65
Divestments and disposals	—	—	1	1	5	—	2	7
	<b>-37</b>	<b>-10</b>	<b>-10</b>	<b>-57</b>	<b>-37</b>	<b>-10</b>	<b>-11</b>	<b>-58</b>
<b>Carrying amount at the end of the period</b>	<b>2,270</b>	<b>255</b>	<b>668</b>	<b>3,193</b>	<b>2,311</b>	<b>254</b>	<b>687</b>	<b>3,252</b>

<sup>1)</sup>Reclassifications predominantly relate to capitalised work in progress, which are considered investments.

#### MACHINERY AND EQUIPMENT

	2019					2018			
Group	Machinery	Leased machinery	Equipment	Leased equipment	Total Machinery and Equipment	Machinery	Equipment	Leased assets	Total Machinery and Equipment
<b>Cost</b>									
At the beginning of the year	23,078	—	2,413	—	25,491	23,135	2,386	2	25,523
Lease reclassification	—	2	—	336	338	—	—	—	—
Business combinations	—	—	1	—	1	—	—	—	—
Investments	3	0	5	45	53	1	5	—	6
Reclassifications <sup>2)</sup>	629	—	201	—	830	570	181	—	751
Divestments and disposals	-137	0	-106	-86	-329	-635	-160	-2	-797
Translation differences	8	—	1	—	9	7	1	—	8
	<b>23,581</b>	<b>2</b>	<b>2,515</b>	<b>295</b>	<b>26,393</b>	<b>23,078</b>	<b>2,413</b>	<b>—</b>	<b>25,491</b>
<b>Depreciation</b>									
At the beginning of the year	-14,020	—	-1,512	—	-15,532	-13,855	-1,497	-1	-15,353
Divestments and disposals	136	0	97	14	247	580	147	1	728
Depreciation according to plan for the year	-747	-1	-169	-77	-994	-739	-161	—	-900
Translation differences	-3	0	-1	0	-4	-6	-1	—	-7
	<b>-14,634</b>	<b>-1</b>	<b>-1,585</b>	<b>-63</b>	<b>-16,283</b>	<b>-14,020</b>	<b>-1,512</b>	<b>—</b>	<b>-15,532</b>
<b>Impairment</b>									
At the beginning of the year	-184	—	-62	—	-246	-206	-62	—	-268
Divestments and disposals	6	—	1	—	7	26	1	—	27
Impairment for the year	—	—	—	—	—	-4	-1	—	-5
	<b>-178</b>	<b>—</b>	<b>-61</b>	<b>—</b>	<b>-239</b>	<b>-184</b>	<b>-62</b>	<b>—</b>	<b>-246</b>
<b>Carrying amount at the end of the period</b>	<b>8,769</b>	<b>1</b>	<b>869</b>	<b>232</b>	<b>9,871</b>	<b>8,874</b>	<b>839</b>	<b>—</b>	<b>9,713</b>

<sup>1)</sup> IFRS 16 Leases has been applied since 2019, which means that leases are now recognised as non-current assets, instead of Other expenses.

<sup>2)</sup>Reclassifications predominantly relate to capitalised work in progress, which are considered investments.



Parent Company	2019			2018		
	Machinery	Equipment	Total Machinery and Equipment	Machinery	Equipment	Total Machinery and Equipment
<b>Cost</b>						
At the beginning of the year	22,924	2,159	25,083	22,962	2,140	25,102
Investments	—	—	—	—	—	—
Reclassifications <sup>1)</sup>	631	202	833	560	171	731
Divestments and disposals	-135	-99	-234	-598	-152	-750
	<b>23,420</b>	<b>2,262</b>	<b>25,682</b>	<b>22,924</b>	<b>2,159</b>	<b>25,083</b>
<b>Depreciation</b>						
At the beginning of the year	-13,955	-1,413	-15,368	-13,777	-1,403	-15,180
Divestments and disposals	129	91	220	546	139	685
Depreciation according to plan for the year	-730	-156	-886	-724	-149	-873
	<b>-14,556</b>	<b>-1,478</b>	<b>-16,034</b>	<b>-13,955</b>	<b>-1,413</b>	<b>-15,368</b>
<b>Impairment</b>						
At the beginning of the year	-184	-2	-186	-205	-2	-207
Divestments and disposals	5	1	6	25	1	26
Impairment for the year	—	—	—	-4	-1	-5
	<b>-179</b>	<b>-1</b>	<b>-180</b>	<b>-184</b>	<b>-2</b>	<b>-186</b>
<b>Carrying amount at the end of the period</b>	<b>8,685</b>	<b>783</b>	<b>9,468</b>	<b>8,785</b>	<b>744</b>	<b>9,529</b>

<sup>1)</sup> Reclassifications predominantly relate to capitalised work in progress, which are considered investments.

#### CONSTRUCTION IN PROGRESS

Group	2019	2018
<b>Cost</b>		
At the beginning of the year	500	319
Investments	1,031	1,065
Reclassifications	-992	-884
<b>Carrying amount at the end of the period</b>	<b>539</b>	<b>500</b>
<b>Parent Company</b>	<b>2019</b>	<b>2018</b>
<b>Cost</b>		
At the beginning of the year	379	242
Investments	934	975
Reclassifications	-996	-838
<b>Carrying amount at the end of the period</b>	<b>317</b>	<b>379</b>

#### ADOPTION OF NEW ACCOUNTING POLICY FOR LEASES

Under IFRS 16 Leases, most of the Group's leases are recognised on the balance sheet, since the distinction between an operating lease and a finance lease no longer applies. The standard was adopted on 1 January 2019, whereby following accounting policies are applied.

Södra recognises assets and liabilities for operating leases where Södra is the lessee. Lease payments are recognised as depreciation for right-of-use assets and interest expense for lease liabilities. Prior to 2019, operating lease payments were recognised on a straight-line basis over the lease term and leased assets and liabilities were only recognised if there was a difference between the actual lease payment and recognised cost. The effect on finance leases has been insignificant.

Södra applies the modified retrospective approach, which means that the cumulative effect of the adoption of IFRS 16 is recognised in opening balances at 1 January 2019 without any restatement of comparative figures. Södra applies the low-value and short-term lease exemptions, which means that these leases are still recognised as an expense on a straight-line basis over the lease term.

In the transition to the new standard, Södra recognised lease liabilities of SEK 443 million and right-of-use assets of SEK 452 million. A negative effect of SEK 5 million was recognised in equity, mainly the result of translation differences on contracts denominated in foreign currencies and because interest rates are higher at the beginning of the payment period than at the end according to the annuity method, while depreciation is calculated using the straight-line method. Operating profit increased SEK 5 million due to the changed accounting policy.

#### INVESTMENT COMMITMENTS

##### Group

In 2019, the Group entered into agreements for SEK 367 million (251) pertaining to future acquisitions of property, plant and equipment.

##### Parent Company

In 2019, the Parent Company entered into agreements for SEK 367 million (251) pertaining to future acquisitions of property, plant and equipment.

## Note 16 | 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 flows from the standing timber. The land that the forest is growing on is measured at cost.

On measurement 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, net of selling costs, are discounted using estimated weighted average cost of capital (WACC), based on a harvesting cycle of 70-75 years. Future price and cost trends have been taken into account and provisions have been made for environmental considerations.

Changes in the fair value of growing forests are recognised in consolidated profit or loss in the period in which the change arises.

### PARENT COMPANY

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

At 31 December 2019, Södra's forest holding amounted to 121,600 hectares (118,000) of productive forest land. The volume of standing timber was 15.2 million m<sup>3</sup>fo (14.9). The total value of the forest holding was SEK 4,273 million (4,054). Of this amount, SEK 1,355 million (1,317) pertained to forest land. During the year, the change in value of standing timber was SEK 125 million (158), and is recognised in profit or loss. Of this amount, change in fair value accounted for SEK 77 million (141), and translation differences for SEK 48 million (17).

The valuation model remains unchanged from the previous year. The valuation is based on estimated harvesting cycles for Södra's harvesting volumes, product range and growth assumptions based on current harvesting plans. Future price and cost trends have been estimated at 2 percent (2) per year and provisions have been made for environmental considerations.

Estimated cash flows have been discounted to present value using an interest rate of 6.2 percent (6.2) after tax for forest assets in Sweden. Forest assets in Estonia have been discounted using an interest rate of 6.5 percent (6.5) after tax, and in Latvia using an interest rate of 6.4 percent (6.4) after tax. Södra believes that this interest rate should reflect the long-term cost of capital for an investment in forest assets, and not be affected by short-term adjustments to market rates. A 100-year time frame has been used for discounting future cash flow in all forests. The length of harvesting cycles varies. A harvesting cycle of 75 years has been applied for forest assets located in Sweden, 70 years for Latvia and 70 years for Estonia.

Allocation to deferred tax is calculated in accordance with IAS 12 on the value of the biological asset according to IAS 41. Deferred tax is calculated as the difference between the carrying amount of the estates and their tax base.

The change in value of standing timber can be divided into the following components:

Group	2019	2018
At the beginning of the year	2,738	540
Purchases of standing timber	55	17
Purchases of standing timber by asset acquisition	—	2,023
Sales of standing timber	0	0
Change in fair value less selling costs	77	141
Translation differences	48	17
Carrying amount at the end of the period	2,918	2,738

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.

Variable	Change	Change in value after tax, SEK million
Discount rate	+/- 0.25%	-173/+192
Wood price	+/- 1% in real terms	+/-53
Harvesting costs	+/- 1% in real terms	-/+16
Harvesting volumes	+/- 1%	+/-16

## Note 17 | Financial investments

### FINANCIAL INSTRUMENTS

A financial asset or financial liability is recognised in the consolidated statement of financial position when the company becomes party to the contractual terms of the instrument.

#### Classification

Financial assets are classified into the categories of financial assets measured at fair value through either other comprehensive income or profit or loss, and financial assets measured at amortised cost. The classification of investments in debt instruments depends on Södra's business model for managing financial assets and their contractual cash flow characteristics. The Group only reclassifies debt instruments when its business model for managing those instruments changes.

For investments in equity instruments that are not held for trading, recognition depends on whether or not the Group, on the date of acquiring the instruments, has made an irrevocable choice to recognise equity instruments at fair value through other comprehensive income.

#### Measurement

Non-derivative financial instruments are initially measured at cost corresponding to the fair value of the instrument, plus transaction costs for all financial instruments except those defined as financial assets measured at fair value through profit or loss, which are measured at fair value excluding transaction costs. Acquisition and divestment of financial assets is recognised on the settlement date, which is the date on which the asset is delivered to or from the company. The following measurement of investments in debt instruments depends on the Group's business model for managing the asset and contractual cash flow characteristics of the asset.

A financial asset, or part thereof, is derecognised from the consolidated statement of financial position when the rights in the contract are realised, expire or the company loses control of them. A financial liability, or part thereof, is derecognised from the consolidated statement of financial position when the obligation in the contract is fulfilled or otherwise extinguished.

A financial asset and 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.

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

### FAIR VALUE THROUGH PROFIT OR LOSS

Assets that do not meet the conditions for recognition at amortised cost, or fair value through other comprehensive income, are measured at fair value through profit or loss.





This category has two subgroups: available-for-sale financial assets, and other financial assets, which are initially placed in this category based on Södra's business model. The latter subgroup includes shares, share index bonds and share index certificates. 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 measured at fair value with changes in value recognised in net profit or loss. Interest on debt instruments, dividend income and exchange-rate effects are recognised in net profit or loss.

Group	2019	2018
<b>Non-current assets</b>		
Measured at fair value through profit or loss		
Financial investments	36	14
	<b>36</b>	<b>14</b>
<b>Current assets</b>		
Bonds	—	10
Other current investments	1,358	189
– of which reclassified to cash and cash equivalents	– 420	—
	<b>938</b>	<b>199</b>

Non-current assets comprise unlisted shares and participations measured at cost since a reliable market value could not be determined. If objective evidence of impairment exists, this is taken into account. At 31 December 2019, impairment losses totalled SEK 1 million (1). Södra does not intend to divest any of the financial investments in 2020.

The financial assets of commercial papers and other interest-bearing securities are measured at fair value through net profit or loss for the Group since the purpose, according to Södra's business model, is to actively sell the instruments and not hold them until maturity. The fair value of these assets is based on quoted prices in an active market.

Interest-bearing securities measured at fair value through profit or loss have a fixed interest rate of between 0.01 (0) and 0.35 percent (0.19). The receivables have maturities of up to five years.

Parent Company	2019	2018
<b>Current financial investments</b>		
Bonds	—	10
Other current investments	1,329	188
	<b>1,329</b>	<b>198</b>

## Note 18 | Non-current operating receivables

### DERIVATIVES AND HEDGE ACCOUNTING

The Group's derivative instruments have been acquired to hedge the risk of interest, price and currency exposure to which the Group is subject. Derivatives are initially measured at fair value, which means that transaction costs are charged to profit for the period. After initial recognition, derivative instruments are measured at fair value and changes in value are recognised as described below. An embedded derivative is recognised separately if it is not closely related to the host contract.

To satisfy hedge accounting requirements, there must be a clear link to the hedged item. The hedge must also effectively protect the hedged item, and hedging documentation must be prepared. Gains and losses on hedges are recognised in net profit or loss at the same time as the gain or loss for the hedged items is recognised. The interest component of forward contracts is not allocated over the term of the forward contract, but recognised in full at the same time as the forward contract.

### Derivatives used for hedging purposes

When a hedge instrument is used to hedge a fair value, the derivative is measured 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 effective portion of the change in the fair value of a derivative instrument identified as a cash flow hedge and that meets the conditions for hedge accounting is recognised through other comprehensive income, and then in the cash flow hedge reserve in equity. The ineffective portion of the change in fair value is recognised immediately in profit or loss as other revenue or other expenses. Hedge effectiveness is demonstrated by testing the economic relationship between the hedged item and the hedging instrument not, as before, by using a quantitative method.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item impacted earnings. Cumulative gains and losses related to net investment hedges in foreign operations are reclassified to profit or loss when the foreign operations are wholly or partly divested.

### Derivatives not used for hedging

If derivative instruments are acquired for a purpose other than as an economic hedge against risks for interest, price and currency exposure, hedge accounting is not applied. In such cases, the derivative is measured at fair value with changes in value recognised in net profit or loss. With hedge accounting, the ineffective component is recognised in the same manner as the changes in value of derivatives not used for hedge accounting.

	Group		Parent Company	
	2019	2018	2019	2018
Derivatives	—	9	—	—
Other non-current receivables	12	81	12	81
<b>Total</b>	<b>12</b>	<b>90</b>	<b>12</b>	<b>81</b>

Parent Company	2019	2018
At the beginning of the year	81	39
Additional	11	58
Utilised	–7	–16
Impairment	–73	—
<b>Carrying amount at the end of the year</b>	<b>12</b>	<b>81</b>

Non-current derivative instruments pertain to hedge-accounted net investment in foreign operations.

## Note 19 | Deferred tax assets/liabilities

Deferred tax is calculated using the liability method, based on the temporary difference between the carrying amount of assets and liabilities and their tax base. Temporary differences arising on initial recognition of goodwill or on initial recognition of assets and liabilities that are not business combinations that at the time of the transaction do not affect either accounting or taxable earnings are not taken into account. Nor are temporary differences pertaining to shares in subsidiaries and associates that are not expected to be reversed in the foreseeable future taken into account. Measurement 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 the balance-sheet date.

Deferred tax assets related to deductible temporary differences and loss carryforwards are recognised only to the extent it is probable they can be used in the future. The value of deferred tax assets is reduced when it is no longer considered likely they can be utilised.

Deferred tax is recognised for right-of-use assets and lease liabilities.

Group	Deferred tax assets		Deferred tax liabilities		Net	
	2019	2018	2019	2018	2019	2018
Intangible assets	—	—	–71	–55	–71	–55
Property, plant and equipment	3	3	–1,552	–1,460	–1,549	–1,457
Biological assets	—	—	–65	–38	–65	–38
Inventories	1	2	1	12	2	14
Operating receivables	—	—	6	–2	6	–2
Current investments	—	—	–6	2	–6	2
Tax allocation reserves	—	—	–10	–53	–10	–53
Provisions for pensions	—	—	102	89	102	89
Non-current provisions	—	—	40	29	40	29
Operating liabilities	—	—	–1	0	–1	0
Other	—	—	2	–2	2	–2
<b>Deferred tax asset/liability</b>	<b>4</b>	<b>5</b>	<b>– 1,554</b>	<b>–1,478</b>	<b>– 1,550</b>	<b>–1,473</b>

Parent Company	Deferred tax assets		Deferred tax liabilities		Net	
	2019	2018	2019	2018	2019	2018
Property, plant and equipment	12	13	—	—	12	13
Provisions for pensions	8	7	—	—	8	7
Non-current provisions	40	27	—	—	40	27
<b>Deferred tax asset/liability</b>	<b>60</b>	<b>47</b>	<b>—</b>	<b>—</b>	<b>60</b>	<b>47</b>

Of the Group's deferred tax liabilities, SEK 1,601 million (1,483) is attributable to depreciation and amortisation in excess of plan.



## Note 20 | Inventories

Inventories are measured 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

In 2003, a system of electricity certificates was introduced in Sweden in order to promote the use of renewable energy sources for electricity generation. Plants involved in the system receive electricity certificates at no cost from Svenska Kraftnät (Swedish National Grid) in proportion to the certificate-entitled electricity generated. Received electricity certificates are recognised at zero cost. Stock-on-hand of allocated electricity certificates is recognised at zero value. No allocated electricity certificates have been sold on contract for future deliveries. At the balance-sheet date, inventories of allocated electricity certificates not deemed necessary to cover the Group's quota obligation had a market value of SEK 2 million (2018: 93, 2017: 96)

### EMISSION PERMITS

Södra participates in the European emissions trading system, which aims to reduce emissions of the greenhouse gas carbon dioxide. The affected plants are allocated permits free of charge by the Swedish Environmental Protection Agency. Allocated permits are recognised at zero cost. Purchased permits are recognised as inventories under current assets at cost, less cumulative impairment losses, where applicable.

As long as own holdings of permits cover own emission commitments, no provision in value is made for emissions liability. If emission commitments exceed own holdings of permits, a liability provision is made corresponding to the requisite number of permits measured at market value. Permits not expected to be needed to cover actual emissions are recognised at zero value and, at the balance-sheet date, had a market value of SEK 39 million (2018: 175, 2017: 72). No permits were sold on contract for future deliveries.

	Group		Parent Company	
	2019	2018	2019	2018
Raw materials and consumables	537	551	512	521
Goods under production	120	140	120	140
Finished goods and goods for resale	3,178	2,958	2,274	1,949
<b>Total</b>	<b>3,835</b>	<b>3,649</b>	<b>2,906</b>	<b>2,610</b>

## Note 21 | Current operating receivables

Under IFRS 9, the entity's overall business model and characteristics of an asset impact the classification and measurement of financial assets in the form of debt instruments, including trade receivables, loan receivables and investments in bonds. IFRS 9 also requires that a provision for expected credit losses is recognised for receivables and other types of debt instruments. In order to recognise both the expected and actual credit losses, Södra made an impairment assessment of trade receivables and other receivables, which did not result in any material transition effect compared with the previous method of recognition and measurement.

Trade receivables are recognised less estimated expected and actual credit losses. They are measured in the amounts expected to be received. Trade receivables in foreign currency are measured at the closing rate. The value of uncertain receivables is based on individual estimates.

### Customer credit risk

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 basic principle is that security is required for customers with a bad credit score or weak credit history. To the extent that sufficient security is not obtained, an individual assessment is carried out in accordance with the financial policy to determine whether delivery with the associated credit risk should go ahead. Södra estimates expected credit losses by grouping trade receivables on the basis of shared credit risk and the calculation of historical loss rate.

	Group		Parent Company	
	2019	2018	2019	2018
Current receivables from Group companies	—	—	113	182
Trade receivables	2,493	2,802	2,163	2,370
Customer contracts	1	—	—	—
Earned but not invoiced income	10	12	9	7
Other receivables	944	918	875	825
Prepaid expenses and accrued income	97	210	94	91
<b>Total</b>	<b>3,545</b>	<b>3,942</b>	<b>3,254</b>	<b>3,475</b>

Prepaid expenses and accrued income for the Parent Company includes prepaid rental charges of SEK 6 million (7), prepaid insurance premiums of SEK 7 million (9), accrued interest income of SEK 1 million (0), accrued income of SEK 14 million (11) and other prepaid expenses of SEK 66 million (64).

### CUSTOMER CREDIT RISK

	Group		Parent Company	
	2019	2018	2019	2018
Trade receivables	2,493	2,802	2,163	2,370
Trade receivables gross	2,686	2,965	2,338	2,529
Provision for expected credit losses	–193	–163	–175	–159
<b>Total</b>	<b>2,493</b>	<b>2,802</b>	<b>2,163</b>	<b>2,370</b>

### Analysis of the credit risk exposure in trade receivables

	Group		Parent Company	
	2019	2018	2019	2018
Trade receivables that are neither overdue nor impaired	2,140	2,257	1,881	1,909
Trade receivables that are overdue				
<30 days	356	626	298	562
30-90 days	20	65	11	49
90-180 days	13	2	9	1
>180 days	157	15	139	8
<b>Total exposure to credit risk</b>	<b>2,686</b>	<b>2,965</b>	<b>2,338</b>	<b>2,529</b>
Provision for expected credit losses	–193	–163	–175	–159
<b>Trade receivables</b>	<b>2,493</b>	<b>2,802</b>	<b>2,163</b>	<b>2,370</b>

### Provision for uncertain receivables

	Group		Parent Company	
	2019	2018	2019	2018
At the beginning of the year	–163	–7	–159	–5
Actual credit losses	0	2		1
Provision for expected credit losses	–48	–159	–33	–155
Reversal of unutilised amount	18	1	17	—
<b>Carrying amount at the end of the year</b>	<b>–193</b>	<b>–163</b>	<b>–175</b>	<b>–159</b>

## Note 22 | Cash and cash equivalents

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

	Group		Parent Company	
	2019	2018	2019	2018
Current investments, equivalent to cash	1,652	873	1,482	742
Current investments, equivalent to cash	420	—	420	—
<b>Cash and cash equivalents according to cash flow statement</b>	<b>2,072</b>	<b>873</b>	<b>1,902</b>	<b>742</b>

## Note 23 | Equity

Södra's Articles of Association states that an AGM resolution is to precede the disbursement of contributed capital. Södra thereby classifies contributed capital as equity.

Wood purchases from the members are based on market-value pricing. Dividends based on wood deliveries are classified as dividends and recognised in equity.

	Group		Parent Company	
	2019	2018	2019	2018
Paid-up contributed capital	1,665	1,555	1,665	1,555
Issued contributed capital	2,971	2,065	2,971	2,065
Other equity	12,746	12,391	6,033	6,187
<b>Total</b>	<b>17,382</b>	<b>16,011</b>	<b>10,669</b>	<b>9,807</b>

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 satisfactory long-term profit. Due to the cyclical risks that the Group's business areas are exposed to, the target for the minimum equity ratio for the Group is 55 percent. The profitability target is a return on capital employed of not less than 10 percent over a business cycle.

According to Södra's dividend policy, the total profit distribution, dividends in the form of interest on contributed capital and wood deliveries during the year plus bonus issues combined must be at least 50 percent of profit before tax over a business cycle. Dividends are to reward the year's wood deliveries and the risk capital – in the form of capital contributed by the members. The long-term objective is to achieve a balance between the return on wood deliveries and contributed capital.

Södra has a credit agreement in the form of a club agreement, enabling the company to borrow up to SEK 2,000 million over a period of just over four years. The loan agreements have two covenants – Södra's equity ratio, and the debt/equity ratio – whereby the lenders are entitled to renegotiate the loan agreement should Södra's equity ratio fall below 40 percent, or the debt/equity ratio exceed 0.7 times.

### CONTRIBUTION REPAYMENTS

In 2020, contribution repayments to members who had left the association by 31 December 2019 will amount to SEK 27 million (36).

## Note 24 | 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. There are correlations between certain risk variables. According to the hedging strategy, focus shall be on hedging net exposures. The Group's financial policy for handling financial risks, as adopted by the Board, provides a framework of guidelines and rules in the form of risk mandates and limits for financial activities. Hedging measures are approved when the situation for such a measure is judged to be financially beneficial. Consideration is also taken to the current access to commercially acceptable hedging terms.

Södra's financial risk management is centralised to the Treasury function in the Parent Company. This enables economies of scale 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 profit arising from market risks. The financial risks are continuously measured and compliance with the financial policy is monitored. The key aspects of financial risk management within the Group are described below.

### MARKET RISK

Market risk entails the risk that the fair value of, or future cash flow from, a financial instrument will change due to fluctuating market prices. The risk comprises foreign exchange risk, interest risk and other price risks. The market risks that primarily affect the Group are foreign exchange risk and raw material price risk.

### Foreign exchange risk

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

There is also risk in translation of the assets and liabilities of foreign subsidiaries to the presentation currency of the Group (translation exposure). The Group is also exposed to foreign exchange risk attributable to investments in foreign currency (financial exposure).

Consolidated income includes exchange-rate differences of SEK 61 million (93) in operating profit, and income of SEK 11 million (expense: 8) in net financial items.

### Transaction exposure

A substantial part of 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 can be hedged using currency derivatives. As in the previous year, none of these exposures were hedged at year-end.

Currency exposure is hedged in accordance with the financial policy. Temporarily attractive levels or specific factors can make it desirable to deviate from the hedging norms. The hedging interval determines the risk mandate that Södra Treasury has to follow for deviations from hedging norms. The currency hedging component of pulp hedges is included in the overall currency risk mandate. Under the policy, standardised forward contracts, currency swaps and acquired foreign exchange options may be used for hedging purposes. Hedge accounting is used when the demands for this are met.




**TRANSACTION EXPOSURES AT 31 DEC 2019 (PER MAJOR CURRENCY)**

Currency	2020				2021			
	Forecast net influx	Hedges	%	Average rate	Forecast net influx	Hedges	%	Average rate
USD <sup>1)</sup>	800	—	—	—	880	—	—	—
EUR	175	—	—	—	190	—	—	—
GBP	120	—	—	—	130	—	—	—
<b>Total</b>			—				—	
According to the accepted hedging interval in Södra's financial policy				0-70	0-50			

<sup>1)</sup> The currency hedging component of pulp price hedges is included in forecast net influxes; there are no pulp price hedges for 2019-2020.

**TRANSACTION EXPOSURES AT 31 DEC 2018 (PER MAJOR CURRENCY)**

Currency	2019				2020			
	Forecast net influx	Hedges	%	Average rate	Forecast net influx	Hedges	%	Average rate
USD <sup>1)</sup>	881	—	—	—	933	—	—	—
EUR	263	—	—	—	280	—	—	—
GBP	142	—	—	—	145	—	—	—
<b>Total</b>			—				—	
According to the accepted hedging interval in Södra's financial policy				0-70	0-50			

<sup>1)</sup> The currency hedging component of pulp price hedges is included in forecast net influxes; there are no pulp price hedges for 2018-2019.

**TRANSLATION EXPOSURE**

Translation exposure refers to the net value in foreign subsidiaries. The basic principle is to not currency hedge this exposure. The most significant translation exposures pertain to equity and surplus values in the following local currencies: EUR 514 million (495), NOK 65 million (148), GBP 25 million (28) and DKK 27 million (6). Currency swaps equivalent to EUR 181 million (194) were signed to hedge some of the Group's translation exposure in EUR. The currency swaps are contracted with the issued bond (SEK 1,000 million) and loan raised with Nordic Investment Bank (SEK 867 million) as the benchmark. The aim of the hedges is to reduce the effects of a changed EUR/SEK exchange rate, where a stronger SEK would have a negative impact on consolidated equity, which is offset by the currency swaps. These effects are recognised in other comprehensive income until the asset and currency swaps are divested. The strategy for this currency hedging is to reduce the risk of material restatement effects. The time-to-maturity of each currency swap is 2021 for the issued bond, and 2026 for the loan with Nordic Investment Bank, with repayment commencing in 2019.

**NET INVESTMENT IN FOREIGN OPERATIONS**

	2019	2018
Currency swap bond and bank loan, EUR	-181	-194
Hedged net investment in foreign operations (EUR)	430	428
Hedge ratio	1:2	1:2
Changes in the value of currency swaps	-36	9
Changes in value of the hedged item to determine effectiveness	62	-7
Weighted average of forward rates, EUR/SEK	10.30	10.30
Closing rate, EUR/SEK	10.45	10.25

**Interest risk**

Interest risk represents the negative changes in market value that can arise with interest fluctuations in the yield curve (market rates for different terms). According to the financial policy, the objective is to keep the interest-rate term of the financial liabilities to within 0-18 months. At 31 December 2019, the fixed-rate term of the financial liability was 3 months (4). The fixed-rate term is an average where the frequency of interest-rate reset matches the interest rate of the financial liability. The interest rate for member deposits is reset periodically following a decision by the President based on the Riksbank's key interest rate. For other loans, the interest rate is adjusted with the change in STIBOR for each contracted fixed-rate period.

Trading with fixed-rate instruments is permitted under the financial policy. At 31 December 2019, no specific interest rate hedges had been entered into. Based on a general increase of 100 basis points (1 percentage

point) in market rates on net debt, consolidated profit would be adversely impacted by SEK 34 million (46).

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. The basic idea is that the maturity structure of subscribed fixed income instruments is to counter forecast cash flow fluctuations. At 31 December 2019, the fixed-rate term for interest-bearing investments was 3 months (2).

**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 price received for pulp being less than the expected price. 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's pulp, and hedging of fair value risk in fixed price customer contracts.

Cash flow risk from the 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 pulp price expected by the Group in the long term. The main strategy is to be restrictive with this kind of hedge and no hedges were in place at year-end.

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 supplies 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 a variable price. Fixed price contracts may be signed for not more than 50 percent 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.

**PULP PRICE DERIVATIVES**

	2020		2021	
	ktonne	%	ktonne	%
<b>31 Dec 2019</b>				
Fair value hedges	0	0	—	—
	2019		2020	
	ktonne	%	ktonne	%
<b>31 Dec 2018</b>				
Fair value hedges	1	0	—	—

> Note 24, cont.

### Electricity price risk

Södra has business areas with both excess and deficit electricity. Södra Wood is at risk of sharp price hikes for purchased electricity, leading to lower margins and a weaker competitive position. For Södra Cell, a net seller of electricity, adequately high prices for electricity are required to ensure a desirable 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. The permitted hedging instruments consist of standard contracts on Nasdaq. Södra's forecast net position on electricity can be hedged for a period of five years with an annually declining maximum percentage level. For the first two years, up to 100 percent of net position may be hedged. For the years 3–5, up to 80, 50 and 20 percent of net position may be hedged, respectively.

There is no electricity price hedging for 2020 or onwards.

### Oil price risk

Södra's business areas purchase oil-related products for approximately SEK 450 million per year. Most purchases are related to spot markets for specific products. Since these markets are volatile, there is a risk of undesirable earnings fluctuations. Buying and selling oil-related products in financial markets enables Södra to limit this risk. The permitted hedging instruments consist of forward contracts and options.

Oil-related products that may be hedged are diesel, fuel oil and Brent crude. Hedging may be done for an 18-month period with the following purchasing volumes for each six-month period: 0–6 months 0–75 percent, 7–12 months 0–50 percent and 13–18 months 0–25 percent. Because of Södra's total energy exposure, consolidated profit is positively correlated with energy prices.

There is no oil price hedging for 2020 or onwards.

### Share price risk

Under certain conditions, Södra has opportunities for positive exposure to shares or share-related products. Södra is exposed to price risk through its holding of shares, share index certificates, share index bonds and share funds (refer to Note 17 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 BBB-/K1 or better under Standard & Poor's system, or the equivalent with other established credit rating agencies. 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.

At 31 December 2019, the Södra Group's total counterparty exposure amounted to SEK 3,010 million (1,072). At 31 December, all counterparties were within the parameters set in Södra's financial policy with regard to limits, durations and rating requirements.

### 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 basic principle is that security is required for customers with a bad credit score or weak credit history. To the extent that sufficient security is not obtained, an individual assessment is carried out in accordance with the financial policy to determine whether delivery

with the associated credit risk should go ahead. Södra estimates expected credit losses by grouping trade receivables on the basis of shared credit risk and the calculation of historical loss rate. Customer credit risk is described in more detail in Note 18 Non-current operating receivables and Note 21 Current operating receivables.

### Maximum credit risk

Södra's financial assets with credit risk exposure are grouped as follows:

#### FINANCIAL ASSETS BY CATEGORY

	2019	2018
Trade receivables that are not overdue	2,140	2,257
Trade receivables that are overdue	546	708
<b>Trade receivables gross</b>	<b>2,686</b>	<b>2,965</b>
Current investments	938	199
Cash and cash equivalents	2,072	873
<b>Total financial investments</b>	<b>3,010</b>	<b>1,072</b>
Derivative instruments with positive values	—	9
Customer contracts	1	0
Accrued revenue	10	12
Other operating receivables	944	918
<b>Total other receivables</b>	<b>955</b>	<b>939</b>
<b>Maximum credit risk exposure</b>	<b>6,651</b>	<b>4,976</b>

Refer to Note 21 Current operating receivables and information about a loan loss provision of SEK 193 million (loss:163) for trade receivables.

## LIQUIDITY AND FINANCING RISK

Liquidity and financing risk is the risk of the Group having problems fulfilling its 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 substantial unforeseen costs. Group policy is to minimise its borrowing 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.

Liquid assets are mainly invested in current interest-bearing securities. Investments can also be made in highly liquid assets that are negotiable within three days.

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 loan financing consists of loans from members through member accounts and payment plans. Södra has a credit agreement in the form of a club agreement, enabling the company to borrow up to SEK 2,000 million over a period of just over four years. The loan agreements have two covenants, Södra's equity ratio and debt/equity ratio, whereby the lenders are entitled to renegotiate the loan agreement should Södra's equity ratio fall below 40 percent, or the debt/equity ratio exceed 0.7 times. The covenants also apply to the loan of SEK 867 million from the Nordic Investment Bank and a green bond issuance of SEK 1,000 million. Interest rates are based on six and three-month STIBOR, respectively, plus a fixed surcharge. The liquidity reserve, which consists of loan agreements and the company's cash and cash equivalents, is to represent at least 10 percent of forecast rolling 12-month revenue. On the balance-sheet date, the liquidity reserve totalled SEK 5,010 million (3,072), representing 22 percent (13) of consolidated annual sales. The loan agreement was unutilised in its entirety at the balance-sheet date.


**MATURITY STRUCTURE CURRENT INVESTMENTS**

MATURITY STRUCTURE CURRENT INVESTMENTS			Maturity				Total	
			Within 1 year		1-5 years			
Financial investments			2019	2018	2019	2018	2019	2018
Certificates			938	189	—	—	938	189
Bonds			—	10	—	—	—	10
Total			938	199	—	—	938	199

Interest-bearing investments amounted to SEK 938 million (199), of which 100 percent (100) have a duration of up to one year, 0 percent (0) from one-five years and 0 percent (0) of longer than five years.

**MATURITY STRUCTURE FINANCIAL LIABILITIES – UNDISCOUNTED CASH FLOWS**

			Maturity							
			Within 1 year		1-5 years		More than 5 years		Total	
Financial liabilities	Interest rate, %	Currency	2019	2018	2019	2018	2019	2018	2019	2018
Borrowings		SEK	167	168	1,713	1,589	181	329	2,061	2,086
Loans from members										
Liquidity accounts	0.0 (0.0)	SEK	14	6	—	—	—	—	14	6
Payment plans	1.0 (1.0) variable	SEK	539	576	442	451	93	78	1,074	1,105
Forest loans <sup>1)</sup>	1.0 (1.0) variable six months	SEK	—	69	—	—	—	—	—	69
Member accounts <sup>1)</sup>	0.8 (0.8) variable six months	SEK	3,006	2,393	—	—	—	—	3,006	2,393
Fixed-rate account	1.0-1.65 (—)	SEK	21	—	21	—	—	—	42	—
Trade creditors			2,389	2,321	—	—	—	—	2,389	2,321
Negative derivatives			1	0	27	—	—	—	28	0
Lease liabilities			119	—	211	—	—	—	330	—
Other liabilities			36	4	—	102	—	—	36	106
Total			6,292	5,537	2,414	2,142	274	407	8,980	8,086

<sup>1)</sup> Fall due on request. Historical statistics indicate that they are non-current over a business cycle.

**SENSITIVITY ANALYSIS**

Södra is subject to major earnings fluctuations. Several of the Group's businesses are highly cyclical, and currency-dependent. However, it is primarily the upswings and downswings in the pulp market that give rise to earnings fluctuations at Group level.

Södra Skog's earnings are particularly sensitive to changing price margins in the wood trade and acquired volumes. Sawmill earnings are mainly affected by changes in the sawn timber price, sawlog cost and woodchip price. For Södra Cell, changes in pulp prices, currency, volume and fibre costs have the greatest impact. The table shows the effect on earnings had the values been higher or lower than the actual outcome. (Pertains to 12-month profit based on average conditions during the financial year.)

When calculating the earnings effect, the effects of the specified changes on hedging instruments for currencies and pulp prices have been taken into account. The effects that would have been realised during the year, and the unrealised effects that would have arisen by year-end, are taken into account in the specified earnings effect.

The table shows individual sensitivity for each variable. In reality, the change in one variable often affects other variables, but with a certain time delay. For example, a strengthening or weakening of a currency could affect the market price. There is no simple rule of thumb for calculating a "net income effect" since the relationships are complicated, and vary depending on market conditions and other factors.

Variable	Change	Effect on 12-month profit, SEK million
USD/SEK	± SEK 0.50	550
Pulp price	± SEK 300/tonnes	560
Fibre cost for the pulp mills	± SEK 25/m <sup>3</sup> sub	220
Pulp production	± 50,000 tonnes	120
Sawn timber price	± SEK 50/m <sup>3</sup>	85
Sawlog cost for sawmills	± SEK 25/m <sup>3</sup> sub	80
Sawn timber production	± 50,000 m <sup>3</sup>	30
Oil price	± USD 10/barrel	6
Total salary cost	± 3%	70

**PROFIT EFFECT OF CHANGE IN CLOSING RATE**

Variable	Change	Profit effect, SEK million
Trade receivables	USD ± SEK 0.50	62
	EUR ± SEK 0.50	27
	GBP ± SEK 0.50	2
Trade creditors	USD ± SEK 0.50	1
	EUR ± SEK 0.50	11
	GBP ± SEK 0.50	0

The effect on equity corresponds to the effect on profit.

## Note 25 | Interest-bearing financial liabilities

Non-derivative financial instruments are initially measured at cost corresponding to the fair value of the instrument, plus transaction costs.

A financial liability, or part thereof, is derecognised from the consolidated statement of financial position when the obligation in the contract is fulfilled or otherwise extinguished.

A financial asset and 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.

Group	Maturity						Total	
	Within 1 year		1-5 years		More than 5 years			
	2019	2018	2019	2018	2019	2018	2019	2018
Bond loans	—	—	1,000	1,000	—	—	1,000	1,000
Liabilities to credit institutions	136	143	554	536	178	321	868	1,000
Loans from members <sup>1)</sup>	3,550	3,018	449	438	87	73	4,086	3,529
Other liabilities	43	4	100	97	—	—	143	101
Total	3,729	3,165	2,103	2,071	265	394	6,097	5,630

	Maturity						Total	
	Within 1 year		1-5 years		More than 5 years			
Parent Company	2019	2018	2019	2018	2019	2018	2019	2018
Bond loans	—	—	1,000	1,000	—	—	1,000	1,000
Liabilities to credit institutions	136	143	554	536	178	321	868	1,000
Loans from members <sup>1)</sup>	3,550	3,018	449	438	87	73	4,086	3,529
Other liabilities	1	4	100	97	—	—	101	101
Total	3,687	3,165	2,103	2,071	265	394	6,055	5,630

<sup>1)</sup> Historical statistics indicate that they are non-current over a business cycle.

	Group		Parent Company	
	2019	2018	2019	2018
At the beginning of the year	5,630	5,222	5,630	5,207
Business combinations/New loans	48	5	—	—
Member deposits	7,448	6,848	7,448	6,848
Repayment of loans	–138	–20	–132	—
Member deposits paid	–6,891	–6,425	–6,891	–6,425
<b>Carrying amount at the end of the period</b>	<b>6,097</b>	<b>5,630</b>	<b>6,055</b>	<b>5,630</b>

## Note 26 | Interest-bearing operating liabilities

For lease accounting principles, refer to Note 15 Property, plant and equipment.

### TRANSITION EFFECT LEASES

Group	Within 1 year		1-5 years		More than 5 years		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Leases	118	—	209	—	1	—	328	—
<b>Total</b>	<b>118</b>	<b>—</b>	<b>209</b>	<b>—</b>	<b>1</b>	<b>—</b>	<b>328</b>	<b>—</b>

	2018
Operating lease commitments at 31 December 2018	246
Discounting with the Group's incremental borrowing rate	–2
Additional: adjustments due to other treatment of extension options	199
<b>Lease liabilities recognised at 1 January 2019</b>	<b>443</b>
New loans	209
Repayment of loans	–351
Translation differences	27
<b>Carrying amount at the end of the period</b>	<b>328</b>





## Note 27 | Pensions

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

### Defined-contribution plans

Defined-contribution pension plans are classified as pension plans 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 an insurance company and the capital yield generated by the contributions. Consequently, 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 net profit or loss at the rate they are earned through services provided by the employees over a period. Pension obligations secured through endowment policies are recognised net in the Group.

### Defined-benefit plans

The Group's net obligation in terms of defined-benefit pension plans is calculated separately for each plan by estimating the future benefit that employees have earned in current and previous periods. This benefit is discounted to a present value. The discount rate is the interest on the balance-sheet date on a mortgage bond with a duration equivalent to the Group's pension obligations. 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 the report date.

Actuarial gains and losses are recognised as revenue or cost in other comprehensive income.

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.

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 past service is recognised as an expense in the consolidated statement of comprehensive income and allocated straight-line over the average period until the benefit is fully earned. If the benefit is fully earned, the total expense is recognised directly in net profit or loss.

When there is a difference between how pension costs are determined in a legal entity and Group, a provision or asset for special employer's contribution is recognised based on this difference. The provision or asset 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 net financial items. Other components are recognised in the operating profit or loss.

The value of pension obligations for defined-benefit pension plans is based on actuarial calculations based on assumptions of discount interest, 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 more information, refer to Note 35 Pensions.

Most salaried employees in Sweden and almost all employees in Germany are covered by defined-benefit pension plans. Most other employees are covered by defined-contribution pension plans. The pension plans mainly cover retirement pension and, for some categories, disability and family pension.

### DEFINED-BENEFIT PLANS

Benefit-based pension obligations are primarily secured through a pension foundation with assets separate from Södra, but also through provisions in the consolidated statement of financial position. The Södra Pension Foundation of 2003 secures most of the Parent Company's and other Group obligations in Sweden. The plan assets include debentures issued by Södra with a nominal value of SEK 100 million (subordinated debentures 100).

The Board of the Pension Foundation is responsible for management of the Foundation's plan assets. The Foundation's required return is 3.7 percent in real terms and this should match the liability trend of the pension obligations. Södra's defined-benefit pension obligations and plan assets in the Pension Foundation are regulated by the Swedish Act on Safeguarding of Pension Commitments.

Pension obligations in Sweden are also credit-insured in the Swedish pension guarantee mutual insurance company, PRI Pensionsgaranti.

Defined-benefit plans expose Södra to various types of risk, attributable to increased lifetime expectancy, inflation and salary increases. The plan assets are impacted by changes in value, particularly in the stock market. Low interest rates reduce the expected future returns from interest-bearing investments.

The ITP 2 plan, which constitutes the vast majority of reported defined-benefit plans, is a defined-benefit pension plan in which the benefit is based on the employee's final salary. ITP 2 is the pension plan used for employees born in 1978 or earlier. The retirement pension is 10 percent of salaries below 7.5 income base amounts, 65 percent between 7.5 and 20 income base amounts and 32.5 percent between 20 and 30 income base amounts.

### 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 of Södra pension obligations is presented below.

PENSION COST		
Group	2019	2018
<b>Defined-benefit plans</b>		
Pension costs accrued during the year	31	40
Net interest	10	5
Settlements	—	0
<b>Cost of defined-benefit plans in profit for the year</b>	<b>41</b>	<b>45</b>
<b>Cost of defined-contribution plans</b>	<b>150</b>	<b>147</b>
Special employer's contribution	48	46
<b>Pension cost in profit for the year</b>	<b>239</b>	<b>238</b>
Remeasurement recognised in other comprehensive income	77	99
<b>Pension cost in comprehensive income for the year</b>	<b>316</b>	<b>337</b>
Costs in the following line items are included in profit for the year:		
Employee expenses	229	233
Net financial items	10	5
<b>Costs recognised in profit for the year</b>	<b>239</b>	<b>238</b>
Other comprehensive income	77	99
<b>Pension cost recognised in comprehensive income for the year</b>	<b>316</b>	<b>337</b>
<b>RETURN ON PLAN ASSETS</b>		
Group	2019	2018
Actual return on plan assets	164	-15
Interest income on plan assets	-26	-28
<b>Actuarial result for plan assets during the period</b>	<b>138</b>	<b>-43</b>



&gt; Note 27, cont.

**OBLIGATIONS AND PLAN ASSETS FOR THE DEFINED-BENEFIT PLANS**

Group	2019	2018
Defined-benefit plans and value of plan assets		
Fully or partially funded obligations		
Present value of defined-benefit obligations	1,721	1,497
Fair value of plan assets	-1,273	-1,110
<b>Fully or partially funded obligations, net</b>	<b>448</b>	<b>387</b>
Present value of unfunded defined-benefit obligations	29	27
<b>Net obligations before adjustments</b>	<b>477</b>	<b>414</b>
Net amount is recognised in consolidated statement of financial position under the heading:		
Provisions for pensions	477	414
<b>Net amount in consolidated statement of financial position (obligation +, asset -)</b>	<b>477</b>	<b>414</b>
Net amount is allocated between plans in the following countries:		
Sweden	448	387
Germany	29	27
<b>Net amount in consolidated statement of financial position</b>	<b>477</b>	<b>414</b>

**NET AMOUNT IN CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	2019	2018
Net liability in consolidated statement of financial position at the beginning of the period	414	324
<b>Cost of defined-benefit plans</b>		
Net expense recognised in profit for the year	41	45
Payment of benefits	-56	-56
Actuarial gains and losses recognised in other comprehensive income	77	99
Curtailments and settlements	—	0
Exchange-rate difference	0	2
<b>Net liability in consolidated statement of financial position at the end of the period</b>	<b>477</b>	<b>414</b>

**PRESENT VALUE OF DEFINED-BENEFIT OBLIGATIONS**

Group	2019	2018
At the beginning of the year	1,524	1,449
Service expenses	31	40
Payment of benefits	-56	-56
Interest expense	36	33
Actuarial gains and losses <sup>1)</sup>	216	55
Settlements	—	0
Exchange rate differences	0	1
<b>Carrying amount at the end of the period</b>	<b>1,750</b>	<b>1,524</b>

\* Of which change in demographic assumptions amounted to SEK 0 million (-8), financial to a gain of SEK 186 million (37), experience-based to a gain of SEK 15 million (8) and special employer's contribution to a gain of SEK 15 million (18).

**FAIR VALUE OF PLAN ASSETS**

Group	2019	2018
At the beginning of the year	1,110	1,125
Expected return on plan assets	26	28
Difference between expected and actual return	138	-43
Settlements	—	—
<b>Carrying amount at the end of the period</b>	<b>1,273</b>	<b>1,110</b>

**FAIR VALUE OF PLAN ASSETS**

Group	2019	2018
Equity instruments	646	465
Hedge funds and bonds	174	138
Other interest-bearing securities <sup>1)</sup>	231	152
Properties	8	—
Cash and cash equivalents	214	355
<b>Carrying amount at the end of the period</b>	<b>1,273</b>	<b>1,110</b>

<sup>1)</sup> Debentures of SEK 100 million (100) issued by Södra Skogsägarna ekonomisk förening.

Equity instruments plus hedge funds and bonds comprise the asset classes with prices quoted primarily in active markets.

**ACTUARIAL ASSUMPTIONS**

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

Group	2019	2018
Discount rate, %	1.5	2.3
Expected return on plan assets, %	1.5	2.3
Future salary increases, %	2.3	2.5
Future pension increases, %	1.8	2.0
Employee turnover, %	6.0	6.0

Assumptions of life expectancy are based on official statistics and experience from mortality surveys in each country, and are set in consultation with actuarial expertise.

DUS14 is applied for the Swedish pension plans.

**PENSION LIABILITIES PER CATEGORY OF PERSON**

	2019		2018	
	Women	Men	Women	Men
Active	161	408	165	439
Disability pensioners	5	8	6	4
Leavers	320	611	314	582
Retirees	303	1,135	301	1,023
<b>Total</b>	<b>789</b>	<b>2,162</b>	<b>786</b>	<b>2,048</b>
<b>Total commitments comprised by the obligation</b>	<b>2,951</b>		<b>2,834</b>	

The above table per category of person comprises the Swedish liability, which accounts for 94 percent of the recognised pension liability.

**SENSITIVITY ANALYSIS OF THE PENSION OBLIGATION**

Assumption	Change	Change in liabilities, SEK million
Discount rate	± 0.5%	+198/-173
Inflation	± 0.5%	-132/+147
Life expectancy	± 1 year	-87/+88

The sensitivity analysis is performed by changing one actuarial assumption, while other assumptions remain unchanged. This is a simplified method, since the other actuarial assumptions are usually correlated. The method shows the sensitivity of the pension obligation to the change of a single assumption. The duration is 19 years (18). The anticipated pension payments in the forthcoming year amount to SEK 56 million (54).

**PENSION EXPENSES**

Parent Company	2019	2018
Pension system run by Södra		
Cost for pensions accrued	21	21
Payment of benefits	54	54
Actual return on specific separate assets	-21	-22
Cost for pensions run by Södra excluding tax	54	53
Pensions through insurance		
Insurance premiums or equivalent	133	128
Special employer's contribution	45	43
<b>Recognised net cost pertaining to pensions</b>	<b>232</b>	<b>224</b>

**PROVISIONS FOR PENSIONS**

Parent Company	2019	2018
Net present value of pension obligations*	985	960
Less plan assets in Pension Foundation	-945	-924
<b>Total</b>	<b>40</b>	<b>36</b>
Pension obligations secured through endowment insurance recognised under financial assets	-40	-36
<b>Net</b>	<b>—</b>	<b>—</b>
* Of which PRI pensions ITP2	803	774
* Credit insured via PRI Pensionsgaranti	945	924

Where plan assets exceed pension liabilities, the excess amount is not recognised. In 2019, the unrecognised surplus in the Pension Foundation was SEK 328 million (186).

**CHANGES IN NET LIABILITY**

Parent Company	2019	2018
At the beginning of the year	40	40
Cost recognised in profit or loss for pensions run by Södra excluding taxes	54	53
Pension payments	-54	-54
<b>Carrying amount at the end of the period</b>	<b>40</b>	<b>39</b>

In 2018, anticipated pension payments amounted to SEK 56 million (54).

**FAIR VALUE OF PLAN ASSETS**

Parent Company	2019	2018
Equity instruments	646	465
Hedge funds and bonds	174	138
Other interest-bearing securities <sup>1)</sup>	231	152
Properties	8	—
Cash and cash equivalents	214	355
<b>Value of plan assets</b>	<b>1,273</b>	<b>1,110</b>
Surplus value	-328	-186
<b>Carrying amount at the end of the period</b>	<b>945</b>	<b>924</b>

<sup>1)</sup> Debentures of SEK 100 million (100) issued by Södra Skogsägarna ekonomisk förening.

**ASSUMPTIONS FOR DEFINED-BENEFIT OBLIGATIONS**

Parent Company	2019	2018
<b>ITP plan according to PRI grounds</b>		
Discount rate, %	3.8	3.8

**PARENT COMPANY****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 Obligations Vesting Act and the Financial Supervisory Authority as required for tax deductibility. The key differences compared with 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 profit or loss when they arise.

## Note 28 | Provisions

A provision is recognised in the Consolidated statement of financial position when a legal or informal 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 obligation on the balance-sheet date. When the effect of the timing of the payment is important, provisions are estimated by discounting the expected future cash flow at a pre-tax rate that reflects current market assessments of the time value of money.

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, for terminating employment before the normal date. When benefits are paid as 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 reliably estimated.

**TERMINATION BENEFITS**

Group 2019	Restructuring reserve	Other provisions	Total
At the beginning of the year	6	139	145
Provisions made during the period	45	14	59
Utilised amount during the year	-6	-16	-22
Amounts dissolved without utilisation	—	-17	-17
<b>Carrying amount at the end of the year</b>	<b>45</b>	<b>120</b>	<b>165</b>
of which non-current provisions	23	120	143
of which current provision, refer to Note 30	22	—	22

Group 2018	Restructuring reserve	Other provisions	Total
At the beginning of the year	15	160	175
Provisions made during the period	6	6	12
Utilised amount during the year	-15	-27	-42
<b>Carrying amount at the end of the year</b>	<b>6</b>	<b>139</b>	<b>145</b>
of which non-current provisions	2	139	141

**OTHER PROVISIONS**

Provision has been made for future environmental remediation in amounts deemed reasonable, based on the information available.

Given Södra's extensive business operations, it is unavoidable that certain disputes arise. Provisions have been made in the financial statements in amounts deemed reasonable.

Provisions for guarantee and warranty commitments have been made in amounts deemed reasonable, based on experience.



> Note 28, cont.

Parent Company 2019	Restructuring reserve	Other provisions	Total
At the beginning of the year	0	132	132
Provisions made during the period	45	14	59
Utilised amount during the year	0	-17	-17
Amounts dissolved without utilisation	—	-9	-9
<b>Carrying amount at the end of the year</b>	<b>45</b>	<b>120</b>	<b>165</b>
of which non-current provisions	23	120	143
of which current provision, refer to Note 30	22	—	22

Parent Company 2018	Restructuring reserve	Other provisions	Total
At the beginning of the year	15	154	169
Provisions made during the period	—	5	5
Utilised amount during the year	-15	-27	-42
<b>Carrying amount at the end of the year</b>	<b>0</b>	<b>132</b>	<b>132</b>
of which non-current provisions	—	132	132

#### OTHER PROVISIONS

Other provisions described above also pertain to the Parent Company.

## Note 29 | Other non-current operating liabilities

Group	2019	2018
Derivatives	26	—
Non-interest-bearing non-current liabilities	9	—
<b>Total</b>	<b>35</b>	<b>—</b>

## Note 30 | Other current operating liabilities and provisions

	Group		Parent Company	
	2019	2018	2019	2018
Current liabilities from Group companies	—	—	87	72
Trade creditors	2,389	2,321	2,261	2,107
Derivatives	1	—	—	—
Advances from customers	9	0	6	—
Value-added tax liability	23	31	—	—
Other operating liabilities	199	245	121	138
Provision for restructuring	22	4	22	—
Accrued expenses and prepaid income	666	728	603	642
<b>Total</b>	<b>3,309</b>	<b>3,329</b>	<b>3,100</b>	<b>2,959</b>

## Parent Company notes

### Note 31 | Appropriations

Parent Company	2019	2018
Change in tax allocation reserve		
– releases for the year	231	—
Change in provisions in excess of plan		
– buildings and land	0	—
– machinery and equipment	-530	-1,507
Group contributions received	5	22
Group contributions paid	-23	0
<b>Total</b>	<b>-317</b>	<b>-1,485</b>

Group contributions received and paid are recognised as appropriations.





## Note 32 | Group companies

### SPECIFICATION OF PARENT COMPANY'S HOLDINGS OF SHARES AND PARTICIPATIONS IN GROUP COMPANIES

	Corp. ID no.	No. of	Share, %	Carrying amount	
				2019	2018
<b>Operational</b>					
Södra Cell GmbH	164312351	50	100	0	0
Crown Timber Ltd	1284502	250,000	100	—	338
Södra International Trading (Shanghai) Co Ltd			100	0	0
Södra Interiör AS	920 335 551		100	43	110
Södra Interiör Aps	73496314	2	100	0	0
Södra Timber A/S	16 99 24 45	100	100		
Södra Latvia SIA	41203019726	106,025,646	100	3,082	3,074
SIA Fragaria	41203019711	16,784,658	100		
SIA Myrtillus	41203020212	82,212,308	100		
SIA Zilupe mezs	40003655631	3,274,785	100		
SIA Granmark	40103897578	3,000	100		
Södra Medlemsel AB	556070-5724	50,000	100	6	6
Södra Metsad OÜ	10944021	400	100	231	231
Södra Mezs SIA	50003871841	310,000	100	181	181
SIA Ruda	40003383543	2,377,823	100	250	249
Södra Silva Holding AB	559164-5816	1,000	100	95	—
Södra Trivselhus Holding AB	556552-6810	5,000	100	318	318
Trivselhus AB	556402-2977	12,000	100		
Trivselhus Norge AS	995 326 485	5,000	100		
Trivselhus Mark Holding AB	559098-6377	500	100		
Trivselhus Mark AB	556536-7520	5,000	100		
Trivselhus UK Ltd	9829008	1	100		
Södra Tofte AS	914 134 994	100	100	17	17
Södra USA Inc	47-5601859	1,000	100	0	
Södra Vind AB	556765-5716	1,000	100	25	25
Södra Wood Ab	2571610-1	100	100	113	—
Södra Wood Limited	1789912	1	100	225	—
Södra Wood Ireland	635053	1	100	0	
SW Project AB	559007-5312	5,000	100	9	—
Non-operational				9	12
<b>Total</b>				<b>4,604</b>	<b>4,561</b>

At the beginning of the year, the Södra Skogsägarna economic association acquired Södra Wood Ltd and Södra Wood Ab from Crown Timber Group (plc), now named Crown Timber Ltd. In November, the remaining 50 percent of SW Project AB, a company formerly wholly owned by the associate Södra Timber A/S, and the remaining participation in associate Södra Timber A/S, which was divested to Södra Interiör Aps in December, were acquired. Södra Silva Holding AB, founded in 2018, received a shareholders' contribution of SEK 94 million in association with the acquisition of participations in Silva Green Fuel DA. Impairment of shares in the subsidiary Södra Interiör AS amounted to an expense of SEK 67 million.

### SHARES AND PARTICIPATIONS IN GROUP COMPANIES

Parent Company	2019	2018
<b>Cost</b>		
At the beginning of the year	4,561	1,238
Impairment/Liquidation, Demerger	-67	-2
Acquisitions, incl. shareholders' contributions	507	3,325
Divestments	-397	—
<b>Carrying amount at the end of the period</b>	<b>4,604</b>	<b>4,561</b>

## Note 33 | Other non-current investments

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

Parent Company	2019	2018
<b>Cost</b>		
At the beginning of the year	54	60
Investment	23	4
Divestment	-2	-10
	<b>75</b>	<b>54</b>
<b>Impairment</b>		
At the beginning of the year	-40	-40
	<b>-40</b>	<b>-40</b>
<b>Carrying amount at the end of the year</b>	<b>35</b>	<b>14</b>

## Note 34 | Receivables from Group companies

### INTEREST-BEARING RECEIVABLES FROM GROUP COMPANIES

Parent Company	2019	2018
<b>Cost</b>		
At the beginning of the year	846	872
Additional items	106	147
Deductible items	-242	-173
<b>Carrying amount at the end of the period</b>	<b>710</b>	<b>846</b>

### OPERATING RECEIVABLES FROM GROUP COMPANIES

Parent Company	2019	2018
<b>Cost</b>		
At the beginning of the year	182	180
Additional items	1,011	91
Deductible items	-1,080	-89
<b>Carrying amount at the end of the period</b>	<b>113</b>	<b>182</b>

### TRANSACTIONS ELIMINATED ON CONSOLIDATION

Intra-Group receivables and liabilities, revenue or expenses and unrealised gains or losses in transactions between Group companies are eliminated in their entirety when the consolidated financial statements are prepared. Unrealised profits in 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 gains.

## Note 35 | Untaxed reserves

Parent Company	2019	2018
Accumulated depreciation and amortisation in excess of plan		
– buildings	0	0
– machinery and equipment	7,483	6,953
Tax allocation reserve fiscal year 2014	—	36
Tax allocation reserve fiscal year 2015	—	195
<b>Total</b>	<b>7,483</b>	<b>7,184</b>

Deferred tax in the above untaxed provisions amounted to SEK 1,601 million (1,483), which has not been recognised on the Parent Company's balance sheet.

## Note 36 | Interest-bearing liabilities from Group companies

Parent Company	Within 1 year		Maturity 1-5 years		More than 5 years		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Group account – liabilities	154	182	—	—	—	—	154	182

Parent Company	Within 1 year		Maturity 1-5 years		More than 5 years		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Liabilities to Group companies	—	—	—	—	8	8	8	8
<b>Total</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>

## Other information

### Note 37 | Pledged assets

	Group		Parent Company	
	2019	2018	2019	2018
Pledged assets for own liabilities and provisions	—	—	—	—
Other pledged collateral and securities				
Financial assets <sup>1)</sup>	42	39	40	36
<b>Total</b>	<b>42</b>	<b>39</b>	<b>40</b>	<b>36</b>

<sup>1)</sup> Endowment policies, refer to Note 27.



## Note 38 | Contingent liabilities

	Group		Parent Company	
	2019	2018	2019	2018
Guarantees for subsidiaries	—	—	43	—
Other contingent liabilities	55	76	44	65
<b>Total</b>	<b>55</b>	<b>76</b>	<b>87</b>	<b>65</b>

### GROUP

#### Restoration obligations

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

## Note 39 | Related parties

The Parent Company is deemed a related party in relation to its subsidiaries and associates, as presented in Note 32 Group companies and Note 8 Shares in associates.

Of the Parent Company's total purchases and sales measured in SEK million, 3 percent (3) of purchases and 5 percent (4) of sales were related to other Group companies.

Through its representation on the Boards of the Södra Pension Foundation in 2003 and the Södra Foundation for Research, Development and Education, the Parent Company is considered a related party to these foundations. The Södra Group Pension Foundation has issued a loan to Södra Skogsägarna ekonomisk förening. The Södra Foundation for Research, Development and Education holds issued contributions.

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
<b>Associates</b>					
2019	306	351	—	8	10
2018	89	23	—	30	9
<b>Parent Company</b>					
<b>Subsidiaries</b>					
2019	925	434	17	856	248
2018	950	527	57	1,028	262
<b>Associates</b>					
2019	306	351	3	8	10
2018	89	23	25	30	9

For information about salaries, agreements for redundancy payments, and so forth for employees in senior positions, refer to Note 5 Employee expenses. Other information relating to transactions between Group companies is presented in Note 38 Contingent liabilities.

## Note 40 | Statement of cash flows

	Group		Parent Company	
	2019	2018	2019	2018
<b>Financial items</b>				
Interest received during the year	36	4	41	13
Interest paid during the year	-84	-64	-84	-57
		-60		-44
Dividends received during the year	7	25	122	73
Capital gains	37	28	30	19
Capital losses	-5	-16	-66	-16
<b>Parent Company</b>				
Unsettled Group contributions	—	—	-18	22

Provision has been made for future environmental remediation in amounts deemed reasonable, based on the information available. Future remediation measures are dependent on several unknown variables and therefore difficult to estimate. Accordingly, it is not possible to rule out whether the Group will be charged with additional costs for such measures in the future.

### Disputes

In the scope of Södra's operations, differences of opinion arise between companies within the Södra Group and various counterparties with regard to the size of compensation, results achieved, lines of responsibility, etc. Most of these differences can be solved on a commercial basis, while some will be subject to arbitration or court proceedings. Provisions have been made in the financial statements in amounts deemed reasonable.

### PARENT COMPANY

Contingent liabilities described above also relate to the Parent Company.

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 related parties. An economic association is intended to promote the economic interests of its members through financial operations in which the members participate. Accordingly, purchases and sales of goods and services during the financial year have occurred between the Parent Company and individual Board members who are members of the association. Similarly, individual Board members participate in the financing of the association. These transactions occurred in accordance with the association's purpose, whereby the association's pricing and other conditions applied.

## Note 41 | Events after the balance-sheet date

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

The UK's withdrawal from the EU (Brexit), could have financial implications for Södra, mainly in relation to trade with sawn and planed timber where a hard Brexit could have a short-term impact on consolidated net sales and capital employed. While the impact of Brexit on Södra is difficult to predict, the preliminary assessment is that it will be relatively limited.

Otherwise, there were no significant events after the end of the reporting period.



# Proposed appropriation of profits

The Board proposes that the profits at the disposal of Södra's AGM, an amount of SEK 4,618,945,665, be appropriated as follows:

Dividend to members of 8 percent of contributed capital, totalling	SEK 370,911,948
Dividend to members of 10 percent on wood deliveries, totalling	SEK 530,132,155
The dividend is calculated on members' wood deliveries from 1 January 2019 to 31 December 2019 and on all ranges, excluding sold standing forest	
To members' contribution capital accounts through a bonus issue	SEK 166,501,566
The bonus issue represents 10 percent of available paid-up contributed capital at 31 December 2019	
Amount carried forward	SEK 3,551,399,996
	SEK 4,618,945,665

The consolidated accounts and annual report have been prepared in accordance with International Financial Reporting Standards as referred to in Regulation No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards and generally accepted accounting principles in Sweden and provides a true and fair view of the position and performance of the Group and the Parent Company.

The Directors' Report for the Parent Company and the Group provides a true overview of the development of the operations, position and performance of the Parent Company and Group and describes significant risks and uncertainties faced by the Parent Company and the companies in the Group.

Växjö, 12 February 2020

Lena Ek  
*Chairman*

Paul Christensson  
*Vice Chairman*

Dan Andersson  
*Employee representative*

Karin Andersson  
*Board member*

Hans Berggren  
*Board member*

Pål Börjesson  
*Board member*

Ylva op den Velde Hammargren  
*Board member*

Pontus Johansson  
*Employee representative*

Ulf Johansson  
*Board member*

Lars Nilsson  
*Employee representative*

Anders Roman  
*Board member*

Mats Sandgren  
*Board member*

Lars Idermark  
*President*

Our audit report was submitted on 12 February 2020

Martin Johansson      Madeleine Edberg  
*Authorised Public Accountants*

Carina Arvidsson Löw      Dick Stagmo  
*Member Representative Auditors*





# Auditor's report

To the general meeting of Södra Skogsägarna ekonomisk förening, corporate identity number 729500-3789

## Report on the annual accounts and consolidated accounts

### OPINIONS

We have audited the annual accounts and consolidated accounts of Södra Skogsägarna ekonomisk förening for the year 2019, except for the statutory sustainability report on pages 16-31 and 102-127. The annual accounts and consolidated accounts of the association are included on pages 40-97 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent association as of 31 December 2019 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2019 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the statutory sustainability report on pages 16-31 and 102-127. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting adopts the income statement and balance sheet for the parent association and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent association's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

### BASIS FOR OPINIONS

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Authorised public accountants' section and in the Member representative auditors' section. We are independent of the parent association and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited association or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### OUR AUDIT APPROACH

#### Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the group operates.

#### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

**KEY AUDIT MATTERS**

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

**KEY AUDIT MATTER****HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER**
**Valuation and reporting of intangible assets, property, plant and equipment & biological assets (refer to the group's accounting principles in Note 7 and in Notes 14-16)**

In the consolidated statement of financial position as at 31 December 2019, intangible assets, property, plant and equipment & biological assets total MSEK 18,429 and MSEK 12,979 in the parent association's balance sheet. The valuation and reporting of property, plant and equipment comprised a Key Audit Matter in our audit due to the significance of the amounts in relation to the group's and parent association's financial position, and in consideration of the complexity of the investment projects within the industry.

The group's and parent association's investments in intangible assets, property, plant and equipment & biological assets during the financial year amounted to MSEK 1,260, respective MSEK 934. The group has established processes for its investment decision-making. A number of executed investments involve both several sub-projects, as well as a delineation between items to be reported in the balance sheet, respective those to be seen to comprise repair and maintenance costs.

The starting point of the valuation of intangible assets and property, plant and equipment takes into consideration any possible impairment requirements. In the case there are indications of a write-down requirement, the book values are tested against the assets' calculated recoverable amount. A write-down is reported when an asset's reported value is consistently in excess of its recoverable amount. The recoverable amount is determined through a calculation of the value in use for the respective cash-generating units and is comprised of the present value of future cash flows for the unit. The calculation of the recoverable amount involves a number of assumptions and judgements, amongst others, as regards the discount factor applied and as regards future cash flows. As seen in Note 14 in the annual financial statements, during 2019 the association executing write-down tests regarding Södra Wood and Trivselhus. These write-down tests evidenced no existence of a write-down requirement.

In terms of biological assets, the valuation aims at establishing a market value in accordance with prevailing regulations. The calculation includes a number of assumptions and predictions about the discount factor to be used and the size of future cashflows.

In our audit, we have evaluated the association's processes for managing and controlling investments from the point of the Board decision through to implementation and commissioning. Based on randomly selected sample sizes, we have reviewed capitalized amounts against the established criteria for capitalization versus expensing. In addition, we have examined the disclosures provided in the Notes to the annual financial statements to ensure that they reflect the principles applied by the association in determining investment projects.

As regards impairment testing, we have evaluated the association's calculation models and reasonability of adopted assumptions. We have examined the process for identifying cash-generating units against established criteria and have compared this with the association's follow-up of the operations in order to verify that these agree. We have also assessed whether the disclosures presented in the annual financial statements provide a true and fair view of the association's work with impairment testing.

In terms of the valuation of biological assets, we have evaluated the models used by the association when calculating the values and assessed the reasonability in applied assumptions.

**Transactions with the association's members (refer to Note 23)**

During financial year 2019, the group and parent association undertook a large number of repetitive transactions with members in the form of the purchase of timber from the members and as regards the sale of forestry services. In addition, the parent association undertook a large number of transactions with members referring to contributed capital, contribution accounts and dividends and final price adjustments on delivered timber. Transactions with the association's members are significant to the operations and it is important that these transactions take place in accordance with the Board's and senior members of management's adopted guidelines and according to the allocation principles adopted by the annual general meeting.

During 2019, a new software has been implemented in relation to transactions with association's members.

In our audit, we have evaluated the system and processes for handling transactions with the association's members. Furthermore, we have executed a reconciliation of dividends and final price adjustments on the delivery of timber paid to members based on the applied allocation grounds and on the resolutions by the annual general meeting of the association. We have also audited the framework for the purchase of timber from members and the sale of forestry services to members and how these are applied in the operations.

We have in connection with the implementation of the new software ensured the implementation has been done in a way that guarantees that each member's economic position in relation to the association is unchanged after the implementation.



## OTHER INFORMATION THAN THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-39 and 102-145. Other information does not comprise the annual accounts, except from the statutory sustainability report, and the auditor's report. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the association, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Directors' responsibilities and tasks in general, among other things oversee the association's financial reporting process.

## AUTHORISED PUBLIC ACCOUNTANTS' RESPONSIBILITY

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, the auditor exercises professional judgment and maintains professional skepticism throughout the audit. The auditor also:

- Identifies and assesses the risks of material misstatement in the annual accounts and consolidated accounts, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for the opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of the company's internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and, where applicable, the Managing Director.
- Concludes on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. The auditor also draws a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the latter is required to draw attention in the auditor's report to the
- related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify the opinion about the annual accounts and consolidated accounts. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluates the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtains sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. The auditor is responsible for the direction, supervision and performance of the group audit. The auditor remains solely responsible for the opinions.

The auditor must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. The auditor must also inform the Board of Directors of significant audit findings during the audit, including any significant deficiencies in internal control that the auditor identified.

The auditor also has to provide the Board of Directors with a statement that the auditor has complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, the auditor determines those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and that are therefore the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

## MEMBER REPRESENTATIVE AUDITORS' RESPONSIBILITY

Our objectives is to perform an audit in accordance with Auditing Act and consequently in accordance with generally accepted auditing standards in Sweden. Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts have been prepared in accordance with the Annual Accounts Act and that the annual accounts and consolidated accounts fairly present the financial performance and financial position of the association and group.



## Report on other legal and regulatory requirements

### OPINIONS

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Södra Skogsägarna ekonomisk förening for the year 2019 and the proposed appropriations of the association's profit or loss.

We recommend to the general meeting that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

### BASIS FOR OPINIONS

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent association and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

The Board of Directors is responsible for the proposal for appropriations of the association's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the association's and the group's type of operations, size and risks place on the size of the parent association's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the association's organization and the administration of the association's affairs. This includes among other things continuous assessment of the association's and the group's financial situation and ensuring that the association's organization is designed so that the accounting, management of assets and the association's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the association's

accounting in accordance with law and handle the management of assets in a reassuring manner.

### AUDITOR'S RESPONSIBILITY

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the association, or
- in any other way has acted in contravention of the Co-operative Societies' Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the association's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Co-operative Societies' Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the association, or that the proposed appropriations of the association's profit or loss are not in accordance with the Co-operative Societies' Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the association's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the association's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the association's profit or loss we examined whether the proposal is in accordance with the Co-operative Societies' Act.

Martin Johansson och Madeleine Edberg c/o PwC 113 97 Stockholm, was appointed auditors of Södra Skogsägarna ekonomisk förening by the general meeting on the 23 May 2019 and has been the association's auditors since the 18 May 2017. Dick Stagmo was appointed auditor of Södra Skogsägarna ekonomisk förening by the general meeting on the 23 May 2019 and has been the association's auditor since the 17 May 2016. Carina Arvidsson Löf was appointed auditor of Södra Skogsägarna ekonomisk förening by the general meeting on the 23 May 2019 and has been the association's auditor since the 23 May 2019.

Växjö 12 February 2020

Martin Johansson  
*Authorised Public Accountant*

Carina Arvidsson Löf  
*Member Representative Auditor*

Madeleine Edberg  
*Authorised Public Accountant*

Dick Stagmo  
*Member Representative Auditor*





# About Södra's Sustainability Report

This Sustainability Report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards Core option. The Sustainability Report has been reviewed by auditors on behalf of the Board of Södra Skogsägarna ekonomisk förening.

Södra's Sustainability Report is included in the Group's Annual and Sustainability Report. Södra's uses the calendar year as its financial year. The last Annual and Sustainability Report was published in March 2019 for the 2018 financial year.

## SCOPE AND CONTENT OF THE SUSTAINABILITY REPORT

The Sustainability Report covers Södra Skogsägarna ekonomisk förening and its subsidiaries (refer to Note 32 for a summary of the Group companies included), but not its associates (refer to Note 8). Disclosures related to employees and anti-corruption are reported for the Parent Company and its subsidiaries (and their employees). Disclosures related to other material sustainability topics are reported for operations involved in production, including the head office, Södra Vind AB and passenger transport. The impact of other activities is considered zero or negligible. The supplier assessment covers Södra's suppliers, but not sub-suppliers (suppliers' suppliers). In 2018, the Latvian company Sodra Latvia SIA, including its four wholly owned subsidiaries, and SIA Ruda were acquired, and are included in the Sustainability Report as of 2019 as well as in the comparative figures for 2018 in relation to information about employees. In 2019, Södra acquired the remaining 50 percent of Södra Timber A/S and Södra Wood Project AB. These Group companies are included in the Sustainability Report for disclosures related to employees, and will otherwise be included in the 2020 Sustainability Report. Units divested or discontinued during the year are included until the date of divestment or closure. The number of employees was calculated at 31 December 2019. For calculation principles, refer to page 109.

## Changes compared with previous reports

- Previously, the definition of better sustainability performance for new products was that one or more sustainability aspects were better compared with today's alternatives, with no adverse impact on other aspects. From 2019, the definition of better sustainability performance is that the total sustainability performance must be better than for today's alternatives, and the assessment must be based on a value chain perspective, meaning not only on the basis of direct impacts from Södra's own activities, but also on indirect impacts on suppliers, forest owners, customers and society.
- Previously, one of Södra's pulp mills reported electricity generation and electricity consumption excluding consumption for electricity generation. For 2019, all pulp mills report electricity generation and electricity consumption including consumption for electricity generation. Comparative figures for earlier years have not been restated.
- Previously, the concept of diversity and inclusion was used interchangeably with gender equality and inclusion. From 2019, only diversity and inclusion is used.
- The calculation of the proportion of assessed suppliers has been changed and from 2019, consists of assessments completed over the past three years, compared with only the past year. In the risk assessment, the suppliers are classified as low, medium or high-risk. High-risk suppliers must be monitored.

## Restatement of information in previous reports

The data for previous years have been restated. The reasons for these restatements include errors in the reported data, and errors in the calculations. All restatements are minor, with no material impact on Södra's sustainability reporting.

## MATERIAL SUSTAINABILITY TOPICS

Information	Reporting*	Focus*
<ul style="list-style-type: none"> <li>Development of existing products and services</li> <li>Local cooperation</li> <li>Personal and professional development</li> <li>Social impact and opinion</li> <li>Water use</li> <li>Working conditions</li> </ul>	<ul style="list-style-type: none"> <li>Anti-corruption</li> <li>Certified products</li> <li>Efficient processes</li> <li>Effluents and soil contamination</li> <li>Forest certification</li> <li>Minimise waste</li> <li>Non-discrimination, anti-harassment and fair Treatment</li> <li>Transition to a low-carbon society – bio-based/circular economy</li> </ul>	<ul style="list-style-type: none"> <li>Attractive employer</li> <li>Diversity and inclusion</li> <li>Emissions</li> <li>Energy consumption</li> <li>Forest growth</li> <li>Fossil-free production</li> <li>Nature conservation</li> <li>New products and services</li> <li>Occupational health and safety</li> <li>Reduction of carbon dioxide emissions from transportation</li> <li>Renewable electricity generation</li> <li>Responsible harvesting</li> <li>Supply chain</li> <li>Sustainable harvesting rate</li> </ul>
MEDIUM	Materiality	HIGH

\* Material sustainability topics in accordance with GRI Standards



- The proportion of Södra's employees who completed training as part of Södra's efforts to prevent discrimination and bullying, and in the Södra Code of Conduct, was restated for 2018.
- Use of chemicals was restated for 2018.
- Fuel consumption was restated for 2017.
- Fossil carbon dioxide emissions were restated for 2017.
- Nitrogen oxides emissions were restated for 2017.
- The proportion of certified products was restated for 2018.
- Supplier assessment results have not been included for 2017 and 2018 due to a change in the reporting policy.

#### EVENTS AFTER THE CLOSE OF THE PERIOD

No significant events occurred after the end of the reporting period.

#### MATERIAL SUSTAINABILITY TOPICS

Södra's first materiality assessment was conducted in 2015. The aim was to identify Södra's most relevant sustainability topics, and to lay the foundation for Södra's sustainability strategy and sustainability reporting. In 2018, the materiality assessment was updated to ensure that the sustainability strategy was appropriate and to define material sustainability topics to report. A new materiality assessment was not conducted in 2019.

The materiality assessment is updated at regular intervals and whenever required, such as in the event of relevant changes in the operations, external environment or the focus and expectations of stakeholders. Critical elements for the materiality assessment are dialogue with the Group's key stakeholders and external analysis. The material sustainability topics are determined in an overall assessment of external and internal dialogues. Södra's external impacts are a key assessment criterion. Internal experts validate the material topics and define their boundaries. For 2019, all material sustainability topics from the 2018 Sustainability Report have been retained.

All sustainability topics are material for Södra. The 'Within Södra' boundary is presented in 'Scope and content of the Sustainability Report' on page 102. The 'Outside Södra' boundary is presented in the GRI Content Index on pages 122-124.

#### Reporting

Södra's material sustainability topics are presented in the GRI Content Index on pages 122-124. The sustainability topics that Södra focuses on are also included in the Group-wide sustainability targets presented on pages 18-19. Södra's Sustainability Report also contains information about other sustainability topics that are important for the operations, see the illustration on page 102. The connection between Södra's material sustainability topics, Södra's strategic focus areas for sustainability and the selected GRI standards is presented in the table at the bottom of this page. The GRI Reporting Principles for defining report content (stakeholder inclusiveness, sustainability context, materiality and completeness) have determined the scope and content of this Sustainability Report.

#### COOPERATION FOR SUSTAINABLE DEVELOPMENT

Södra contributes to sustainable development. This takes place through representation in organisations that address research and development issues related to Europe's emerging bioeconomy. In the forest, environmental and energy areas, these include the Federation of Swedish Farmers (LRF), the Forestry Research Institute of Sweden, Swedish Wood, the Swedish Forest Industries Federation's committee work, the Swedish Forest Industries Water and Air Pollution Research Foundation (SSVL), the Royal Swedish Academy of Agriculture and Forestry's (KSLA) Committee for land use in the EU 2030 climate and energy framework, the Energy Research Institute of Sweden, the Bio-based Industries Consortium, the Centre for Building and Living with Wood

Material sustainability topics	Strategic focus areas for sustainability	GRI Standard
Air emissions	Climate-positive operations Resource efficiency	GRI 305: Emissions
Anti-corruption	Responsible business	GRI 205: Anti-corruption
Attractive employer	Responsible employer and committed employees	Own: Attractive employer
Certified products	Responsible business	GRI 417: Marketing and labelling
Diversity and inclusion	Responsible employer and committed employees	GRI 405: Diversity and equal opportunity
Efficient processes	Climate-positive operations Sustainable innovation Resource efficiency	GRI 301: Materials GRI 302: Energy GRI 305: Emissions GRI 306: Effluents and waste
Effluents and soil contamination	Resource efficiency	GRI 306: Effluents and waste
Energy consumption	Climate-positive operations Resource efficiency	GRI 302: Energy
Forest certification	Climate-positive operations Sustainable innovation Resource efficiency	GRI 417: Marketing and labelling
Forest growth	Sustainable forestry	Own: Forest growth
Fossil-free production	Climate-positive operations	GRI 305: Emissions
Minimise waste	Resource efficiency	GRI 306: Effluents and waste
Nature conservation	Sustainable forestry	GRI 304: Biodiversity
New products and services	Sustainable innovation	Own: New products and services
Non-discrimination, anti-harassment and fair treatment	Responsible employer and committed employees	GRI 406: Non-discrimination
Occupational health and safety	Responsible employer and committed employees	GRI 403: Occupational health and safety
Reduction of carbon dioxide emissions from transportation	Climate-positive operations Resource efficiency	GRI 305: Emissions
Renewable electricity generation	Climate-positive operations Sustainable innovation Resource efficiency	GRI 302: Energy
Responsible harvesting	Sustainable forestry	GRI 304: Biodiversity
Supply chain	Responsible business	GRI 308: Supplier environmental assessment GRI 414: Supplier social assessment
Sustainable harvesting rate	Sustainable forestry	Own: Sustainable harvesting rate
Transition to a low-carbon society – bio-based/circular economy	Climate-positive operations	GRI 201: Economic performance



(CBBT), the Swedish Institute for Standards, the circular economy delegation, Fossil Free Sweden, the West Sweden Chemicals & Materials Cluster, the 2030 Secretariat (national secretariat for monitoring the progress of efforts to reach a fossil fuel independent transport sector by 2030), the Forest-based Sector Technology Platform (FTP) and the Responsible Shipping Initiative (RSI) (a collaboration between dry cargo shipping buyers in the Baltic Sea and North Sea to introduce standards for vessels).

Södra and IKEA of Sweden are now partnering with Linnaeus University in a unique long-term and strategic investment in research and education to promote forestry and the forest industry. During the year, a collaboration also commenced with the Centre for Environmental and Climate Research (CEC) at Lund University.

In collaboration with academia, the private sector, government agencies and interest groups, Södra participated in the Swedish Forest Agency's cooperative processes on key habitats and forest production. Södra also participated in the development of objectives for nature conservation considerations and in the 'Mera tall' (More pine) project run by the Swedish Forest Agency.

Södra participated in the Swedish Energy Agency's team of experts to create a sector strategy for the transition to fossil-free and energy-efficient freight transport, and in 'Vägval för klimatet' (Climate Crossroads), a project led by the Royal Swedish Academy of Engineering Sciences.

Södra participated in two projects led by the Energy Research Institute of Sweden: 'Förbättrad avsåpning' (Improved skimming separation), which aims to improve the recovery of tall oil soap from black liquor in the pulp mills, and 'Effektivare mesaugnar' (More efficient lime kilns), which aims to improve the thermal efficiency of lime kilns by reducing dust loading.

## STAKEHOLDER DIALOGUE

Södra's stakeholders contribute to the Group's development. Södra makes courses, member meetings and other gatherings in the forestry districts a meeting place in many local communities. Issues

are presented by and to Södra's elected representatives through dialogue and cooperation. Critical issues are identified in a number of forums. Opportunities are created to nurture relationships with stakeholders – customers, suppliers, organisations, authorities, policy-makers and local residents. Ongoing stakeholder dialogue takes place in various forms, and with varying frequency, throughout the year, refer to the table below.



Södra's key stakeholders are identified and prioritised using a structured mapping process and include customers, owners/members, employees, business partners and a number of stakeholders in the society at large.

## SÖDRA'S KEY STAKEHOLDERS

Stakeholder group	Significant issues	Activities, dialogue and contact 2019
Customers	Product performance (quality, safety, price, development) Traceability Business ethics Profitability Sustainable forestry Environmental impact Working conditions and human rights	Annual and Sustainability Report Customer contacts (meetings, surveys) Research and development projects Code of Conduct and Supplier Code Management systems Certification systems (FSC®, PEFC™)
Owners/members	Profitability and profit distribution Social impact and opinion Market for wood raw material Forestry services and product and service development Business ethics Sustainable forestry Environmental impact Working conditions and human rights	Annual and Sustainability Report Member contacts (Annual General Meeting, Administrative Council meetings, member meetings, service) Business policy activities Research and development Service offerings (forestry services, forest certification) Management systems
Employees	Working conditions and human rights Sustainable forestry Environmental impact Business ethics	Training in the Södra Code of Conduct and Supplier Code Performance appraisals Training programmes Employee surveys Unionisation Management systems Incident reporting system
Business partners	Sustainability requirements in the Supplier Code Contract terms Profitability Assessment and monitoring Sustainable forestry Environmental impact Working conditions and human rights	Unionisation Management systems Incident reporting system Code of Conduct and Supplier Code Assessment and monitoring based on the Supplier Code Forest contractor certification
Society at large (capital market, local residents, policy makers and officials, public organisations, interest groups, companies in the same industry)	Sustainable business (economic, environmental and social responsibility) Community engagement Transparency Industry-specific issues	Policies, targets, management systems, risk management Dialogue and cooperation Employer Research and development

# Own material sustainability topics

*Not all material sustainability topics correspond to a GRI Standard. Södra has therefore elected to report a number of its own material sustainability topics with related disclosures. In some cases, Södra has supplemented some GRI Standards with its own disclosures.*

## **GRI 304 BIODIVERSITY, CONSIDERATIONS IN REGENERATION HARVESTING**

Various types of environmental considerations are required for regeneration harvesting. These include consideration for specific habitats and cultural environments, buffer strips around water and limited impacts on soil and water. This disclosure is used to report the proportion of approved objects in relation to considerations in regeneration harvesting in Södra's Green Balance Sheet, a review performed by Södra's forest management auditors.

## **GRI 304 BIODIVERSITY, NATURE-CONSERVATION MEASURES**

Nature-conservation measures are required to maintain or promote some forestry environments with high conservation value. These measures are important for maintaining and promoting biodiversity in the landscape. This disclosure is used to report the area of performed nature-conservation measures.

## **GRI 406 NON-DISCRIMINATION, TRAINING IN POLICIES RELATED TO NON-DISCRIMINATION**

Södra aims to be a welcoming workplace, where everyone contributes to health, job satisfaction and well-being. This involves showing respect for each other, regardless of age, sex, ethnicity, faith, disability or sexual orientation. Every employee is responsible for maintaining a work environment free from bullying and harassment. This disclosure is used to report the proportion of Södra employees who completed training in Södra's efforts to prevent discrimination and bullying.

## **GRI 417 MARKETING AND LABELLING, FOREST CERTIFICATION AND CERTIFIED PRODUCTS**

Forest certification is an important tool for ensuring responsible management of members' forests. Södra offers products made from raw materials from certified forests. The certifications guarantee that the wood raw material is a product of responsible forestry, and that its origin has been verified. This disclosure is used to report the proportion of Södra's affiliated forest area with forest certification and the proportion of certified products.

## **FOREST GROWTH, ANNUAL RATE OF FOREST GROWTH ON SÖDRA MEMBERS' ESTATES**

Growing forests absorb carbon dioxide through photosynthesis and help to combat climate change. This disclosure is used to report the rate of forest growth in Södra members' forests.

## **SUSTAINABLE HARVESTING RATE, HARVESTING RATE ON LAND OWNED BY SÖDRA MEMBERS**

Forests are a resource that should be used, but not overused. Harvesting should be within the sustainable harvesting rate interval. This disclosure is used to report the harvesting rate in Södra members' forests.

## **NEW PRODUCTS AND SERVICES, NEW SUSTAINABLE PRODUCTS**

Renewable forest-based products can replace fossil-based materials in many applications. Demand for sustainable products is rising as customers and consumers become more aware of how their behaviour impacts the environment and the climate. This disclosure is used to report the number of new, commercialised products with a better sustainability performance than today's alternatives. A better sustainability performance than today's alternatives means that the total sustainability performance must be better than for today's alternatives, and the assessment must be based on a value chain perspective, meaning not only on the basis of direct impacts from Södra's own activities, but also on indirect impacts on suppliers, forest owners, customers and society.

## **ATTRACTIVE EMPLOYER, EMPLOYEES WHO WOULD RECOMMEND SÖDRA**

Södra works strategically and systematically to attract, develop and retain the right competencies. As a forest company of the future, Södra wants to remain an attractive employer. This disclosure is used to report the proportion of Södra employees who would recommend Södra as an employer.





# Governance and sustainability organisation

## SUSTAINABILITY FRAMEWORK

Sustainability is an integral part of Södra's Group strategy, targets, key indicators and monitoring. The Sustainability Policy governs and guides sustainability efforts in key strategic focus areas for a sustainable Södra. The 15 Group-wide sustainability targets are integrated into Södra's operations. The Södra Code of Conduct and Supplier Code are key components of Södra's sustainability framework. Both are based on Södra's values – Value-generating relationships, a long-term approach.

Södra's sustainability framework has been inspired by a number of principles and standards: the UN Global Compact, Sweden's national environmental objectives, the Swedish government's action plan for business and human rights, the Universal Declaration of Human Rights, the ILO core conventions and the OECD Guidelines for Multinational Enterprises. Södra's sustainability targets are also in line with the UN Sustainable Development Goals. Read more on page 17.

## SUSTAINABILITY ORGANISATION

Södra's function for communication and sustainability is led by the Director of Communications and Sustainability, who is also a member of Group Senior Management. The function includes a Sustainability Department, with one Sustainability Manager and four employees. The department coordinates the Group's sustainability efforts and leads and supports development issues. The Sustainability Department is also responsible for the Sustainability Policy and monitoring the sustainability targets. Direct responsibility for sustainability issues is delegated within the line organisation, from the President to each Business Area President. Södra's sustainability targets are monitored by Group Senior Management twice annually. Decisions are then made regarding further action. Södra's Board of Directors updates the Sustainability Policy, Code of Conduct and Supplier Code once annually.

Södra's Business Ethics Council is responsible for the development and implementation of the Group's business ethics policies and guidelines. The Council was formed in 2015 and consists of the HR Director (Chairman), Chief Legal Officer, Director of Communications and Sustainability, the Sustainability Manager, CFO and management representatives from the Södra Skog, Södra Wood and Södra Cell business areas. The Council meets once per year.

Other groups participate in the coordination of Södra's sustainability efforts. Södra Cell has an Energy Committee and a Chemicals Committee.

## GOVERNANCE

### Climate-positive operations

Södra's roadmap for fossil-free production and transportation contains activities that are expected to generate both long and short-term positive results, such as the shift to fossil-free alternatives, continued efficiency improvements, and research and development. These efforts are coordinated in a programme – A Fossil-Free Södra. Södra's efforts are focused on direct fossil carbon dioxide emissions. To reduce indirect emissions, Södra engages in

business policy lobbying and collaborates with external parties. The transition to fossil-free transportation is an extensive process that requires long-term, external collaborations. In 2019, SEK 20 million was set aside to cover additional costs arising from the development of sustainable transport solutions.

In Södra's roadmap for a higher rate of forest growth, four key areas have been identified for achieving the target: effective forest management, fertilisation/nutrient recycling, forest tree breeding and damage reduction. Continued investment in research and development is also required.

### Sustainable forestry

Södra's members are firmly committed to responsible forest management. Södra contributes to sustainable forestry by offering a range of advisory and other services to support forest estate management and care. Forest certification is an important tool for responsible forest management and forest owners can become certified under Södra's group certification. Södra's offerings also include the Södra School, which aims to raise awareness of sustainable forestry and to inspire active forest management in order to combine a higher rate of growth and profitability with the preservation and promotion of all forest values. Guidelines for the balance between production and economics, and conservation, cultural and social considerations in forestry are summarised in 'Miljöhänsyn Södra Skog - strategisk inriktning' (Environmental considerations Södra Skog – strategic focus area).

Most members use Södra's green forest management plan for their forestry. The plan sets long-term management objectives for each forest stand. The objectives are divided into four classes with detailed descriptions for each stand. The green forest management plans help the forest landscape to maintain a balance between profitable wood production and the preservation or new creation of biodiversity. The plans also include consideration for the cultural heritage and social values of forests. The green forest management plans also include blue management targets in which watercourses are assessed, and the ambition for aquatic environment considerations is specified.

Contractors who perform forestry measures on behalf of Södra must hold PEFC™ certification. The contractors' employees must be aware of the considerations that apply for conservation and cultural values in forestry. For forestry operations in aquatic environments, such as ditch clearing, expertise in the management of aquatic environments in forests is required.

Södra provides continuous training for its field organisation and contractors, which includes information about the new industry-wide objectives for environmental considerations in forestry measures. Regeneration harvesting, thinning, nature-conservation measures and regeneration methods in regard to the considerations applied are audited and rated every year in a Green Balance Sheet. The field work is carried out by Södra's forest management auditors.

Responsible and sustainable forestry is based on key basic principles for timber harvesting and handling. Södra

verifies the origin of the wood and rejects deliveries of illegally harvested timber, from natural forests that are harvested to use the land for plantations or for non-forest land uses, from forest areas where traditional or civil rights are violated, from forests where high conservation values are threatened and from genetically modified trees.

### **Sustainable innovation**

An assessment of the sustainability performance of new products and services is included in various stages of the innovation process. The positive and negative impacts for a number of sustainability aspects are identified and quantified. Both direct impacts from Södra's own operations and indirect impacts in the value chain are assessed. If negative impacts arise in any part of the value chain, measures should be taken, if possible, to reduce them.

### **Resource efficiency**

Södra's environmental and energy initiatives are based on the Sustainability Policy which, in combination with targets and guidelines, govern the Group's efforts in this area. Environmental and energy issues are addressed within the framework of each business area's management systems. Most of the Group's environmental management systems are ISO 14001 certified.

The energy management systems of the pulp mills are ISO 50001 certified. Internal and external audits of management systems are performed annually. Every business area works with targets in selected areas.

### **Regulated activities**

Environmental permits control a major part of the industrial activities, such as emissions and effluents, and management systems are a means for obtaining permits. Water court rulings have been issued for all industries that extract raw water, to regulate their withdrawals and prevent any negative effects from their activities. Södra's operations are governed by many laws and regulations, most significantly the Swedish Forestry Act, the Swedish Environmental Code and chemicals legislation. Read more about regulated activities on page 50.

### **Policy measures for reducing greenhouse gas emissions and increasing renewable electricity generation**

- Södra Cell participates in the European Union Emissions Trading System. The aim of the trading system is to reduce greenhouse gas emissions in Europe in a cost-efficient manner. Södra sells its excess permits.
- Södra Cell is allocated electricity certificates for some of its electricity generation. The electricity certificate system is a support scheme for the expansion of electricity generation from renewable sources. Södra Medlemsel offers members, employees and business partners an opportunity to purchase renewable electricity generated by the pulp mills and Södra's own wind turbines.
- Guarantee of Origin certificates show the energy source of the electricity generation. The government allocates certificates to electricity generators for every megawatt-hour (MWh) of electricity they produce. The certificates can then be traded on the open market. Green Guarantee of Origin certificates for the electricity consumed by the Södra Group and by customers of Södra Medlemsel are used by Södra and removed from the market.

### **Responsible employer and committed employees**

Södra's HR strategy is based on four focus areas: values, occupational health and safety, strategic competency provision and performance management. There are clear targets, key indicators and

processes for each of the areas. Södra's policies and guidelines for corporate social responsibility cover occupational health and safety, diversity and inclusion, and bullying and harassment. The policies apply for management teams, managers and employees. HR processes are conducted both centrally, and at operational level to ensure local support and implementation. Employee satisfaction surveys are conducted every second year.

### **Occupational health and safety**

Occupational health and safety (OHS) is a key priority for Södra. In 2017, Södra's Board adopted a programme to reduce the number of occupational injuries and sickness absences. The focus lies on preventive measures, including risk analyses, risk observations and behaviour-based safety. Training programmes in the area are conducted on a regular basis.

Södra employees are offered fitness activities, occupational health services and health insurance. The health insurance plan provides fast access to specialist care. Coverage can also be extended to the families of employees and to Södra's members. Employees in Sweden are offered life and accident insurance policies and policies for children.

The OHS Council is a forum where employers and union parties can discuss health and safety-related issues of a long-term and overall nature, with the aim of developing and improving OHS management. Key elements are the sharing of best practices and lessons learned. Members of the Council include the HR Director, HR specialists, OHS process developers, occupational health services, OHS engineers, OHS officers and union parties. OHS management at the pulp mills is conducted within the framework of the ISO 45001 management system.

### **Diversity and inclusion**

Södra has stated ambitions to increase diversity by recruiting and retaining employees with diverse backgrounds, experience and perspectives. Södra has strengthened its recruitment process by increasing focus on the under-represented gender. There is also a focus on diversity and inclusion in the membership organisation. One of the targets in the action plan for greater diversity and gender equality in Södra's membership organisation is that at least 40 percent of Södra's elected representatives will be women by 2025.

### **Responsible business**

#### **Code of Conduct and Supplier Code**

The Code of Conduct specifies the rights and responsibilities of Södra employees in relation to business practices, occupational health and safety, working conditions, human rights, the environment and sustainable forestry. The Code sets out the rules that apply to gifts, benefits, remuneration and business-related entertainment, conflicts of interest and competition from a business ethics perspective.

The Supplier Code contains the obligations and responsibilities of Södra's suppliers in regard to business practices, working conditions, human rights, the environment and quality. Södra's suppliers are assessed on the basis of selected sustainability criteria: geographic risk, supply chain complexity and the supplier's assessed ability to comply with the Södra Supplier Code with regard to human rights, working conditions, environmental considerations, bribery or other types of corruption. Prioritised suppliers are those that have a higher risk of non compliance.

Södra's policies and guidelines also apply for other representatives of Södra, including Board members and elected representatives. Södra's corporate language is Swedish, but governing documents are also translated into English.

To raise awareness of the Code of Conduct, every employee completes a compulsory online training course. At the end of 2019,



80 percent (78) of Södra's employees and 75 percent (82) of Södra's Group Senior Management had completed the online training programme. Group Senior Management, management teams and key groups participate in an advanced course. The Board also undergoes training in the Code of Conduct. Purchasing managers undergo continuous training on the Supplier Code.

#### **Follow-up and whistleblower function**

Suspected breaches of the Code of Conduct should be reported to the immediate supervisor in the first instance or, alternatively, to a

senior member of staff, Södra's HR department or a union representative. There is an internal whistleblower function for Södra employees, and other people representing Södra, for reporting serious misconduct. The Group has appointed two whistleblower protection officers to deal with any reports. One external whistleblower protection officer has been engaged as an alternative recipient of reports. Reports received by the whistleblower protection officers are investigated and any required action is taken by the relevant function or level at Södra.

### **GOVERNANCE IN SÖDRA'S STRATEGIC FOCUS AREAS FOR SUSTAINABILITY**

Strategic focus area	Why is this important for Södra?	Södra's governance tools	Follow-up and evaluation
Climate-positive operations	Growing forests, the use of wood and deliveries of renewable energy play a key role in combatting climate change and the transition to a circular bioeconomy.	Sustainability Policy Sustainability targets for fossil-fuel free and a higher rate of forest growth 'A Fossil-Free Södra' programme Action plans for achieving the sustainability targets Collaborations and business policy lobbying Research and development Management systems Local environmental targets	Follow-up of sustainability targets and local environmental targets Steering Committee for 'A Fossil-Free Södra' Internal and external audits
Sustainable forestry	Sustainable forestry forms the basis of Södra's operations. Responsible forest management ensures regrowth for coming generations and future needs. Considerations during forestry operations are essential for maintaining and promoting the multiple values of forests.	Sustainability Policy Environmental considerations Södra Skog – strategic focus area Sustainability targets for sustainable harvesting rate, considerations in regeneration harvesting and nature-conservation measures Advisory services for members FSC® or PEFC™ forest certification Green forest management plan Training for members and employees Management systems Local environmental targets	Follow-up of sustainability targets and local environmental targets Internal and external audits
Sustainable innovation	Södra pursues strategic innovation to meet the growing need for more sustainable products based on renewable, recyclable and biodegradable forest-based products.	Research in strategic arenas: forests, sawn timber, paper, textiles, chemicals and energy Sustainability Policy Sustainability criteria in the innovation process Sustainability target for new, sustainable products Collaborations with customers, universities, research institutes and companies in the value chain	Follow-up of sustainability targets Evaluation of sustainability performance
Resource efficiency	Efficient use of resources and by-products is helping to strengthen Södra's competitiveness and profitability. It also benefits society and reduces negative impacts on the climate and the environment.	Sustainability Policy Sustainability targets for reduced electricity and heating consumption and net electricity deliveries Environmental permits for industrial activities European policy instruments for greenhouse gases and renewable electricity Management systems Local environmental targets	Follow-up of sustainability targets and local environmental targets Internal and external audits Regulatory supervision
Responsible employer and committed employees	Södra's HR strategy is based on four focus areas: values, occupational health and safety, strategic competency provision and performance management. Södra's values – Value-generating relationships, a long-term approach – permeate the company's day-to-day operations and are designed to deepen the corporate culture and lead Södra towards its goal of being a next-generation forest company.	HR strategy Code of Conduct and Sustainability Policy Sustainability targets for reduced sickness absence, a zero accident vision, gender equality and employees that would be willing to recommend Södra as an employer Training for employees Preventive work for better occupational health and safety Safety Walks Projects and initiatives to increase diversity and inclusion OHS Council Business Ethics Council Whistleblower function Management systems Local targets	Follow-up of HR strategy, sustainability targets and local targets Internal evaluation of the HR function Internal and external audits Regulatory supervision
Responsible business	Södra places high demands on its employees and suppliers in regard to business ethics, working conditions, human rights and the environment. Sound business ethics and high integrity make the company an attractive and credible business partner.	Sustainability Policy Code of Conduct and Supplier Code Sustainability targets for Supplier Code, supplier assessments and sustainability criteria in investments Training in Code of Conduct and Supplier Code Certifications and product labelling Business Ethics Council Whistleblower function Local targets	Follow-up of sustainability target and local targets Supplier audits

# Calculation principles

Information for the Sustainability Report is gathered in a variety of ways. Södra Skog is responsible for forest growth, sustainable harvesting and biodiversity. Information about raw materials, energy, products, waste, emissions and effluents is gathered in Södra's annual environmental inventory and compiled by the Sustainability Department. HR is responsible for employee data and the Treasury Unit gathers information about the gender and age distribution in Boards and management teams. Information about suppliers is gathered by each purchasing organisation and compiled by the Sustainability Department.

## FOREST GROWTH AND SUSTAINABLE HARVESTING

Forest growth and harvesting rates are based on statistics from the National Forest Inventory's sample plots on land owned by Södra members. The rate of forest growth for 2019 is a mean of the annual growth rings between 2013 and 2017. The harvesting rate for 2019 is a mean of three seasons, from the first bud burst in 2015 to the first bud burst in 2018.

## BIODIVERSITY

Information about protected areas, considerations in regeneration harvesting and nature-conservation measures is compiled from official statistics, forest management plans, member statistics, production monitoring systems and Green Balance Sheets.

## ENERGY

Information about energy consumption within and outside the organisation is produced in different ways: direct measurements of electricity and heating, calculations based on fuel consumption and calculations based on transport mode, transported volume and transport distance. The conversion figures have different origins and varying accuracy: measurements of biofuels' calorific values, specific calorific values from suppliers, general calorific values from the Swedish Environmental Protection Agency, transportation factors from carriers and standard values for transportation factors from the Network for Transport Measures (NTM) and the Swedish Environmental Protection Agency. Internally generated heating and cooling are reported solely as fuel consumption. Energy for passenger transport is reported as fuel consumption for other transportation, and energy consumption outside Södra, respectively. Energy intensity, electricity and heating are reported per tonne of pulp and per m<sup>3</sup> of sawn timber.

## EMISSIONS

Direct and indirect greenhouse gas emissions are reported in comparison with 2015, which is the same base year as the target for fossil-free production and fossil-free transportation. Global Warming Potential (GWP) according to the 1996 IPCC Guidelines has been used, 21 for methane and 310 for nitrous oxide. Direct greenhouse gas emissions are calculated on the basis of fuel consumption using emission factors from fuel suppliers and the Swedish Environmental Protection Agency. Direct emissions relate to the operations where Södra has operational control. Indirect greenhouse gas emissions are calculated on the basis of transport mode, transported volume and transport distance. Emission factors are provided by carriers, and the standard values for emission factors by the NTM and the Swedish Environmental Protection Agency. Emissions from passenger transport are reported under 'Emissions from other transportation' and 'Indirect (Scope 3) emissions,' respectively. Other emissions (nitrogen oxides, sulphur, dust and volatile organic compounds) are based on measured values, and calculations based on fuel consumption and transportation using emission factors from the Swedish Environmental Protection Agency, data from carriers, and standard values for emission factors from the NTM and the Swedish Environmental Protection Agency.

## EFFLUENTS

Effluents are measured and analysed at the pulp mills with varying frequency. Both continuous and manual measurements occur. The mills' accredited laboratory is responsible for measurements and analyses, and some analyses are performed by external laboratories.

## WASTE

Waste volume refers to the amount of waste disposed of, either by an external party or in Södra's own landfill. Waste volumes temporarily stored internally are not monitored at Group level. Waste to material recycling includes waste for re-use, recycling and composting. It is assumed that energy is recovered from all waste incineration. Waste management by deep well injection is not applied. Hazardous waste is not classified according to treatment method.

## NEW SUSTAINABLE PRODUCTS

The sustainability performance of a product or service is assessed using a model that identifies the positive and negative impacts for a number of sustainability aspects: responsible forestry, material efficiency, energy efficiency, water use, waste and recycling, circular and bio-based economy, use of chemicals, discharges to water and soil, emissions, fossil-derived greenhouse gas emissions, legal and regulatory compliance in the value chain, occupational health and safety, working conditions, business ethics and anti-corruption. Both direct impacts from Södra's own operations and indirect impacts in the value chain (suppliers, forest owner, customers and society) are assessed. The impacts are quantified from 1 – Strongly negative impact to 5 – Highly positive impact.

## EMPLOYEES

Information about employees is gathered by the central HR system, which covers all of Södra's units in Sweden. In Sweden, occupational health and safety statistics are reported in the IA system (AFA Försäkring) and compiled. Foreign units report via digital forms. Occupational health and safety and sickness absence reporting applies to Södra's employees. Sub-contracted employees and contractors are managed by their respective employers. However, occupational injuries and incidents related to sub-contracted employees and contractors are reported in Södra's incident reporting system to improve health and safety at Södra's workplaces. Södra has elected to report LTAR (lost-time-accident rate) – the number of lost-time-accidents per million hours worked – instead of IR (injury rate). Days of absence from work are counted per working day, including the day of injury. Södra has elected to report the number of days absent from work per case of injury, instead of the lost day rate (LDR). Absence from work due to occupational diseases is included in sickness absences. The occupational disease rate (ODR) is not measured.

## BOARDS AND MANAGEMENT TEAMS

Information about the gender and age distribution on Boards and in management teams is gathered from the registration certificate of each Group company, see Note 32, and from surveys of the business areas.

## SUPPLIERS

Information about Södra's suppliers is gathered from supplier agreements and invoices in Södra's accounting system. Suppliers are assessed by responsible purchaser and classified on the basis of geographic risk, assessed supply chain complexity and the supplier's assessed ability to comply with the Södra Supplier Code with regard to human rights, working conditions, environmental considerations, bribery or other types of corruption.





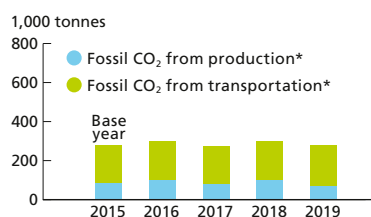
# Sustainability data

## Climate-positive operations

### FOSSIL-FREE PRODUCTION AND FOSSIL-FREE TRANSPORTATION – TARGET AND OUTCOME

Södra's target is fossil-free production by 2020 and fossil-free transportation by 2030. Fossil carbon dioxide emissions from production were 70 ktonnes (103), which is 20 percent lower compared with 2015. Fossil carbon dioxide emissions from transportation were 207 ktonnes (196), which is 7 percent higher compared with 2015. In 2019, the consumption of fossil fuel oil in the pulp mills was low. Fossil carbon dioxide emissions from transportation were higher in 2019 due to higher delivered volumes of pulp and sawn timber.

#### Fossil-fuel free



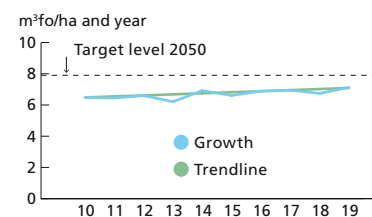
\* The production target includes production, operational machinery (including external harvesting contractors who work on Södra's behalf) and internal transportation. The transportation target includes other transport, including Södra's own haulage operations.

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

### FOREST GROWTH – TARGET AND OUTCOME

Södra's target is that the annual rate of forest growth on members' estates shall be 20 percent higher in 2050 compared with 2015. In 2019, the average rate of forest growth on Södra members' estates was 7.1 m<sup>3</sup>fo/ha per year (6.7), 8 percent higher compared with 2015. The long-term trend is an annual forest growth rate of about 1 percent.

#### Forest growth



2019 relates to the average growth rate during the 2013-2017 period, the most recent value available. The forest growth rate is based on the National Forest Inventory's data for land owned by Södra's members.

### NET CARBON DIOXIDE SEQUESTRATION IN SÖDRA MEMBERS' FORESTS

The growing stock in Södra members' forests is increasing, which leads to carbon dioxide sequestration, with an average carbon dioxide uptake of 5.3 (1.9) million tonnes per year over the past five years. The long-term trend is an average carbon dioxide uptake of 3.3 million tonnes per year (linear trend for ten years, five-year averages).

#### Key indicators fossil-fuel free

	2019	2018	2017
Renewable fuels for production processes, %	99.5	98.6	99.3
Renewable fuels for operational machinery and internal transportation, %	25	26	20
Fossil carbon dioxide emissions from production, operational machinery and internal transportation, ktonnes	70	103	81
– of which direct emissions, ktonnes	28	63	40
– of which from fossil fuels	15	48	27
– of which from chemicals	13	15	13
– of which indirect emissions (external harvesting contractors), ktonnes	42	40	41
Renewable fuels for transportation, %	24	26	29
Fossil carbon dioxide emissions from transportation, ktonnes	207	196	191
– of which direct emissions, ktonnes	1	1	1
– of which indirect emissions (external carriers), ktonnes	206	195	190

#### Comments

- Södra's efforts are focused on direct fossil carbon dioxide emissions. To reduce indirect emissions, Södra engages in business policy lobbying and collaborates with external parties.
- Direct fossil carbon dioxide emissions from use of chemicals are not included in the target for fossil-free production. However, they are included in the follow-up of Södra's emissions from production.
- During the year, 181 GWh (196) of renewable fuel was dispensed at Södra's filling stations, representing 99 percent (92) of all fuel dispensed at the filling stations.
- In 2019, Södra sold 34,180 tonnes (39,319) of crude tall oil for the production of crude tall diesel and tall oil-based chemicals. The deliveries were lower compared with 2018, due to the lower content of tall oil in wood damaged by spruce bark beetles.



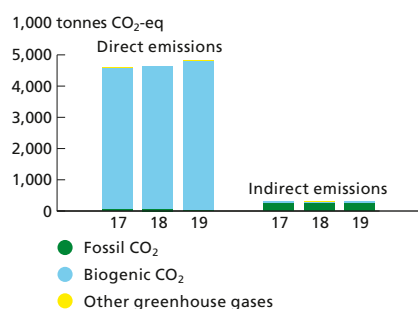
Greenhouse gas emissions		2019	2018	2017
CO <sub>2</sub> -eq (CO <sub>2</sub> equivalents) <sup>1)</sup>	1,000 tonnes	5,137	4,948	4,905
Fossil CO <sub>2</sub>	1,000 tonnes	277	299	272
– for production	1,000 tonnes	26	61	35
– for operational machinery and internal transportation	1,000 tonnes	44	42	46
– for other transportation	1,000 tonnes	207	196	191
Biogenic CO <sub>2</sub>	1,000 tonnes	4,831	4,620	4,603
– for production	1,000 tonnes	4,757	4,542	4,519
– for operational machinery and internal transportation	1,000 tonnes	15	14	12
– for other transportation	1,000 tonnes	59	64	72
Other greenhouse gases	1,000 tonnes	29	29	30
– for production	1,000 tonnes	24	24	25
– for operational machinery and internal transportation	1,000 tonnes	1	1	1
– for other transportation	1,000 tonnes	4	4	4

<sup>1)</sup> CO<sub>2</sub>-eq includes CO<sub>2</sub> and CH<sub>4</sub> (methane) and N<sub>2</sub>O (nitrous oxide) (other greenhouse gases).

#### Comments

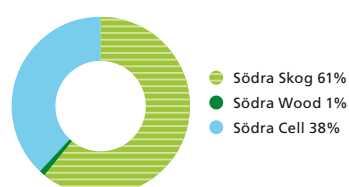
- Biogenic carbon dioxide emissions were higher compared with previous years due to higher production in the pulp mills.

#### Direct and indirect greenhouse gas emissions



Emissions from production, operational machinery and internal transportation are direct (Scope 1) emissions, excluding external harvesting contractors. Emissions from other transportation are indirect (Scope 3), excluding own haulage operations.

#### Fossil carbon dioxide emissions from production, operational machinery and internal transportation 2019



Fossil carbon dioxide emissions from production, operational machinery and internal transportation were mainly derived from the use of fossil diesel in forestry and fossil fuel oil in the pulp mills. In 2019, total emissions were 70 ktonnes.

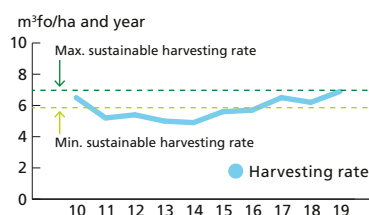


# Sustainable forestry

## SUSTAINABLE HARVESTING RATE – TARGET AND OUTCOME

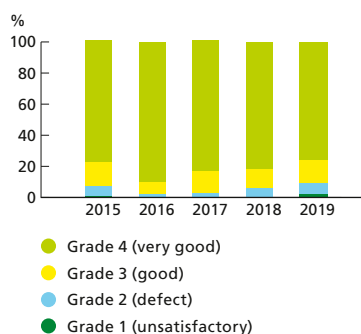
Södra's target is to harvest within the recommended sustainable harvesting rate interval. In 2019, the harvesting rate was 7.1 m<sup>3</sup>fo per hectare and year (6.2), which was within the sustainable harvesting rate interval.

### Sustainable harvesting rate



2019 refers to the mean for 2015-2017, in the same way as for other years. The sustainable harvesting rate is based on the National Forest Inventory's data for land owned by Södra members.

### Impacts on soil and water in the Green Balance Sheet



In 2019, 91 percent of the regeneration harvest sites were approved in the Green Balance Sheet with regard to impacts on soil and water.

## CONSIDERATIONS IN REGENERATION HARVESTING – TARGET AND OUTCOME

Södra's target is that the approval rate for considerations in regeneration harvesting will be 95 percent by 2020. In 2019, the rate was 93 percent (94). The Green Balance Sheet report is available at [sodra.com](http://sodra.com)

### Considerations in regeneration harvesting

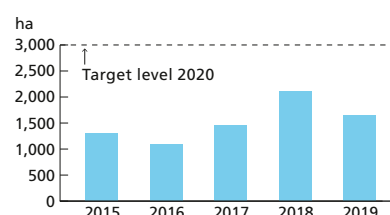


\* The proportion of approved regeneration harvesting sites in the Green Balance Sheet.

## NATURE-CONSERVATION MEASURES – TARGET AND OUTCOME

The target is that the area for nature-conservation measures is to be 3,000 hectares per year by 2020. In 2019, the figure was 1,643 hectares (2,100). The lower figure was due to the massive outbreak of spruce bark beetles. Another limiting factor is that nature-conservation measures can only be carried out at certain times of the year.

### Nature conservation measures



### Certified member area

	2019		2018		2017	
	Area (mil. hectares)	Percentage, %	Area (mil. hectares)	Percentage, %	Area (mil. hectares)	Percentage, %
FSC®	1.7	66	1.7	66	1.7	66
PEFC™	1.8	67	1.7	68	1.7	67

The certified membership area is growing. Private forest owners appreciate the added value provided by forest certification.

Forest certification is an important tool for ensuring the responsible management of members' forests. Forest owners can become certified under Södra's group certification by signing an agreement to comply with the certification requirements. The requirements include preparing a Green Forest Management Plan. Monitoring takes the form of annual audits.

Södra is certified according to FSC® and PEFC™ with license numbers:

FSC-C014930  
FSC-C006947  
FSC-C015771



The mark of responsible forestry

PEFC/05-22-11  
PEFC/05-35-48  
PEFC/05-32-20



**Consideration areas – areas on Södra members' estates in Götaland**

	2019	2018	2017
<b>Wooded wasteland<sup>1)</sup></b>			
area <sup>2)</sup> (ha)	177,000	176,000	174,000
percentage of wooded forest land (%)	6.7	6.8	6.9
<b>Official site protection (reserve, habitat protection)</b>			
area (ha)	81,000	84,000	75,000
percentage of productive forest land (%)	3.1	3.3	3.0
<b>Voluntary allocations (NO/NS)<sup>3)</sup></b>			
area (ha)	142,000	142,000	138,000
percentage of regeneration harvest-ready forest (%)	85	85	85
percentage of productive forest land (%)	8.0	8.1	8.1
<b>Management Target K (combined production and environmental targets in addition to general considerations)<sup>4)</sup></b>			
area (ha)	43,000	42,000	43,000
percentage of productive forest land (%)	2.4	2.4	2.5
<b>General considerations in regeneration harvesting</b>			
percentage of production stands (%)	4.5	4.7	5.1
<b>Annual regeneration harvesting (a rotation age of 80 years)</b>			
percentage of production stands (%)	1.25	1.25	1.25

<sup>1)</sup> Wooded wasteland is low-productive land with some degree of high conservation value.

<sup>2)</sup> The same percentage of wooded wasteland as in Götaland in its entirety has been used.

<sup>3)</sup> The voluntary allocations include about 3,000 hectares that are protected by time-limited nature conservation agreements.

<sup>4)</sup> Under management target K, a production target applies for two-thirds of the area, and a nature conservation target for the remaining third.

**Comments**

Wooded forest land consists of productive forest land and wooded wasteland. The productive forest land grows by at least one m<sup>3</sup> per hectare and year, while wooded wasteland is low-productive woodland. Productive forest land consists of production stands – areas in which wood production is the primary objective, combined with general considerations in forestry measures – and various types of nature conservation areas. Formal types of site protection are nature reserves, habitat protection and nature conservation agreements. Nature reserves are formed by county administrative boards or municipalities to protect a connected area. Habitat protection and nature conservation agreements on forest land are formed by the Swedish Forest Agency or a county administrative board to protect smaller areas. Nature reserves, habitat protection areas or nature conservation agreements on land owned by Södra members are covered by agreements between individual members and either the Swedish Forest Agency or the county administrative board. There are regulations for formally protected areas describing why the site is protected and any management measures. General considerations apply to all forestry operations. These may include buffer strips, sensitive habitats and groups of trees. In addition to general considerations, forest owners set aside stands voluntarily to maintain and promote nature conservation values (NO/NS). These stands should amount to at least 5 percent of the estate, according to forest certification requirements. The green forest management plan contains descriptions of

the NO, NS and K management targets, with objectives and measures for maintaining and promoting nature conservation values. NO (nature conservation, to be left untouched) designates areas where nature conservation values are best maintained and promoted when the forest is left untouched. NS (nature conservation, requiring management) designates the areas where special management methods are required to maintain and promote nature conservation values. There are also K stands (combined targets) with targets for both timber production and nature conservation, and where nature conservation values apply to a higher percentage of the stand than in production stands. In combination, formal protection, voluntarily allocated stands and general considerations all contribute to the national environmental objective of vibrant forests.

**VALUE OF FOREST LAND, VOLUNTARY ALLOCATIONS 2019**

The voluntary allocated area with nature conservation considerations (NO/NS) on land owned by Södra's members (PEFC-certified) is just under 142,000 hectares. The average value of this forest area was SEK 20 billion, with a variation between SEK 15-25 billion. The price interval is based on average prices for forest land according to price statistics from LRF Konsult, and the average price of redeemed land (habitat protection) from the Swedish Forest Agency.



## Sustainable innovation

**PRODUCTS WITH BETTER SUSTAINABILITY PERFORMANCE – TARGET AND OUTCOME**

Södra's sustainable innovation target is that the company will have commercialised at least three products with better sustainability performance than today's alternatives by 2020. The target was met in 2019, since Södra has commercialised five new products in recent years with a better sustainability performance than today's alternatives: paper wrapping to replace

wires around pulp bales, primed cladding, nutrient recycling with bio-ash, cross-laminated timber and a new grade of pulp made from wood chips. In 2020, more innovations are expected to be commercialised.

Sustainability performance is assessed using a model that identifies the positive and negative impacts for a number of sustainability aspects. Both direct impacts from Södra's own operations and indirect impacts in the value chain are assessed.





# Resource efficiency

## ELECTRICITY AND HEATING CONSUMPTION – TARGET AND OUTCOME

Södra's target is that electricity and heating consumption will have declined at least 10 percent by 2025 compared with 2015. In 2019, electricity and heating consumption for pulp was 6 percent (electricity) and 10 percent (heating) lower compared with 2015, while electricity and heating

consumption for sawn timber was 2 percent (electricity) and 15 percent (heating) lower. In 2019, the outcomes for both pulp and sawn timber are the result of a continuous improvement programme combined with a high level of efficient production. The sawmills also invested in boilers and kilns.

## NET ELECTRICITY DELIVERIES – TARGET AND OUTCOME

The target is that annual electricity generation shall exceed electricity consumption and in 2019, net electricity deliveries amounted to 397 GWh (388). Net electricity deliveries were historically high.

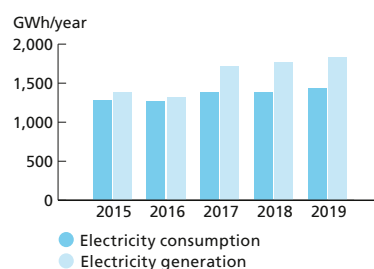
### Electricity and heating consumption – Pulp

kWh/tonnes of pulp	Target level 2025	2019	2018	2017	2016	2015
Electricity	672	699	701	727	792	747
Heating	3,175	3,172	3,105	3,261	3,572	3,528

### Electricity and heating consumption – Sawn timber

kWh/m <sup>3</sup> sawn timber	Target level 2025	2019	2018	2017	2016	2015
Electricity	57	62	63	64	65	64
Heating	236	224	241	248	251	262

### Electricity consumption and electricity generation

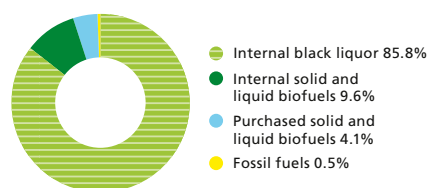


Fuel consumption		2019	2018	2017
Renewable fuels, total	GWh	14,279	13,618	13,458
Internal black liquor	GWh	12,068	11,377	10,856
Internal solid and liquid biofuels	GWh	1,347	1,487	1,782
Purchased solid and liquid biofuels	GWh	864	754	820
– for production	GWh	584	455	501
– for operational machinery and internal transportation	GWh	56	55	45
– for other transportation	GWh	224	244	274
Fossil fuels, total	GWh	950	1,032	934
Fuel oil	GWh	45	170	78
Fossil vehicle fuels	GWh	886	842	835
– for operational machinery and internal transportation	GWh	168	160	176
– for other transportation	GWh	718	682	659
Other fossil fuels	GWh	19	20	21

### Comments

- The use of renewable fuels was higher compared with previous years due to higher production in the pulp mills.
- The purchasing of solid and liquid biofuels was higher compared with previous years due to lower use of fossil fuel oil in the pulp mills.
- Fuel consumption for other transportation was higher compared with previous years due to higher delivered volumes of pulp and sawn timber. The proportion of renewable fuel for other forms of transportation was also slightly lower compared with previous years.

### Fuel consumption for production 2019



Södra consumed fuel equivalent to 14.1 TWh for production purposes. 0.5 percent of this figure was fossil fuel, mainly fuel oil. Otherwise, biofuels were used, most of which comprised the lignin released in the production process at the pulp mills. The pulp mills recycle the cooking chemicals used in pulp production, while simultaneously generating energy. The sawmills burn bark and other biofuels to generate heat for wood drying.



Electricity and district heating		2019	2018	2017
<b>Electricity</b>				
Electricity consumption	GWh	1,459	1,411	1,410
– for production, operational machinery and internal transportation	GWh	1,433	1,384	1,384
– for other transportation	GWh	26	27	26
Purchased electricity	GWh	213	211	229
– for production, operational machinery and internal transportation	GWh	187	184	203
– for other transportation	GWh	26	27	26
Electricity generation	GWh	1,830	1,772	1,719
Electricity sales	GWh	584	572	538
Proportion of renewable electricity	%	99.7	99.5	99.5
<b>District heating<sup>1)</sup></b>				
Purchased district heating, total	GWh	3	5	7
– from steam	GWh	3	5	7
– from secondary heat <sup>2)</sup>	GWh	0	0	0
Sold district heating, total	GWh	405	430	414
– from steam	GWh	108	139	158
– from secondary heat	GWh	297	291	256

<sup>1)</sup> District heating relates to external purchasing and external sales.

<sup>2)</sup> Secondary heat is excess heat from the process. No additional fuel is required.

#### Comments

- Most of Södra's electricity generation comes from renewable energy sources. Electricity is generated at the pulp mills in Mönsterås, Mörrum and Värö. Södra also owns six wind turbines at Mönsterås, with a total power output of 14 MW.
- The high figure for electricity generated in 2019 was a result of high pulp production in the pulp mills.
- District heating deliveries were lower in 2019 compared with 2018, mainly the result of milder weather but also because the boiler in the planing mill at Torsås was divested.

Energy consumption within and outside Södra		2019	2018	2017
Renewable fuels		14,279	13,618	13,458
– within Södra		14,070	13,390	13,202
– outside Södra		209	228	256
Fossil fuels		950	1,032	934
– within Södra		73	200	119
– outside Södra		877	832	815
Purchased electricity		213	211	229
– within Södra		187	184	203
– outside Södra		26	27	26
Purchased district heating		3	5	7
– within Södra		3	5	7
– outside Södra		0	0	0
<b>Total</b>		<b>15,445</b>	<b>14,866</b>	<b>14,628</b>
– within Södra		14,333	13,779	13,531
– outside Södra		1,112	1,087	1,097

Energy is used within and outside Södra for production, operational machinery and internal transportation, and for other transportation. Energy consumption outside Södra comprises external harvesting contractors and external carriers. Södra also makes external deliveries of energy in the form of electricity and district heating.

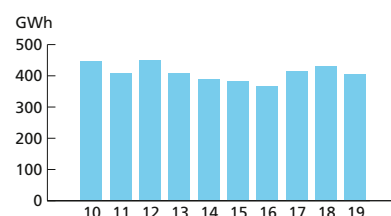
External energy deliveries, GWh		2019	2018	2017
Electricity		397	388	335
District heating		405	430	414
Solid biofuels (forest fuel, bark, pellets, residual products and energy peat)		4,060	3,874	3,749
<b>Total</b>		<b>4,862</b>	<b>4,692</b>	<b>4,498</b>

In 2019, external energy deliveries totalled approximately 4,900 GWh.

#### Comments

- Renewable fuels are mainly used within Södra for pulp production.
- Fossil fuels are mainly used outside Södra for the transportation of raw materials to mills and products to customers.

#### External district heating deliveries



Södra delivers district heating from the pulp mills in Mönsterås, Mörrum and Värö, and the sawmill in Kinda to neighbouring communities. External district heating deliveries were 405 GWh in 2019. More than two-thirds of the district heating delivered comprises excess heat from industrial processes. District heating is also delivered internally within Södra. The pulp mills in Mönsterås and Värö supply the sawmills at the combined facilities with district heating.



## Resource efficiency, cont'

Raw material use <sup>1)</sup>		2019	2018	2017
Wood raw material <sup>2)</sup>	mill. m <sup>3</sup> sub	12.7	12.0	11.6
Sawn timber <sup>3)</sup>	1,000 m <sup>3</sup>	178	207	196
Chemicals <sup>4)</sup>	1,000 tonnes	360	338	291
Packaging materials	1,000 tonnes	6.0	5.8	5.8
Water	mill. m <sup>3</sup>	79	83	85
Other raw materials <sup>5)</sup>	1,000 tonnes	6	11	14

<sup>1)</sup> Wood raw material and sawn timber are renewable raw materials, while chemicals, packaging materials and other raw materials are largely fossil-derived. Measurement and monitoring of the renewable percentage is not available for chemicals and packaging materials.

<sup>2)</sup> Wood raw material includes the sawlogs, pulpwood, fuel wood and forest residues used in Södra's industries.

<sup>3)</sup> Sawn timber relates to external purchasing.

<sup>4)</sup> Chemicals relates to purchased chemicals. Consumption mainly takes place in the pulp mills, in digesters and bleachers. The hazard category of the chemicals varies, but is most commonly corrosive, oxidising and toxic.

<sup>5)</sup> Other raw materials mainly comprise insulation and gypsum in Trivselhus.

## Comments

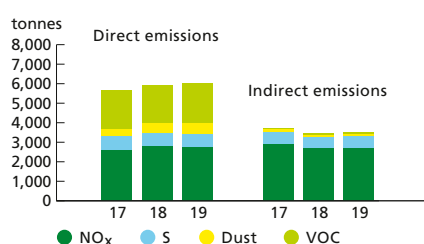
- The use of wood raw material and chemicals was greater compared with previous years due to higher production in the pulp mills.
- The pulp mills use surface water from the Emån, Mörrum and Viskan rivers. Water use was lower in 2019 compared with previous years despite higher production in the pulp mills.

Emissions		2019	2018	2017
NO <sub>x</sub> (nitrogen oxides as NO <sub>2</sub> )	tonne	5,406	5,499	5,488
S (gaseous sulphur as SO <sub>2</sub> )	tonne	1,318	1,235	1,369
Dust	tonne	666	583	437
VOCs (volatile organic compounds)	tonne	2,166	2,036	2,084

## Comments

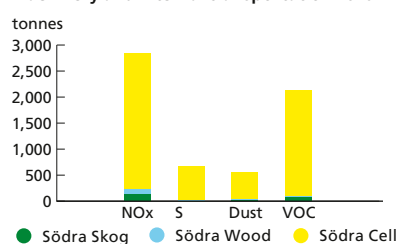
- In 2019, sulphur emissions were higher than in 2018 due to increased sea transport.
- Dust emissions were higher in 2019 compared with previous years due to problems with purification equipment at one of the pulp mills.

## Other direct and indirect emissions



Emissions from production, operational machinery and internal transportation are direct emissions, excluding external harvesting contractors. Emissions from other transportation are indirect, excluding own haulage operations.

## Other emissions from production, operational machinery and internal transportation 2019



The pulp mills account for the largest proportion of emissions, comprising nitrogen oxides, sulphur, dust and volatile organic compounds. Nitrogen oxides are also emitted by forestry machinery.

Effluents <sup>1)</sup>		2019	2018	2017
Wastewater	1,000 m <sup>3</sup>	69,800	69,400	69,900
AOX (halogenated organic compounds)	tonne	96	99	52
TOC (total organic carbon)	tonne	8,198	9,393	8,224
COD (chemical oxygen demand)	tonne	22,802	26,421	21,806
BOD <sub>7</sub> (biochemical oxygen demand)	tonne	1,369	1,930	2,194
TSS (total suspended solids)	tonne	2,131	2,154	2,503
Total N (nitrogen)	tonne	192	219	211
Total P (phosphorus)	tonne	17	20	23

<sup>1)</sup> Effluents from the pulp mills are reported. Treated wastewater is discharged into the Kattegatt or Baltic seas.

## Comments

- In 2019, effluents were lower compared with previous years despite higher production in the pulp mills.
- In the pulp mill at Mörrum, a new bio-sedimentation tank became operational during the year to ensure effective sedimentation of bio sludge. This process reduces the amount of effluent organic matter.
- At the pulp mill in Värö, operational improvements in pulp bleachers and wastewater treatment plants reduced effluents.

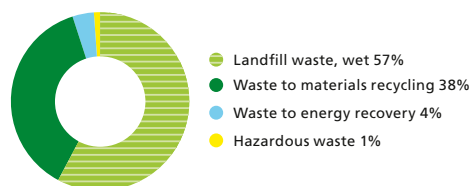
Waste		2019	2018	2017
Waste to materials recycling	1,000 tonnes	28	31	28
Waste to energy recovery <sup>1)</sup>	1,000 tonnes	2.6	3.6	3.6
Landfill waste, wet	1,000 tonnes	41	49	55
Hazardous waste	1,000 tonnes	1.0	0.8	1.0

<sup>1)</sup> It is assumed that energy is recovered from all incineration of waste.

#### Comments

- The amount of landfill waste was lower in 2019 compared with previous years despite higher production in the pulp mills. A higher proportion of the waste is recycled.

#### Waste management 2019



Landfill waste comprises inorganic materials, primarily green liquor sludge, ash, and lime sludge from the pulp mills, which is deposited in Södra's own landfills. In 2019, the total weight of Södra's waste was 72,325 tonnes.

#### PERMIT VIOLATIONS

Environmental permits for Södra's mill operations regulate effluents, emissions and noise, using guideline values, limits and/or constraints. Any exceedance of the guideline values must be reported to the supervisory authority and an action plan is required to avoid future exceedances. Exceedance of limits is subject to criminal liability. A constraint is considered a limit from the moment it is exceeded.

In 2019, Södra's activities exceeded guideline values, but no limits or constraints. Södra Skog exceeded guideline values for effluent suspended solids in four peat bogs. The Falkenberg nursery exceeded its annual water use permit. The Port of Mönsterås exceeded the average annual limit for hydrocarbons in wastewater. Södra Wood Långasjö exceeded the guideline value for noise. Södra Cell Mönsterås exceeded the guideline value for nitrogen oxides emissions. Södra Cell Mörrum exceeded guideline values for dust and sulphur emissions, chlorate in wastewater and noise. Södra Cell Värö exceeded guideline values for total organic carbon and total suspended solids in wastewater, and noise.

In addition to exceeding these guideline values, several other environmental incidents were reported to the relevant supervisory authority in 2019, including fire, oil and chemical discharges, and operational disruptions in treatment equipment.

#### REMEDICATION OF CONTAMINATED SOIL

Södra owns, or has owned, areas contaminated by earlier industrial processes, mainly discontinued sawmills and former timber-treatment facilities. Remediation measures are prioritised on the basis of risk to human health and the environment.

The first stage of remediation of the former timber-treatment facility in Hultsfred started in December. At the discontinued sawmill in Hjortsberga, the Swedish Geotechnical Institute (SGI) was assigned to investigate the continued spread of pollutants in the soil. In Lidhult, on one of Södra's former sawmill sites, the control programme for long-term monitoring was upgraded. Soil assessments to identify possible soil contamination are ongoing at Ramkvilla. In Traryd, a former irrigation dam was excavated and a treatment facility for oil-contaminated groundwater was installed. In the sawmill at Unnefors, action was taken to protect the Nissan River from contaminated groundwater.





# Responsible employer and committed employees

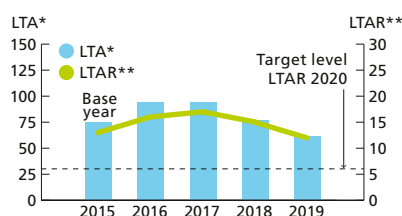
## SICKNESS ABSENCE – TARGET AND OUTCOME

Sickness absence shall not exceed 3 percent by 2020. In 2019, the sickness absence rate was 3.3 percent (3.6). Concentrated efforts to reduce short-term sickness absence, in particular, yielded results. Early intervention, health insurance and effective leadership have led to this positive trend.

## OCCUPATIONAL INJURIES – TARGET AND OUTCOME

Södra has a zero accident vision and the target is to reduce the lost-time-accident rate (LTAR) by 15 percent per year by 2020. In 2019, the number of lost-time accidents (LTA) was 62 (77) and the lost-time accident rate (LTAR) was 12 (15). These results are attributable to Södra's systematic and long-term efforts to reduce occupational injuries and achieve the company's zero-accident vision.

Occupational injuries



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

\*\* LTAR (lost-time-accident rate). The number of lost-time accidents per million hours worked.

## GENDER EQUALITY – TARGET AND OUTCOME

At least 30 percent of Södra employees shall be women by 2020. In 2019, the proportion of female employees was 23 percent (22). Södra has strengthened its recruitment process by increasing focus on the under-represented gender.

## ATTRACTIVE EMPLOYER – TARGET AND OUTCOME

The target for Södra employees who would recommend Södra as an employer is an eNPS score of 60 or higher by 2020. Since no employee satisfaction survey was conducted in 2019, the results from 2018 remain – an eNPS score of 14.

Employee satisfaction surveys are conducted every second year.

Employees	2019	2018	2017
No. of employees	3,150	3,141	3,402
– men	2,426	2,437	2,686
– women	724	704	716
Women, %	23	22	21
Women managers, %	20	20	19
Employee turnover <sup>1)</sup> , %	9.6	11.5	9.3
Wages, salaries and social security contributions, SEK million	2,326	2,362	2,429
<b>Occupational health and safety, number</b>			
Incidents, including risk observations	5,490	6,241	4,840
Occupational injuries without absence <sup>2)</sup>	410	510	446
Lost-time-accidents (LTA) <sup>2,3)</sup>	62	77	94
Fatal accidents	0	0	1
Lost days per injury	6.0	8.0	3.9
Lost-time-accident rate (LTAR) <sup>4)</sup>	12	15	17
<b>Sickness absence<sup>5)</sup>, %</b>			
Men	3.0	3.3	3.3
Women	4.4	4.9	4.6
Total	3.3	3.6	3.6
<b>Level of education, %</b>			
Basic education	6.6	7.6	8.5
– men	5.8	6.7	7.4
– women	0.8	0.9	1.1
Upper-secondary school	58.9	60.0	58.2
– men	47.3	48.4	48.2
– women	11.6	11.6	10.0
University studies, less than 120 credits	14.8	14.8	15.2
– men	11.7	11.8	12.3
– women	3.1	3.0	2.9
University studies, more than 120 credits	18.9	16.7	17.3
– men	11.6	10.0	10.3
– women	7.3	6.7	7.0
Postgraduates/Licentiates	0.8	0.9	0.8
– men	0.5	0.6	0.5
– women	0.3	0.3	0.3

<sup>1)</sup> Employee turnover is estimated as new employees plus departures, divided by the average number of employees.

<sup>2)</sup> Some of the most common causes of occupational injuries (with and without absence) are contact with a sharp object, getting caught or stuck between objects, getting struck by flying or falling objects or falls from the same level (tripping or slipping).

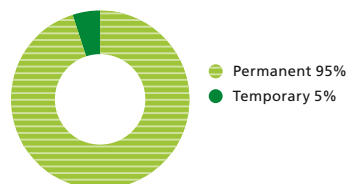
<sup>3)</sup> LTA (lost-time-accident): occupational injury with absence.

<sup>4)</sup> LTAR (lost-time-accident rate): number of lost-time accidents per million hours worked.

<sup>5)</sup> Including occupational diseases.

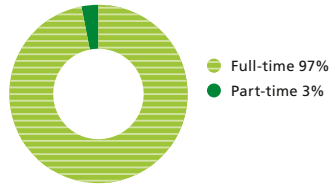


### Form of employment



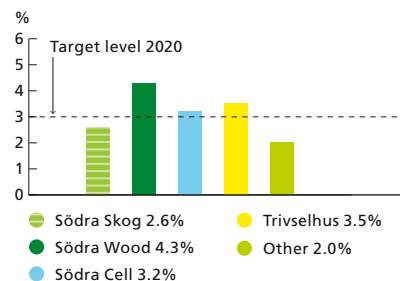
**Permanent:** 2,997 employees (2,999), of whom 78 percent (78) were men and 22 percent (22) women. Sweden: 2,844 employees (2,851), other countries: 153 employees (148).  
**Temporary:** 153 employees (142), of whom 58 percent (58) were men and 42 percent (42) women. Sweden: 150 employees (142), other countries: 3 employees (0).

### Full-time/part-time employees



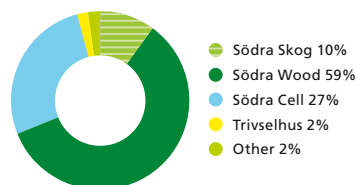
**Full-time:** 3,069 employees (3,078), of whom 78 percent (78) were men and 22 percent (22) women  
**Part-time:** 81 employees (63), of whom 56 percent (41) were men and 44 percent (59) women

### Sickness absence 2019



Early intervention, health insurance and effective leadership have led to this positive trend. Sickness absence remains too high, however, especially for Södra Wood.

### Lost-time-accidents 2019



Initiatives during the year were mainly focused on a safety culture and safe behaviours.

### Age distribution, %

Age category	2019			2018			2017		
	Total	Managers	Employees	Total	Managers	Employees	Total	Managers	Employees
<30	15	0	15	16	0	16	15	0	15
– men	10	0	10	11	0	11	11	0	11
– women	5	0	5	5	0	5	4	0	4
30-50	51	6	45	50	6	44	51	6	45
– men	39	4	35	38	4	34	39	4	35
– women	12	2	10	12	2	10	12	2	10
>50	34	4	30	34	4	30	34	3	31
– men	28	4	24	29	4	25	28	3	25
– women	6	0	6	5	0	5	6	0	6
Average age, years	44	—	—	44	—	—	44	—	—



## Responsible business

### FOLLOW-UP OF THE SUPPLIER CODE – TARGET AND OUTCOME

The target is that by 2020, the Supplier Code will be included in all of Södra's supplier agreements, that all suppliers holding supplier contracts with Södra will be risk-assessed, and that prioritised suppliers will be evaluated on the basis of the requirements in Södra's Supplier Code.

In 2019, the proportion of suppliers who had signed the Södra Supplier Code was 79 percent (88), excluding harvesting assignments and wood deliveries which are not covered by the Code. The proportion of Södra's purchasing value for which suppliers had signed the Supplier Code was 97 percent (98). The proportion of Södra's purchasing value for which suppliers had undergone a risk assessment was 95 percent (94). The risk assessment resulted in 67 prioritised suppliers. The proportion of prioritised suppliers who completed a self-assessment was 63 percent and the proportion of prioritised suppliers who were monitored on site (a sustainability audit)

was 18 percent. A total of 81 percent of the prioritised suppliers were assessed. The implementation rate for including the Supplier Code in supplier agreements was lower in 2019 compared with previous years. In 2019, Södra's purchasing organisations were focused on improving their processes and also achieved better results during the year with regard to risk assessment and Supplier Code evaluation.

### SUSTAINABILITY-RELATED CRITERIA FOR INVESTMENTS AND BUSINESS TRANSACTIONS

The target is that Södra will also account for sustainability-related criteria when making investments and business transactions by 2020. In 2019, efforts commenced to produce these criteria. This process is linked to the new Group strategy.

Purchasing and suppliers – purchasing category	No. of suppliers	Purchasing costs by geographic location for contracted party, %
Wood raw material <sup>1)</sup> (sawlogs, pulpwood and sawn timber)	23,255 <sup>2)</sup>	87% Sweden, 3% other Nordic countries, 9% rest of Europe and 1% rest of world
Forestry contracting services <sup>3)</sup> (independent contractors)	428	96% Sweden, 4% rest of Europe
Transport services <sup>4)</sup> (transportation of wood raw material and products)	139	76% Sweden, 2% other Nordic countries, 21% rest of Europe and 1% rest of world
Input products <sup>4)</sup> (process chemicals, fuels, energy and packaging materials)	111	74% Sweden, 8% other Nordic countries and 18% rest of Europe
Indirect material and services <sup>4)</sup> (investments, operating materials, vehicles, IT, travel, office supplies and services)	540	98% Sweden, 1% other Nordic countries and 1% rest of Europe

<sup>1)</sup> Covers suppliers with annual sales to Södra of more than SEK 100,000.

<sup>2)</sup> Of which 11,964 harvesting assignments, 11,195 wood deliveries and 96 external suppliers. Harvesting assignments and wood deliveries are not covered by the Södra Supplier Code.

<sup>3)</sup> Covers suppliers with annual sales to Södra of more than SEK 100,000, and more than SEK 50,000 for forestry contractors.

<sup>4)</sup> Covers suppliers with annual sales to Södra of more than SEK 1,000,000 for Södra's central purchasing organisation: all suppliers to Trivselhus.

#### Comments

- Södra's contracted suppliers are predominantly based in Sweden and the EU, which simplifies evaluation and control.
- The biggest changes in the supply chain in 2019 were a lower proportion of wood raw material imports, and the inclusion of forestry contracting service suppliers for Södra Latvia SIA and Södra Metsad OÜ.

Key indicators Supplier Code and supplier review	2019	2018	2017
Suppliers that have signed the Södra Supplier Code, %	79	88	81
Södra's purchasing value for which suppliers have signed the Supplier Code, %:	97	98	98
Södra's purchasing value for which a risk assessment of suppliers was performed, %	95	94	88
No. of prioritised suppliers based on the risk assessment	67	—	—
– supplier self-assessments, %	63	—	—
– suppliers monitored on-site (sustainability audit), %	18	—	—
No. of reviewed suppliers	171	147	104
No. of non-compliant suppliers	0	5	11
– suppliers with agreement to address the cause of non-compliance, %	0	60	82
– suppliers where the review led to termination of their contract, %	0	0	0

#### Comments

- Supplier assessment results have not been included for 2017 and 2018 due to a change in the reporting policy.
- The year's review process was mainly focused on ensuring requirements specification for supply chain control, workplace safety and working conditions.
- In total, more suppliers were reviewed in 2019 compared with 2018 and no cases of non-compliance were identified in relation to environmental or social conditions.
- During the year, Södra entered into a partnership with other major Swedish dry cargo shipping buyers in the Baltic Sea and North Sea within the framework of the Responsible Shipping Initiative (RSI). The aim is to ensure that vessels meet the applicable requirements for working conditions, occupational health and safety and environmental impacts. Within the framework of the partnership, the results from inspections carried out on the vessels will be shared between the members.

Products and services from Södra		2019	2018	2017
<b>Products from Södra<sup>1)</sup></b>				
Wood raw material	mill. m <sup>3</sup> sub	1.8	1.5	1.6
Cellulose pulp	1,000 tonnes	1,869	1,786	1,712
Sawn timber <sup>2)</sup>	1,000 m <sup>3</sup>	1,766	1,715	1,787
Interior wood products	1,000 m <sup>3</sup>	—	32	53
Biofuel	GWh	4,060	3,874	3,749
Houses	no.	285	441	581
Seedlings (own production)	million	25	25	30
<b>By-products from Södra<sup>1)</sup></b>				
By-products of wood (cellulose chips, shavings)	1,000 tonnes	464	517	480
Peat for material use <sup>3)</sup>	1,000 m <sup>3</sup>	171	250	75
Tall oil	1,000 tonnes	34	39	34
Turpentine	1,000 tonnes	1.6	1.4	1.2
Lime sludge	1,000 tonnes	56	18	21
<b>Forestry services from Södra</b>				
Harvesting <sup>4)</sup>	mill. m <sup>3</sup> sub	8.7	8.1	8.2
Forest management <sup>5)</sup>	1,000 hectares	127	106	115

<sup>1)</sup> Deliveries of products and by-products relate to external deliveries.

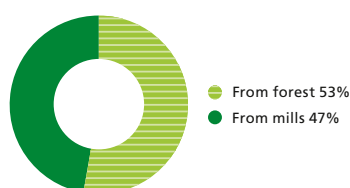
<sup>2)</sup> Sawn timber is presented excluding subcontracting.

<sup>3)</sup> Peat for material use relates to peat litter, horticultural peat and block peat. Block peat is included for 2018 (not for 2017).

<sup>4)</sup> Harvesting volume relates to harvested roundwood from the field organisation in Sweden and the Baltic countries.

<sup>5)</sup> Forest management relates to forestry operations, excluding regeneration harvesting.

## Biofuel 2019



Biofuels are utilised in a variety of ways in Södra's value chain. Forest residues (branches and treetops) are a by-product of harvesting and used as fuel in thermal power stations. Bark from the pulp mills is used for internal energy generation and sold on the market as biofuel. The sawmills contribute with bark, wood chips and shavings. Peat is harvested from bogs. The diagram shows the division between biofuels from the forest (including energy peat) and biofuels from industry, a total of about 4,100 GWh.

Certified products according to FSC® or PEFC™	2019	2018	2017
Products with either FSC® or PEFC™ certification, %	62	70	63

The percentage of Södra's revenue from external sales of physical products derived from sales of products with either FSC® or PEFC™ certification. The percentage of certified products was lower in 2019 due to the weak market in Europe. A higher percentage was sold outside Europe where demand for certified products is lower.

## OTHER PRODUCT LABELLING

- All grades of paper pulp produced by Södra Cell are approved for the production of eco-labelled paper products under the Nordic Swan and EU Ecolabels, and hold Blue Label certification (an international allergy label). All paper pulp is also approved for the production of paper and cardboard that may come into contact with food, according to German and US food standards. As part of its customer offering, Södra Cell reports the origins of its wood raw material and environmental data, including carbon dioxide emissions, at product level.
- All house models produced by Trivselhus under the Movehome brand carry the Nordic Swan Ecolabel.

## COMPLAINTS

- During the year, Södra's industrial activities received more than 48 (55) external complaints. Most of these referred to odours and noise from Södra Cell's three pulp mills. The complaints were managed in accordance with the environmental management systems of the operations. The complainant receives feedback if requested. The complaints are also reported to the relevant supervisory authority. In the pulp mill at Mörrum, a number of noise-reduction measures were carried out during the year, by sound insulating noisy equipment. In addition, a new flare for the combustion of sulphurous gases was installed, which is reducing odours from the operations.
- During the year, Södra's forestry operations received 23 (10) formal comments, mainly related to forestry measures performed.





# GRI Content Index

## GENERAL DISCLOSURES

GRI Standard	Disclosure	Description	Comments	Reference
<b>Organisational profile</b>				
GRI 102: General disclosures 2016	102-1	Name of the organisation		Inside cover
	102-2	Activities, brands, products, and services		2-3
	102-3	Location of headquarters		145
	102-4	Location of operations	Södra mainly conducts operations in Sweden. From a sustainability perspective, the Swedish operations are most relevant due to both their scope and nature.	64-65
	102-5	Ownership and legal form		132-133
	102-6	Markets served		4-5, 10-11, 64
	102-7	Scale of the organisation		2-3, 43
	102-8	Information on employees and other workers	Temporary employees are used during peak periods. Contractors are used extensively for forestry operations and large-scale industrial projects, such as investments. Read more about suppliers and contractors on page 120. Seasonal variation in number of employees is just over 1% of total employees.	65, 118-119
	102-9	Supply chain		120
	102-10	Significant changes to the organisation and its supply chain		96, 120
	102-11	Precautionary Principle or approach	Södra applies the precautionary approach and other general rules of consideration set out in the Swedish Environmental Code relating to permits, and in its ongoing environmental work.	49
	102-12	External initiatives	Södra intends to endorse these external charters, principles and initiatives but has not signed them.	106
	102-13	Memberships of associations		103-104
<b>Strategy</b>				
GRI 102: General disclosures 2016	102-14	Statement from senior decision-maker		6-7
<b>Ethics and integrity</b>				
GRI 102: General disclosures 2016	102-16	Values, principles, standards, and norms of behaviour		28, 30, 106-108
<b>Governance</b>				
GRI 102: General disclosures 2016	102-18	Governance structure		106-108, 132-137
<b>Stakeholder engagement</b>				
GRI 102: General disclosures 2016	102-40	List of stakeholder groups		104
	102-41	Collective bargaining agreements	96.8% (97.0) of Södra employees are covered by collective bargaining agreements. For Södra employees in Sweden, the rate was 100% (100).	
	102-42	Identifying and selecting stakeholders		104
	102-43	Approach to stakeholder engagement		103-104
	102-44	Key topics and concerns raised		103-104
<b>Reporting practice</b>				
GRI 102: General disclosures 2016	102-45	Entities included in the consolidated financial statements		94, 102
	102-46	Defining report content and topic boundaries		102-103
	102-47	List of material topics		102-103
	102-48	Restatements of information		102-103
	102-49	Changes in reporting		102
	102-50	Reporting period		102
	102-51	Date of most recent report		102
	102-52	Reporting cycle		102
	102-53	Contact point for questions regarding the report		145
	102-54	Claims of reporting in accordance with the GRI Standards		102
	102-55	GRI content Index		122-124
	102-56	External assurance		102, 125

## MATERIAL SUSTAINABILITY TOPICS

GRI Standard	Disclosure	Description	Comments	Boundary	Reference
Economic topics					
GRI 201: Economic performance 2016	GRI 103-1	Explanation of the material topic and its boundary		Within Södra	12-13, 48-49, 85-88 103, 106-108, 123, 132-137
	GRI 103-2	The management approach and its components			
	GRI 103-3	Evaluation of the management approach			
	GRI 201-2	Financial implications and other risks and opportunities due to climate change	Omission of the quantification of expected future revenue and costs arising from Södra's risks and opportunities due to climate change, information unavailable.		20-21, 48-49, 84-88, 107
GRI 205: Anti-corruption 2016	GRI 103-1	Explanation of the material topic and its boundary		Within Södra Outside Södra for Södra's suppliers and customers Boundary related to Board and management to Board of Directors and Group Senior Management	30, 49, 103, 106-108, 123
	GRI 103-2	The management approach and its components			
	GRI 103-3	Evaluation of the management approach			
	GRI 205-2	Communication and training about anti-corruption policies and procedures	Omission of number of Board members who completed web training, information unavailable. Omission of division per employee category and region, immaterial. Code of Conduct and Supplier Code include anticorruption. Employees and partners are informed about the Codes via the intranet and sodra.com, where any major changes to the Codes are also communicated.		107-108
Environmental topics					
GRI 301: Materials 2016	GRI 103-1	Explanation of the material topic and its boundary		Within Södra	24, 26, 48-49, 103, 106-108, 123
	GRI 103-2	The management approach and its components			
	GRI 103-3	Evaluation of the management approach			
	GRI 301-1	Materials used by weight or volume			116
GRI 302: Energy 2016	GRI 103-1	Explanation of the material topic and its boundary		Within Södra Outside Södra for external harvesting contractors and transportation	19-20, 24, 26, 49, 103, 106-108, 123
	GRI 103-2	The management approach and its components			
	GRI 103-3	Evaluation of the management approach			
	GRI 302-1	Energy consumption within the organisation			109, 114-115
	GRI 302-2	Energy consumption outside of the organisation			109, 115
	GRI 302-3	Energy intensity	Energy intensity, electricity and heating, is restricted to within Södra for pulp and sawn timber.		19, 109, 114
GRI 304: Biodiversity 2016	GRI 103-1	Explanation of the material topic and its boundary		Within Södra Outside Södra for Södra members' and suppliers of wood raw material	18, 22, 48-49, 103, 106-108, 117, 123
	GRI 103-2	The management approach and its components			
	GRI 103-3	Evaluation of the management approach			
	GRI 304-3	Habitats protected or restored			109, 113, 117
	Own	Considerations in regeneration harvesting			18, 105, 109, 112
	Own	Nature-conservation measures			18, 105, 109, 112
GRI 305: Emissions 2016	GRI 103-1	Explanation of the material topic and its boundary		Within Södra Outside Södra for external harvesting contractors and transportation	18, 20, 26, 49, 103, 106-108, 123
	GRI 103-2	The management approach and its components			
	GRI 103-3	Evaluation of the management approach			
	GRI 305-1	Direct (Scope 1) GHG emissions			18, 109-111
	GRI 305-3	Other indirect (Scope 3) GHG emissions			18, 109-111
	GRI 305-7	Nitrogen oxides (NO <sub>x</sub> ), sulphur oxides (SO <sub>x</sub> ), and other significant air emissions			109, 116
GRI 306: Effluents and waste 2016	GRI 103-1	Explanation of the material topic and its boundary		Within Södra	26, 49, 103, 107-108, 123
	GRI 103-2	The management approach and its components			
	GRI 103-3	Evaluation of the management approach			
	GRI 306-1	Water discharge by quality and destination			26, 109, 116
	GRI 306-2	Waste by type and disposal method	Omission of reporting of waste volumes stored on site as this is not monitored at Group level, information unavailable.		109, 117
	GRI 308: Supplier environmental assessment 2016	GRI 103-1	Explanation of the material topic and its boundary		
GRI 103-2		The management approach and its components			
GRI 103-3		Evaluation of the management approach			
GRI 308-2		Negative environmental impacts in the supply chain and actions taken		120	

GRI Standard	Disclosure	Description	Comments	Boundary	Reference
Social topics					
GRI 403: Occupational health and safety 2016	GRI 103-1	Explanation of the material topic and its boundary		Within Södra	19, 28, 49, 103, 107-108, 124
	GRI 103-2	The management approach and its components			
	GRI 103-3	Evaluation of the management approach			
	GRI 403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Omission of division per region since most of Södra's employees are based in Sweden. Only sickness absence is reported by gender. Other information is not relevant to report by gender. Omission of IR (injury rate) reporting. Södra reports LTAR (lost-time-accident rate) instead. Omission of ODR (occupational disease rate) reporting. Absence due to occupational diseases is included in sickness absences. Omission of LDR (lost day rate) reporting. Södra reports the number of days absent per occupational injury instead. OHS reporting includes Södra's employees only, not subcontracted employees and contractors. All omissions due to not applicable.		109, 118-119
GRI 405: Diversity and equal opportunity 2016	GRI 103-1	Explanation of the material topic and its boundary		Within Södra	19, 28, 49, 103, 107-108, 124
	GRI 103-2	The management approach and its components			
	GRI 103-3	Evaluation of the management approach			
	GRI 405-1	Diversity of governance bodies and employees			66, 109, 118-119
GRI 406: Non-discrimination 2016	GRI 103-1	Explanation of the material topic and its boundary		Within Södra	28, 49, 103, 107-108, 124
	GRI 103-2	The management approach and its components			
	GRI 103-3	Evaluation of the management approach			
	Own	Training in non-discrimination policies			28, 105
GRI 414: Supplier social assessment 2016	GRI 103-1	Explanation of the material topic and its boundary		Within Södra Outside Södra for Södra's suppliers	19, 30, 48, 103, 107-108, 124
	GRI 103-2	The management approach and its components			
	GRI 103-3	Evaluation of the management approach			
	GRI 414-2	Negative social impacts in the supply chain and actions taken			120
GRI 417: Marketing and labelling 2016	GRI 103-1	Explanation of the material topic and its boundary		Within Södra Outside Södra for Södra members and customers	22, 30, 48-49, 103, 107-108, 124
	GRI 103-2	The management approach and its components			
	GRI 103-3	Evaluation of the management approach			
	Own	Forest certification and certified products			105, 112, 121
Own topics					
Forest growth	GRI 103-1	Explanation of the material topic and its boundary		Within Södra Outside Södra for Södra's members	18, 20, 48, 103, 106, 108, 110, 124
	GRI 103-2	The management approach and its components			
	GRI 103-3	Evaluation of the management approach			
	Own	Forest growth, Annual rate of forest growth on Södra members' estates			18, 105, 109-110
Sustainable harvesting rate	GRI 103-1	Explanation of the material topic and its boundary		Within Södra Outside Södra for Södra's members	18, 22, 49, 103, 106-108, 112, 124
	GRI 103-2	The management approach and its components			
	GRI 103-3	Evaluation of the management approach			
	Own	Harvesting rate on land owned by Södra members			18, 105, 109, 112
New products and services	GRI 103-1	Explanation of the material topic and its boundary		Within Södra	18, 24, 48, 103, 107-108, 113, 124
	GRI 103-2	The management approach and its components			
	GRI 103-3	Evaluation of the management approach			
	Own	New sustainable products			18, 105, 109, 113
Attractive employer	GRI 103-1	Explanation of the material topic and its boundary		Within Södra	19, 28, 49, 103, 107-108, 124
	GRI 103-2	The management approach and its components			
	GRI 103-3	Evaluation of the management approach			
	Own	Employees who would recommend Södra			19, 105, 109, 118



# Assurance report

*Independent Auditor's Limited Assurance Report on Södra Skogsägarna ekonomisk förening's Sustainability Report. This is a translation of the original report in Swedish.*

To Södra Skogsägarna ekonomisk förening,  
Corp. ID. No. 729500-3789

## INTRODUCTION

We have been engaged by the Board of Directors of Södra Skogsägarna ekonomisk förening to undertake a limited assurance of Södra Skogsägarna ekonomisk förening's Sustainability Report for the year 2019. Södra Skogsägarna ekonomisk förening has defined the scope of the sustainability report on the inside of the cover of this document.

## RESPONSIBILITIES OF THE BOARD AND GROUP MANAGEMENT FOR THE SUSTAINABILITY REPORT

The Board of Directors and the Executive Management are responsible for preparing the Sustainability Report in accordance with applicable criteria, as explained on pages 102-103 and 105 and consist of the parts of the framework for sustainability reports published by GRI (Global Reporting Initiative) that are applicable to the sustainability report, as well as the accounting and calculation principles that Södra Skogsägarna ekonomisk förening has developed. This responsibility also includes the internal control which is deemed necessary to establish a sustainability report that does not contain material misstatement, whether due to fraud or error.

## RESPONSIBILITIES OF THE AUDITOR

Our responsibility is to express a conclusion on the sustainability report based on the limited assurance procedures we have performed.

We conducted our limited assurance engagement in accordance with ISAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report,

and applying analytical and other limited assurance procedures. A limited assurance engagement have a different focus and a considerably smaller scope compared to the focus and scope of an audit in accordance with International Standards on Auditing and generally accepted auditing standards.

The audit firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We are independent in relation to Södra Skogsägarna ekonomisk förening according to generally accepted auditing standards in Sweden and have fulfilled our professional ethics responsibility according to these requirements.

The procedures performed in a limited assurance engagement do not allow us to obtain such assurance that we become aware of all significant matters that could have been identified if an audit was performed. The stated conclusion based on a limited assurance, therefore, does not have the security that a stated conclusion based on an audit has.

Our procedures are based on the criteria defined by the Board of Directors and the Group Management as described above. We consider these criteria as suitable for the preparation of the Sustainability Report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion below.

## CONCLUSION

Based on the limited assurance procedures we have performed, nothing has come to our attention that causes us to believe that the Sustainability Report is not prepared, in all material respects, in accordance with the criteria defined by the Board of Directors and Executive Management.

Växjö, 12 February 2020



Martin Johansson  
Authorised Public Accountant

Madeleine Edberg  
Authorised Public Accountant

Åsa Ekberg  
Special member of FAR





# Sustainability Report in accordance with the Swedish Annual Accounts Act

Södra has prepared a Sustainability Report in accordance with the Swedish Annual Accounts Act. The Sustainability Report contains relevant information about Södra's work and performance in areas including the environment, social conditions and employment, human rights and anti-corruption.

The mandatory Sustainability Report consists of the following pages and areas:

- Business model: pages 14-15
- Risks and risk management: pages 48-49

- Sustainability issues: pages 20-30
  - Policies and governance: pages 106-108
  - Results: pages 18-19 and 110-121 and the table below
- Other sustainability disclosures (including materiality assessment): pages 102-105 and 109

For more information about where the various sustainability-related disclosures can be found, refer to the GRI Content Index on pages 122-124. The statutory sustainability report also includes Trivselhus AB.

Sustainability topics	Results reported by Södra
Environment	Climate-positive operations (pages 20-21), Sustainable forestry (pages 22-23), Resource efficiency (pages 26-27), Responsible business (page 30), Sustainability data (pages 110-117, 121)
Social conditions and employment	Responsible employer and committed employees (page 28), Responsible business (page 30), Sustainability data (pages 118-120)
Human rights	Responsible employer and committed employees (page 28), Responsible business (page 30), Sustainability data (page 120)
Anti-corruption	Responsible business (page 30), Governance and sustainability organisation (pages 107-108), Sustainability data (page 120)



# Auditor's report on the statutory sustainability report

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To the Annual General Meeting of Södra Skogsägarna ekonomisk förening, Corp. ID. No. 729500-3789

## ENGAGEMENT AND RESPONSIBILITY

The Board of Directors is responsible for the sustainability report for the year 2019 and that it has been prepared in accordance with the Swedish Annual Accounts Act.

## SCOPE OF THE AUDIT

Our examination has been conducted in accordance with FAR's auditing standard RevR 12, *The auditor's opinion regarding the statutory sustainability report*. This means that our examination of the statutory sustainability report is substantially different and less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

## OPINION

A sustainability report has been prepared.

Växjö, 12 February 2020

Martin Johansson  
*Authorised Public Accountant*

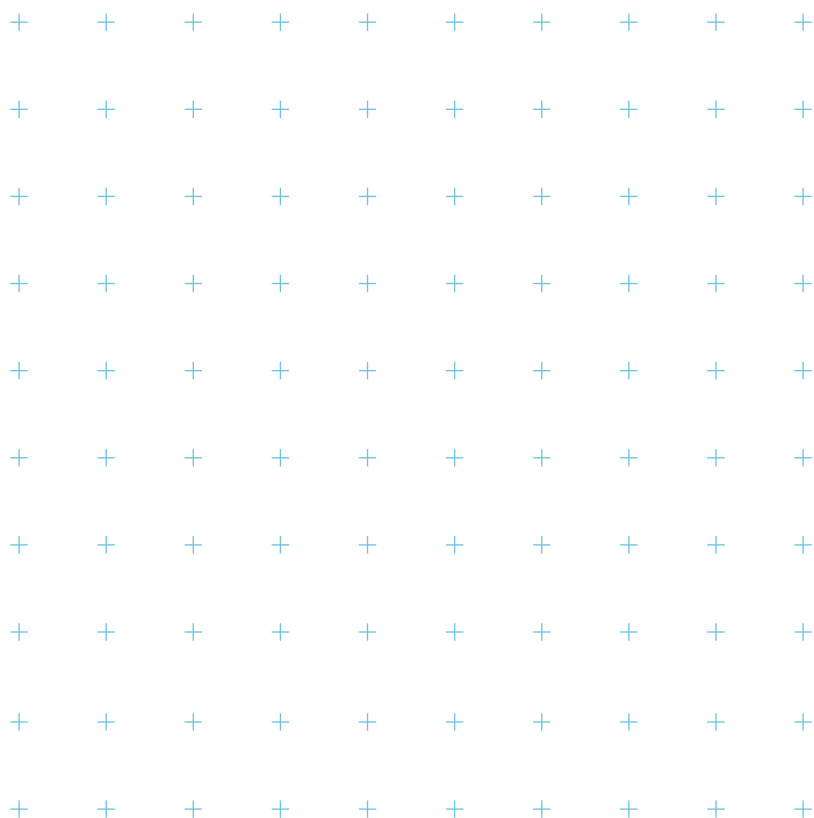
Madeleine Edberg  
*Authorised Public Accountant*

Carina Arvidsson Löw  
*Representative Auditor*

Dick Stagmo  
*Representative Auditor*



# Corporate governance





# Good conditions for profitable and sustainable forestry

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*Södra shall secure markets for its members' forest-based products at market prices and promote high forest production combined with nature conservation and cultural considerations.*

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## 213

In 2019, Södra conducted 213 owner dialogues, which gave members an opportunity to influence conditions for the next strategy period.

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## 36

Södra's members are organised into 36 forestry districts.

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## 2.6 million

Södra's members combined own 2.6 million hectares of forest.





# A year of tough challenges

*2019 was a year of massive spruce bark beetle outbreaks, a slowing economy and a tough business policy climate. At the same time, Södra reported strong operating profit and achieved a number of milestones that are helping to promote sustainability and equip the Group for the future.*



We have been through a wet winter and a dry summer, with massive damage from spruce bark beetle outbreaks. The outbreaks resulted in major economic loss and required huge efforts. Södra's employees worked tirelessly to remove the damaged wood from the forest, and our members showed great patience and understanding while we worked as fast as we could to take care of the damaged wood.

Despite the massive damage, a slowing economy and dramatic price declines in the market, Södra reported strong operating profit of SEK 2,582 million in 2019. The long-term target is to distribute at least 50 percent of profit to our owners, and the proposed profit distribution for 2019 is SEK 1,068 million.

During the year, Södra created a new Group strategy for 2020 and onwards. It builds on our efforts over the past few years, with extensive investment and operational restructuring. The successful trend of sharp growth and improved profitability is proof that we are heading in the right direction. The strategy includes initiatives to strengthen the competitiveness of family forestry, such as increased technological advances and forest tree breeding for faster growth. An important part of the strategy process was owner dialogues, which were conducted during the autumn and gave all of our members an opportunity to influence conditions for the next strategy period.

The new Group strategy also has a strong focus on innovation and that Södra



**Owner dialogues were an important part of the new Group strategy process.**





**Increasing pine stands and understanding the relationship between forest browsing, thinning and cleaning were key priorities in 2019.**



low-carbon society and gives Södra a strong incentive to continue focusing on innovation, resource-efficiency and independence from fossil fuels throughout our entire value chain.

#### **Key role in a circular economy**

Every year, forest owners in Götaland lose approximately SEK 1 million in revenue from wildlife browsing. The high browsing pressure has meant that spruce has gradually outcompeted pine, despite the fact that many sites in southern Sweden are more suitable for pine. Södra is working actively in many ways to safeguard the interests of the company, its members and family forestry. Increasing pine stands and understanding the relationship between forest browsing, thinning and cleaning were key priorities in 2019 and issues that we will continue to focus on in 2020.

This is just one example of why the reasons for forming Södra are still highly relevant. Södra secures markets for its members' forest-based products, safeguards family forestry, shares the value of processing and provides assistance in vulnerable situations. We will remain a strong local player while also being open and innovative, and maximising the benefits of technology in a global market. With the commitment that exists in our organisation and the potential that exists in our forests to meet tomorrow's need for sustainable products and to play a key role in the transition to a more bio-based circular economy, I firmly believe that forests are the future!

**Lena Ek**  
Chair of the Board

will be a leader in the development of new manufacturing processes and new materials based on forest biomass. In 2019, we also achieved a number of milestones in research and development. For example, a global breakthrough for the possibility to recycle mixed textiles in the production of dissolving pulp, which can be used to make new textiles. Södra has also succeeded in transitioning production, and investments in liquid biofuels have progressed.

#### **Business policy reinforcement**

In Sweden, both forest stands and biodiversity are continuously increasing and a sustainability revolution is taking place in both forestry and industry. Despite this, 2019 was a challenging year for business policy with policy proposals and legal decisions that restrict the right of individuals to own and use their own forests in accordance with the principle of freedom with responsibilities. The challenges are different today compared with five years ago. Pressure on forests is getting stronger, and there are many groups vying for control. For example, there are now three government agencies working to promote environmental interests. This creates confusion, and the balance between production and environmental considerations is lost. Under this governance model, the production perspective suffers. It is one of the reasons why the gap between government directives and

conditions for forest owners is widening. Species protection issues are one example, in relation to key habitats, conservation, digital publication of harvesting notifications, fines, grazing and so forth.

Political debates also refer to international disaster reports that are irrelevant to Swedish forestry, which leads to many inaccuracies and misunderstandings. It is also worrying that the level of knowledge about forestry is relatively low in Brussels. That makes our job harder in the EU. At the same time, demand for new and sustainable products from wood raw material is growing and the EU could play a positive role when it comes to the introduction of regulations to support climate-smart solutions.

In 2019, Södra strengthened the business policy area. Today we have experts working in the Federation of Swedish Farmers, the Swedish Forest Industries Federation and the EU who each day defend the rights of our members in various ways.

#### **Positive climate effect**

In 2019, Södra also measured the total climate effect of its activities using a model developed by Holmgren and Kolar (SCA, February 2019). The calculations support the strategic choices that have been made to meet the Group's emission-reduction targets and showed that Södra's positive climate effect in 2018 corresponded to 9.2 million carbon dioxide equivalents. The positive climate effect is partly due to the carbon sink created by our owners' growing forests but also to the substitution effects arising when forest-based products are used to replace fossil-based products.

However, a forest's ability to be a carbon sink only applies when it is in its growth phase. This is why they need to be harvested at the right time, and used to produce renewable products that can replace fossil-based products. Södra's positive climate effect confirms that the Group is moving in the right direction – striving for a longer life for the company's products and to achieve a higher rate of substitution. This is achieved by investing in liquid biofuels and timber building systems, and by recycling textiles in pulp production.

The report shows clearly that the forest industry has a key role to play in finding more solutions in the transition to a



**Growing forests and renewable products from wood raw material are contributing to Södra's positive climate effect.**





# Corporate Governance Report

*Södra Skogsägarna ekonomisk förening (Södra) has its registered office in Växjö, Sweden. Management of the Group is based on the Swedish Co-operative Societies' Act, other applicable laws and regulations and the association's Articles of Association.*

As of 2014, Södra Skogsägarna has applied a form of corporate governance in which the economic association is the Parent Company. Where applicable, Södra works in accordance with the Swedish Corporate Governance Code (the Code).

## THE ASSOCIATION'S PURPOSE

The purpose of Södra Skogsägarna ekonomisk förening is to promote the financial interests of its members, which includes trading in, and processing of, the forest and forest-based products, mainly from the association's members, and conducting industrial and/or financing activities. The association also aims to achieve a secure and appropriate market for its members' forest-based products at market prices, to promote high-quality and valuable forest production with respect for nature conservation and cultural values, to support and develop private forestry and to protect ownership rights.

## STRUCTURE AND ORGANISATION

Södra Skogsägarna ekonomisk förening is a forest industry group that offers forestry services, sawn timber and pulp for the pulp market. In 2019, the operations were con-

ducted in three business areas: Södra Skog, Södra Wood and Södra Cell. There are also a number of subsidiaries, refer to the list on page 94.

## BOTH OWNER AND MEMBER

Södra is owned by more than 52,000 forest owners in southern Sweden. The owners are members of the economic association, and contribute capital comprising at least one contribution for each hectare of forest land, although more than 200 contributions are voluntary. One contribution is equal to SEK 600.

A member must own, or lease, at least five hectares of forest land in the association's membership area, which mainly comprises Götaland.

Every member is entitled to one vote, regardless of contributed capital or size of their forest estate. In 2019, the number of members grew by 555 (628) to 52,192 (51,637).

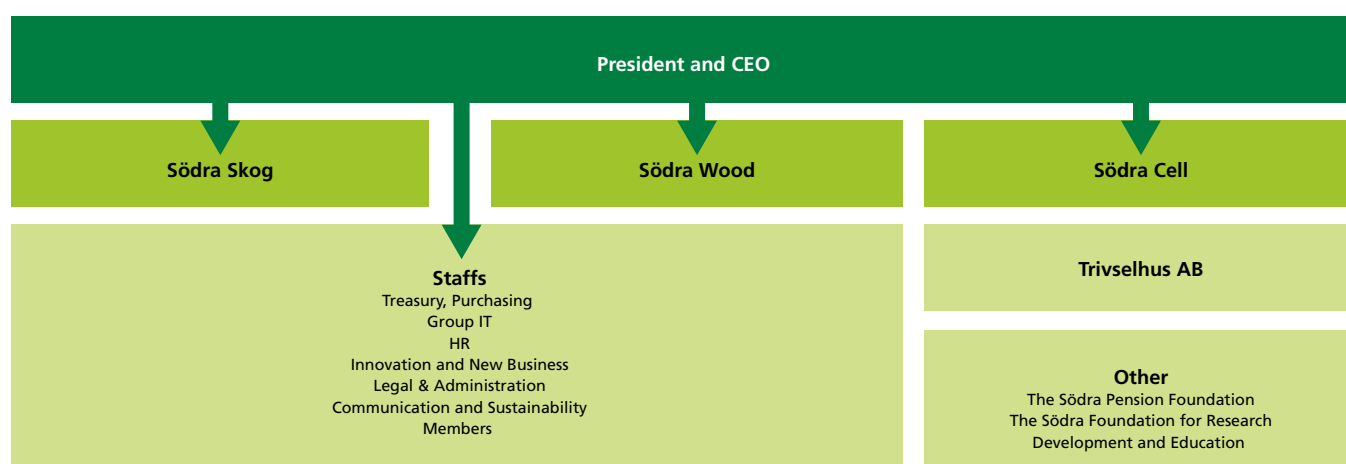
## FORESTRY DISTRICTS AND LOCAL ANNUAL MEETINGS

Södra's members are organised into 36 forestry districts, and the opportunity for individual influence is greatest in their own

forestry district. In other contexts, issues are raised through elected representatives. Each forestry district appoints a district council of about twelve members, as well as a Nomination Committee, at the local annual meeting. The local annual meetings also appoint delegates to the Annual General Meeting (AGM).

Members are entitled to submit motions to the local annual meeting, which may decide to submit the motion to the Board or to the AGM. Members may also request that motions be submitted directly to the AGM. All members are entitled to submit motions and proposals directly to the district council or to the Board of Directors. At the local annual meeting, the district council reviews the activities of the past year and presents a new business plan for the current year.

The annual meeting of the forestry district is held not later than three months after the end of the financial year. Notice of the local annual meeting or an extraordinary meeting is to be in writing, and issued not later than one week prior to the meeting, and each district council is responsible for giving notice.



## DISTRICT COUNCIL

At the local annual meeting, each forestry district elects a district council that is responsible for the co-operative activities of the forestry district. These include monitoring local business policy, and organising training programmes and member activities. Members of the district council play a key role in dialogue with individual members. The district council must have at least five and not more than twelve members. More members may be elected in larger forestry districts, but not more than 15.

Each district council determines the number of ordinary meetings in its operations planning. The issues relate to financial and social activities affecting the general interests and ownership rights of Södra's members, and the management of their forest estates. The frequency of the meetings varies between the forestry districts. Normally, there are six meetings per year.

## ADMINISTRATIVE COUNCIL

The 36 chairs of the district councils form the Administrative Council, which is an advisory body to the Board and the AGM. The Administrative Council is also tasked with working to establish member backing for Södra's strategic objectives and decisions. The Administrative Council does this in several ways, including issuing statements on various matters.

The Administrative Council held four scheduled meetings in 2019. The agendas

included reports on the business situation and current business policy matters. During the first meeting of the year, matters are normally raised prior to the annual meetings of the forestry districts. Similarly, the meeting prior to the AGM focuses on matters to be addressed at the AGM.

## ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) is Södra's supreme decision-making body. The meeting consists of the 200 delegates elected at the local annual meetings, who each have one vote. Members of the Administrative Council are also included in the 200 delegates. The AGM adopts the financial statements and appropriation of profits, and appoints Board members, auditors and the Nomination Committee. Board members, the President and auditors are entitled to participate in the Meeting's discussions and present proposals.

The AGM is held not later than six months after the end of the financial year. Written notice shall be sent to each delegate not less than four weeks, and not later than two weeks, before an Ordinary General Meeting, and not later than one week before an Extraordinary Meeting.

The 2019 Annual General Meeting was held on 23 May in Värnamo. The Meeting resolved on the appropriation of profits and dealt with 11 motions including issues related to an availability premium for wood delivery contracts, raised forestry knowledge at Södra and more secure wood sup-

plies – an issue for the future. The number of elected Board members was nine.

## NOMINATION COMMITTEE

The AGM's Nomination Committee submits proposals regarding Board members, auditors and Södra representatives to the meeting of the National Board of the Federation of Swedish Farmers (LRF). In addition, the Nomination Committee proposes fees for members of the Board and the Administrative Council, AGM delegates, elected representatives and auditors. The Nomination Committee is to consist of five to seven members and its composition should reflect the association's membership and, if possible, the entire member area.

The Nomination Committee anticipates the association's future development and requirements. It remains informed about the performance of the Board by engaging in discussions with the Chairman and the President, by conducting interviews with existing Board members and by examining the results of the Board's evaluation and the Chairman's performance appraisal. Any need for changes in the Board's composition, as well as other elections or remuneration are analysed. New candidates are interviewed. The Nomination Committee's proposals to the AGM are documented in a Nomination Committee report, which is sent to delegates together with the meeting documentation.

At the 2019 AGM, Roger Johansson, Lars Skogsberg, Ann-Charlotte Larsson, Ann







The AGM addresses motions received and makes decisions regarding the appropriation of profits. The 200 delegates are elected at the annual meetings of the Forestry Districts.

Marke and Ingemar Thorstensson were re-elected, and Magnus Johansson was newly elected. At the Nomination Committee's first meeting, Ingemar Thorstensson was elected Chairman.

#### **NOMINATION PROCESS FOR THE BOARD**

Up to ten members are elected by the AGM, of whom at least two-thirds must be members of the association. All members may submit regular proposals to the Nomination Committee regarding candidates for the Board and auditors. Normally, the Administrative Council is encouraged to discuss matters in district councils in early

autumn and submit proposals for both members and external candidates.

The Nomination Committee interviews the candidates deemed suitably qualified for the mix of expertise required by the Board.

#### **THE BOARD'S COMPOSITION**

The Board has up to 13 ordinary members. Up to ten members are elected by the AGM and three are appointed by employees. The President is not a member of the Board.

#### **THE BOARD'S WORK**

The Board manages Södra's affairs in the interest of the company and its owners and is responsible for ensuring that the com-

pany has appropriate objectives, plans, strategies and policies for meeting the owners' demands and expectations of the company. The Board shall continuously monitor and evaluate the company's performance, and assess the financial situation of the company and the Group. The Board shall ensure that the company's fund management, internal control and risk management are adequate, and is responsible for ensuring that the organisation of the company is appropriate. In order to perform the duties, the Chairman of the Board is supported by a Presiding Committee. The Presiding Committee consists of the Chairman, the Vice Chairman and the President.



## Board members as of the Annual General Meeting in May 2019

Board members	Function	Elected	Attendance	Fees paid (SEK 000s)	Contributed capital At 31 Dec 2019	Committee
Lena Ek	Chairman	2015	12/12	1,276	123,659	Finance, Fees and Benefits
Paul Christensson	Vice Chairman	2010	12/12	626	750,951	
Karin Andersson	Board member	2014	12/12	369	436,551	Audit
Hans Berggren	Board member	2015	11/12	339	346,430	Audit
Pål Börjesson	Board member	2017	12/12	369	1,184,292	Audit
Ulf Johansson	Board member	2014	11/12	469	865,239	Finance
Ylva op den Velde Hammargren	Board member	2017	12/12	304	—	Finance
Anders Roman	Board member	2014	12/12	513	2,159,323	Fees and Benefits
Mats Sandgren	Board member	2019	6/12	181	0	Fees and Benefits
<b>Employee representatives</b>						
Dan Andersson	Employee representative (PTK)	2014	11/12	—	991,022	—
Pontus Johansson	Employee representative (LO)	2017	11/12	—	—	—
Lars Nilsson	Employee representative (LO)	2018	10/12	—	—	—

### December

- Business situation
- Determination of the business plan and financial plan 2020/2021
- Determination of Investment plan with investment frameworks, Investment Policy, Financial Policy, Conduct and Supplier Code and Sustainability Policy
- Review of Group strategy
- Focus area:
  - Report on liquid biofuels
  - Acquisition of development companies

### October

- Business situation
- The Group's risk management
- Adjustment of the return requirement in commercial operations
- Collaborative agreement with Linnaeus University – Master's degrees in forestry
- Group strategy 2020
- Focus area:
  - Södra's contribution to combatting climate change
  - FSC/Certification
  - The Södra Model
- Quarterly report

### September

- Progress report, spruce bark beetles
- Workshop – Group strategy

### August

- Business situation
- Follow-up of investments and acquisitions
- Workshop and discussion on new Group strategy

### July

- Quarterly report

### February

- Business situation
- Annual Report, annual accounts and appropriation of profits
- Focus area:
  - Macroeconomy
  - Digitalisation
  - Open Innovation

### April

- Business situation
- Focus area:
  - Group strategy
  - Industrial house volume production
  - CLT facility
- Quarterly report
- Motions to the AGM

### May

- Statutory meeting (after the AGM)

### June

- Strategy meeting
- Business situation
- Start-up of Group strategy process
- Focus area:
  - The economic perspective
  - Raw material and future development of the wood products industry
  - Energy study and residue flows/residual products
  - Methanol project
  - Investment and expansion plans for Södra Cell moving forward
  - Updated outlook for raw material market
  - FSC/Certification





In addition to the statutory meeting, the Board is to hold at least six meetings during the year. In 2019, the Board held eight meetings, including one statutory meeting and three teleconferences. At the statutory meeting following the AGM, the Vice Chairman of the Board is appointed. The February meeting includes a review and evaluation of the previous year. Strategic issues are addressed at the June meeting. The December meeting addresses the business plan for the coming year, as well as targets and Group policies. HR issues are a special item at each Board meeting.

### COMMITTEES

The Board has appointed three committees from within its ranks: the Audit Committee, the Finance Committee and the Fees and Benefits Committee.

The Audit Committee monitors and reviews the financial statements, risk management and the sustainability report. At the meeting on 12 July, Pål Börjesson replaced Paul Christensson in the Audit Committee. The Committee held five meetings.

The Finance Committee represents the Board in respect of financial risk exposure and financial policy compliance. In 2019, the Committee consisted of Lars Idermark (President), Lena Ek, Ulf Johansson and Ylva op den Velde Hammargren. The Committee held six meetings.

The Fees and Benefits Committee prepares matters related to principles and guide-lines for remuneration and other terms of employment for management. The Committee has also been assigned to monitor and evaluate the application of the remuneration principles and guidelines and other terms of employment determined by

the Board, and the company's remuneration structures and levels. In 2019, the Committee consisted of Lena Ek, Anders Roman and Mats Sandgren. The Committee held three meetings.

### GROUP SENIOR MANAGEMENT

Group Senior Management consists of the President, business area presidents and staff directors and normally meets once a month. Finance, market and HR issues matters are recurring agenda items. The President is responsible for the ongoing management in accordance with the Board's guidelines and instructions.

### AUDITORS

Auditors are appointed by the AGM. The Auditors' overall responsibility is to examine the annual financial statements, the consolidated financial statements and accounting, and the management of the Board and the President. Two of the four ordinary auditors are member representative auditors.

At the 2019 AGM, Martin Johansson and Madeleine Edberg from PricewaterhouseCoopers AB were elected auditors, and Carina Arvidsson Löw and Dick Stagmo member representative auditors.

### INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The Board and the President's responsibility for internal control is regulated by the Swedish Co-operative Societies' Act. Internal control is a process that provides the Board, management and other personnel with reasonable assurance regarding the achievement of objectives in effectiveness and efficiency of operations, the reliability

of financial reporting, and compliance with applicable laws and regulation.

Södra's internal control is limited to financial reporting processes.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of external financial reporting in the form of interim reports, annual reports and year-end reports, and that the external financial reporting is prepared in accordance with the law, applicable accounting standards and other requirements on economic associations.

The Group's staff function Group Accounts and Internal Control serves as the Group's internal control function and reports to the Audit Committee and the Group's CFO. The function works to develop, improve and secure the Group's internal control over financial reporting, both pro-actively by focusing on the internal control environment, and by examining the effectiveness of internal control.

Risk assessment related to Södra's financial reporting aims to identify and evaluate the most significant risks, including the risk of fraud, and the risk of significant changes affecting the internal control of financial reporting in the Group's companies, business areas and processes. The risk assessment results in control targets to ensure that the basic requirements for external financial reporting are met, and forms a basis for determining how risks should be managed through various control structures. The risk assessment is updated annually under the leadership of the Group Accounts and Internal Control function and the results are reported to the Audit Committee.

## Important regulatory frameworks

### EXTERNAL:

- The Co-operative Societies' Act
- The Companies Act
- The Annual Accounts Act
- The Swedish Corporate Governance Code (the "Code")
- Regulation (EU) No 596/2014 on market abuse



### INTERNAL

- The association's Articles of Association
- Annual General Meeting
- Rules of Procedure for the Board
- Instructions regarding the division of tasks and responsibilities between the Board and the President
- Instructions regarding financial reporting to the Board
- Policies and guidelines
- Code of Conduct



# Auditor's statement on the Corporate Governance Report

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To the general meeting of Södra Skogsägarna ekonomisk förening, corporate identity number 729500-3789

## ENGAGEMENT AND RESPONSIBILITY

The Board is responsible for the 2019 Corporate Governance Report on pages 132-136.

## FOCUS AND SCOPE OF THE AUDIT

Our examination was conducted in accordance with FAR's auditing standard RevU 16, The auditor's examination of the corporate governance statement. This means that our examination of the Corporate Governance Report has another focus and is substantially less in scope compared with the focus and scope of an audit

in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that this examination has provided a sufficient basis for our opinions.

## CONCLUSION

A Corporate Governance Report has been prepared. We believe that the information in the Corporate Governance Report is consistent with the annual accounts and consolidated financial statements for 2019.

Växjö, 12 February 2020



Martin Johansson  
*Authorised Public Accountant*

Madeleine Edberg  
*Authorised Public Accountant*





# Board of Directors



## Lena Ek

Chair. Born 1958.

Board member and Chairman since 2015. Term of office expires in 2020. Master of Laws with a specialisation in international law. Honorary doctorate at the Faculty of Engineering at Lund University, Board member of Sparbankernas Riksförbund, the Royal Swedish Academy of Sciences and the Royal Swedish Academy of Agriculture and Forestry. Chair of the Forest-based Sector Technology Platform.

Previous experience: Includes Deputy Mayor, Chair of several national research projects, Board member of the Royal Institute of Technology, Board member of the University of Gothenburg, Government Offices coordinator of European Spallation Source (ESS) in Lund, Board member of the Riksdag's Committee on Finance, Board member of the European Parliament Committee on Industry, Research and Energy, Swedish Minister for the Environment. Board member of Södra 2000-2010.

**Forest holding:** 18 hectares of productive forest land. Total contributed capital in Södra: SEK 123,659.



## Paul Christensson

Vice Chairman. Born 1959.

Board member since 2010. Term of office expires in 2020. Deputy Chairman of LRF's Executive Committee, Chairman of LRF Forestry, Chairman of the Board of Agroväst.

**Forest holding:**<sup>1)</sup> 230 hectares of productive forest land. Total contributed capital in Södra: SEK 750,951.

## Karin Andersson

Born 1957.

Board member since 2014. Term of office expires in 2020. Agronomist, SLU Uppsala, 1986. MSc, Springfield College, US, 2000. Board member of Ecogain.

**Forest holding:** 124 hectares of productive forest land. Total contributed capital in Södra: SEK 436,551.



## Pål Börjesson

Born 1962.

Board member since 2017. Term of office expires in 2020. Agronomist and professor of environmental and energy systems at the Faculty of Engineering at Lund University.

**Forest holding:** 126 hectares of productive forest land. Total contributed capital in Södra: SEK 1,184,292.

## Mats Sandgren

Born 1955.

Board member since 2019. Term of office expires in 2020. Master of Science in Forestry, former President of SCA Skog and Senior Advisor in the SCA Group. Chairman of Biometria and the Swedish Federation of Green Employers. Board member of the Confederation of Swedish Enterprise.

**Forest holding:**<sup>1)</sup> 372 hectares of productive forest land. Total contributed capital in Södra: 0.

Holding of total contributed capital pertains to conditions on 31 December 2019.

1) Jointly owned.



## Ylva op den Velde Hammargren

Born 1966.

Board member since 2017. Term of office expires in 2020. Mining engineer. Manager Product Line Management Engine, Vehicle Service Soil at AB SKF. Board member of Nederman.

**Forest holding:** 0 hectares. Total contributed capital in Södra: 0.



## Dan Andersson

Born 1961.

Alternate in 2014, Board member since 2015. Employee representative for the Swedish Federation of Salaried Employees in Industry and Services (PTK). Chairman of SSF-Ledarna at Södra Skog. Member of Södra's Group Council.

**Forest holding:** 135 hectares of productive forest land. Total contributed capital in Södra: SEK 991,022.



## Lars Nilsson

Born 1961.

Alternate in 2017, Board member since 2018. Employee representative of the Swedish Trade Union Confederation (LO). Chairman of the Swedish Pulp and Paper Workers' Union at Södra Cell Mönsterås. Member of Södra's Group Council.

**Forest holding:** 0 hectares. Total contributed capital in Södra: 0.



## Pontus Johansson

Born 1980.

Alternate in 2015, Board member since 2017. Employee representative of the Swedish Trade Union Confederation (LO). Chairman of the GS club at Södra Wood in Mönsterås. Member of Södra's Group Council.

**Forest holding:** 0 hectares. Total contributed capital in Södra: 0.



## Hans Berggren

Born 1956.

Board member since 2015. Term of office expires in 2020. Agronomist. CEO and President of Sveriges Stärkelseproducent ekonomisk association.

**Forest holding:**<sup>1)</sup> 730 hectares of productive forest land. Total contributed capital in Södra: SEK 346,430.



## Ulf Johansson

Born 1971.

Board member since 2014. Term of office expires in 2020. Chairman of Falkenbergs Sparbank. Board member of Harplinge inköpsförening and LRF Forestry.

**Forest holding:** 107 hectares of productive forest land. Total contributed capital in Södra: SEK 865,239.



## Anders Roman

Born 1961.

Board member since 2014. Term of office expires in 2020. MBA, University of Linköping, 1988. Chairman of Romans Fastigheter AB and Swedbank Jönköping. Board member of Blixt & Co, US, Säker Skog and Board member of Svenska Nyhetsbyrån.

**Forest holding:**<sup>1)</sup> 1,077 hectares of productive forest land. Total contributed capital in Södra: SEK 2,159,323.



## Changes during the year

Ola Hildingson stepped down from the Board at the 2019 AGM.

1) Jointly owned.

### ALTERNATES – EMPLOYEE REPRESENTATIVES

## Teddy Hedlund

Born 1968.

Alternate since 2015. Employee representative for the Swedish Federation of Salaried Employees in Industry and Services (PTK). Chairman of Unionen trade union at Södra Cell Mörrum and Södra's Head Office. Member of Södra's Group Council.

## Jimmy Landefjäll

Born 1960.

Alternate since 2017. Employee representative of the Swedish Trade Union Confederation (LO). Chairman of the GS club at Södra Wood in Långasjö. Member of Södra's Group Council.

## Peter Tärnberg

Born 1965.

Alternate since 2018. Employee representative for the Swedish Trade Union Confederation (LO). Chairman of division 9 of the Swedish Pulp and Paper Workers' Union at Södra Cell Värö.



# Group Senior Management



## Lars Idermark

President and CEO. Born 1957.

Agronomist and MBA. Employed 2012. Chairman of the management team since 2013.

Previous experience: President and CEO of PostNord AB and Kooperativa Förbundet. President of Second AP Fund. Acting President and CEO of Capio AB. Vice President and Acting President and CEO, FöreningsSparbanken AB (Swedbank). CFO and Vice President, Föreningsbanken AB. President and CEO, LRF Holding AB.

Other assignments: Chairman of the Swedish Forest Industries Federation.

**Forest holding:**<sup>1)</sup> 390 hectares of productive forest land. Total contributed capital in Södra: SEK 669,456.

## Cristian Brolin

Chief Digital Officer (CDO). Born 1976.

Computer Scientist. Employed 2017. Member of Group management from 2019.

Previous experience: Senior positions in IT, including CIO/CISO at Bossmmedia AB and IST AB. Responsible for global data centre function at IGT and Lottomatica, stationed in Växjö, Stockholm, Rome and Montreal.

Other assignments: Board member of Vindro AB.

**Forest holding:** 0 hectares. Total contributed capital in Södra: 0.



## Maria Baldin

Director of Communications and Sustainability. Born: 1967.

Information and communication programme, RMI Berghs, Stockholm. Studies in law, psychology and IT, Lund University. Employed 2017. Group management since 2017.

Previous experience: Various roles in marketing and sales at Comex Electronics AB, Marketing Manager at Siemens in Switzerland, Communication and Sustainability Director at Siemens AB.

**Forest holding:** 0 hectares. Total contributed capital in Södra: 0.

## Catrin Gustavsson

Head of Innovation and New Business. Born 1970.

Doctor of Technology in Pulp Engineering, Royal Institute of Technology, Stockholm, Master of Science in Chemical Engineering, Chalmers University of Technology. Employed 2014. Group management since 2017.

Previous experience: Includes process engineering manager at Södra Cell Värö, Head of Production at BillerudKorsnäs Gruvöns mill, laboratory manager at Kvaerner Pulping and research engineer at Stora Enso.

**Forest holding:** 0 hectares. Total contributed capital in Södra: 0.



## Magnus Björkman

President of Södra Cell business area. Born 1964.

MSc and MBA. Member of Group management from 2019.

Previous experience: Worked with issues related to liquid carton board deliveries at Tetra Pak International in Lund. Various production positions and CEO of StoraEnso Nymölla AB. Mill Manager at Södra Cell Mörrum and Marketing Manager at Södra Cell.

**Forest holding:** 0 hectares. Total contributed capital in Södra: 0.

## Olof Hansson

President of the Södra Skog Business Area. Born 1975.

Economist and MSc in Forestry. Employed 2003. Group management since 2017.

Previous experience: Various positions at Södra, including Wood Supply Manager, Area Manager and Market Analyst.

**Forest holding:** 113 hectares of productive forest land. Total contributed capital in Södra: SEK 365,769.

Holding of total contributed capital pertains to conditions on 31 December 2019.

1) Jointly owned.



## Mattias Johansson

Chief Legal Officer and Director of Administration. Born 1972.

Master of Laws, MBA and Master of Laws, London School of Economics and Political Science. Employed 2007. Group management since 2007.

Previous experience: Company lawyer at Saab AB, Södra and ABB Financial Services AB, law clerk at Västerås District Court.

**Forest holding:** 0 hectares. Total contributed capital in Södra: 0.



## Peter Karlsson

CFO. Born 1976.

MBA. Employed 2016. Group management since 2019.

Previous experience: Various positions in Södra, including President of Södra Interiör, CFO Elajo Invest and senior financial positions in the manufacturing industry.

Other assignments: Chairman of Trivselhus AB, Board member of Virserums Sparbank.

**Forest holding:** 0 hectares. Total contributed capital in Södra: 0.



## Jörgen Lindquist

President of Södra Wood business area. Born 1965.

MBA. Employed 2015. Member of Group management since 2015.

Previous experience: CFO of Södra, CFO and Interim Vice President of the industrial division of Swedspan, Head of IKEA's development of a new furniture industry in the US, CFO and Vice President of the Axis Group and senior financial positions in the chemical and packaging sectors.

Other assignments: Board member of Ting i Trä AB.

**Forest holding:** 0 hectares. Total contributed capital in Södra: 0.



## Anica Kabbenäs

Secretary and Executive Assistant. Born 1956.

Employed 1972.

**Forest holding:** 0 hectares. Total contributed capital in Södra: 0.



## Christer Thörn

HR Director. Born 1966.

Officer with Major rank. Employed 2013. Group management since 2013.

Previous experience: HR Director at TetraPak Carton Ambient and Partner-Tech.

**Forest holding:** 0 hectares. Total contributed capital in Södra: 0.



## Gustav Tibblin

Director of Members. Born 1958.

Master of Science in Forestry and MBA. Employed 1988. Group management since 2017.

Previous experience: Includes head of by-products at Södra Wood, Business Developer Södra, CFO Södra Cell and Administrative Director Södra Skog.

Other assignments: Board member of SunPine AB.

**Forest holding:**<sup>1)</sup> 110 hectares of productive forest land. Total contributed capital in Södra: 0.

## Changes during the year

Magnus Björkman replaced Gunilla Saltin in August 2019 as President of Södra Cell.

Cristian Brodin joined Group Senior Management on 1 January 2019.

Peter Karlsson replaced Anna Belfrage from 1 March 2019.

1) Jointly owned.





# Södra's ABC – words and expressions

## Bioeconomy

Bioeconomy refers to all economic activity derived from knowledge of biological processes and biotechnology, with the aim of achieving a sustainable way of living without depleting the earth's finite resources.

## Biofuel

Biofuels can be solid, liquid and gaseous. Solid biofuels include firewood, woodchips, pellets and briquettes. Liquid biofuels include ethanol, methanol, biodiesel and bio-oil. Gaseous biofuels include biogas, dimethyl ether and biomethane.

## Biomass

According to the EU Renewable Energy Directive (2009/28/EC), biomass means the biodegradable fraction of products, waste and residues from biological origin from agriculture (including vegetal and animal substances), forestry and related industries including fisheries and aquaculture, as well as the biodegradable fraction of industrial and municipal waste.

## Blue driving license

Operations performed in aquatic environments require a blue driving license to ensure consideration for environmental impacts.

## Blue management targets

Blue management targets mean that the value of watercourses is assessed, and that the consideration ambition for aquatic environments is indicated with management targets.

## By-products

By-products from Södra's mills are used in construction materials, as biofuels and for liquid biofuel production, and as raw material for the chemical industry. Tall oil and turpentine are by-products of pulp production.

## Carbon dioxide equivalents

A standard unit for measuring greenhouse gas emissions. Each type of greenhouse gas has a different effect on global temperature. When emissions are indicated in CO<sub>2</sub> equivalents, all greenhouse gases are included as if they were carbon dioxide.

## Carbon sink

Uptake of carbon dioxide – in a growing forest, for example.

## Chemicals

A general term for the chemical products used in Södra's operations.

## Contributed capital

Capital contributed by the association's members.

## Controlled wood

The FSC® Controlled Wood standard is a complement to the FSC Chain of Custody standard. Developed to address problems related to the production of products containing only FSC-certified raw material (100 percent). In many cases, wood products use fibres from a variety of sources.

## Cooking chemicals

Chemicals used in the digester at pulp mills to dissolve the lignin in the wood.

## Dissolving pulp

Dissolving pulp is mainly made from birch wood and used for textile applications, such as viscose and lyocell production. Dissolving pulp is made by separating the cellulose fibres from the other wood components.

## Electricity certificates

The electricity certificate system is a market-based support scheme for the cost-effective expansion of electricity generation from renewable sources.

## Employee Net Promoter Score

Employee Net Promoter Score. Measures the likelihood that a company's employees would be willing to recommend their employer to a friend. The result divides the employees into three groups: promoters, passively satisfied and detractors, where the eNPS is calculated by subtracting the percentage of detractors from the percentage of promoters.

## Energy units

1 Terawatt hour (TWh) = 1,000 Gigawatt hours (GWh) = 1,000,000 Megawatt hours (MWh) = 1,000,000,000 kilowatt hours (kWh).

## Forest residues

Branches, treetops, twigs and foliage – harvesting residue that can be used. Used as biofuel for power plants, for example.

## Forestry impact assessment (SKA)

In collaboration with the Swedish University of Agricultural Sciences, the Swedish Forest Agency conducts regular forestry impact assessments. Based on a range of different scenarios, in which Swedish forests are utilised and managed in various ways, the subsequent impacts

of these scenarios in 100 years from now are assessed. The assessments provide detailed information about forest conditions. The information can then be used for decisions related to the long-term use of forests. The most recent forestry impact assessment (SKA 15) was conducted in 2015.

## Fossil fuels

Unlike renewable fuels, fossil fuels – such as coal, oil and natural gas – are formed slowly.

## FSC®

The Forest Stewardship Council is an independent, international membership organisation that promotes an environmentally appropriate, socially beneficial and economically viable management of the world's forests and has developed principles for forest management certification.

## Global Reporting Initiative (GRI)

GRI develops globally applicable 'Sustainability Reporting Guidelines' to encourage companies to take responsibility for their economic, environmental and social impacts.

## Green Balance Sheet

Södra prepares a Green Balance Sheet every year. Södra Skog's auditors assess whether more than 150 regeneration harvesting and thinning operations, respectively, have complied with PEFC™ and FSC® forest certification system requirements for the application of general environmental considerations in regeneration harvesting and thinning operations, and with Södra's own policies and procedures for environmental considerations. Included as one of Södra's sustainability targets.

## Green bond

A bond loan for which the proceeds are earmarked for funding sustainable investments. Södra's green bond finances climate-friendly and environmental investments.

## Green forest management plan

The green forest management plan is an important tool, and provides support for economic and environmentally appropriate forestry that integrates environmental considerations with production. The green forest management plan also contains blue management targets for aquatic environments. Also used for forest estate certification.

**Greenhouse gas**

Gases that are the cause of global warming, such as carbon dioxide, methane and nitrous oxide.

**Guarantee of Origin certificates**

Guarantee of Origin certificates are issued by the Swedish government and show the energy source of the electricity generation. Guarantee of Origin certificates can then be sold by electricity generators on the open market.

**ha**

Hectare. An area of 10,000 square metres.

**ISO 14001**

An international standard for environmental management systems.

**ISO 45001**

An international standard for occupational health and safety management systems.

**ISO 50001**

An international standard for energy management systems.

**Lignin**

Lignin is the substance that acts as a binding agent, and binds the cellulose fibres in wood. Valuable by-product of pulp production. Research is conducted to commercialise lignin-based carbon fibre for the production of lightweight materials that can be used to replace traditional heavyweight materials in, for example, cars.

**Liquid biofuels**

Vehicle fuels, such as biodiesel, HVO biodiesel, produced from renewable biomass.

**LTA**

Lost-time-accident. Occupational injury with absence.

**LTAR**

Lost-time-accident rate. The number of lost-time-accidents per million hours worked.

**m<sup>3</sup>f**

Cubic metres of felled volume. Refers to the outer dimensions of the material and used for woodchips, for example.

**m<sup>3</sup>fo**

Forest cubic metres. Refers to the volume of the entire trunk above the stump, including tops and bark, but excluding branches. Generally used as a measure of standing timber.

**m<sup>3</sup>sub**

Cubic metres solid volume underbark. The volume of a tree trunk, excluding bark and treetops. Generally used as a measure in harvesting and the timber trade.

**Market pulp**

Södra produces paper pulp – both softwood and hardwood sulphate pulp – and dissolving pulp, which are sold on the pulp market to customers worldwide.

**OTC**

(Over-the-counter) Refers to securities that are not traded on a centralised exchange.

**PEFC™**

The Programme for the Endorsement of Forest Certification is an international organisation dedicated to promoting sustainable forest management through independent third-party certification.

**Process chemicals**

Chemicals used in the production processes of Södra's industries.

**Profit distribution**

Södra's profit distribution model provides members with returns on the wood they have delivered, and the capital they have contributed, over the past year. The concept therefore includes dividends on wood deliveries and contributed capital, as well as a bonus issue. The bonus issue increases the members' contributed capital and is a special form of value transfer that converts collectively owned equity into individually owned capital.

**Regeneration harvesting**

A system of harvesting where nearly all old-growth trees in a forest stand are removed to make room for the next generation. Also called final harvesting.

**Renewable electricity**

In everyday language, electricity produced from renewable sources such as biofuels, wind and hydro.

**Rotation-forestry system**

A forestry method with several stages, from planting/sowing to harvesting via regeneration, cleaning, thinning and regeneration harvesting.

**Secondary heat**

Secondary heat is excess heat from the process.

**Sensitive biotope**

A physical environment that, due to its distinctive features, provides a habitat for plant or animal species that are sensitive to external factors.

**Subordinated debentures**

A form of contributed capital, a type of intermediate capital between equity and debt.

**Tall oil**

By-product of paper pulp production that can be used to replace fossil-based materials. Uses include the production of crude tall diesel and chemicals.

**Tract**

An area of forest designated for a particular type of management.

**Tract directive**

Written instructions for harvesting operations stipulating, for example, the maximum amount of wood to be harvested and the nature conservation measures required.

**Wooded wasteland**

Low-productive land.



# Financial information

## REPORTING CALENDAR

Quarterly reports will be published on the following dates:

Q1	23 April 2020
Q2	16 July 2020
Q3	22 October 2020
Q4/Year-end Report	February 2021

The Annual General Meeting for the 2019 financial year will be held on 3 June 2020 in Lund, Sweden.



The reports, as well as other information about Södra, are available at [sodra.com](https://sodra.com)



# Contacts and addresses

*High availability and good service are important in Södra's daily procedures. Here you can find the telephone numbers for Södra Skogsägarna ekonomisk förening and its business areas. For more information, visit [sodra.com](http://sodra.com)*

## SÖDRA SKOGSÄGARNAS EKONOMISK FÖRENING

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## SÖDRA SKOG

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**Region Syd**  
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SE-375 86 Mörrum, Sweden  
+46 (0)454-555 70

## Forestry operations areas

Höör	+46 (0)10-471 60 10
Broby	+46 (0)10-471 60 30
Ronneby	+46 (0)10-471 60 90
Långasjö	+46 (0)10-471 61 20
Ljungby	+46 (0)10-471 60 60
Växjö	+46 (0)10-471 61 50

## Region Öst

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## Forestry operations areas

Mönsterås	+46 (0)10-471 61 80
Vetlanda	+46 (0)10-471 62 10
Vimmerby	+46 (0)10-471 62 40
Tranås	+46 (0)10-471 62 70
Åtvidaberg	+46 (0)10-471 63 13
Linköping	+46 (0)10-471 63 30

## Region Väst

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Sollebrunn	+46 (0)10-471 64 86
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Södra Wood Orrefors	+46 (0)481-309 20
Södra Wood Torsås	+46 (0)486-442 00
Södra Wood Unnefors	+46 (0)36-232 00
Södra Wood Värö	+46 (0)340-62 80 00
Södra Wood Åstorp	+46 (0)42-567 30
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Södra Cell Mönsterås	+46 (0)499-150 00
Södra Cell International	+46 (0)470 890 00
Södra Cell GmbH, Germany	+49 (0)898 906 760 00
Södra Tofte AS, Norway	+47 (0)70-646 33 37

## OTHER COMPANIES

Trivselhus	+46 (0)383-208 00
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If you have any questions about the Annual Report or the Sustainability Report, please contact:  
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# This is Södra

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Founded in 1938, Södra is Sweden's largest forest-owner association, with more than 52,000 forest owners as its members.

Södra is also an international forest industry group, with operations based on processing its members' forest-based products. Södra is one of the largest European suppliers of market pulp, and has one of the largest sawmill operations in Europe. In 2019, the wood volume was 17.1 million m<sup>3</sup>sub, sales amounted to SEK 23 billion and employees totalled 3,150.