



A close-up photograph of green pine needles, likely from a spruce or fir tree, with several clear water droplets clinging to their surfaces. The needles are sharp and pointed, and the background is a soft, out-of-focus green. The lighting is natural, highlighting the texture of the needles and the clarity of the water droplets.

Södra shows the way towards a bright future

Everything Södra does is based on trees.

Trees are a fantastic raw material. Full of exciting opportunities just waiting to be realised. The challenge lies in how to achieve a productive combination of vision and innovation.

Södra has already commenced this exciting voyage of discovery. And the pace will accelerate as we move forward. By increasing our focus on research and development, we are continuously stretching the limits for how this renewable, recyclable and biodegradable raw material from the forest can be used. Södra challenges expectations of what a forest company should be, which generates value and growth.

Södra is a next-generation forest company and contributing to the transition toward a sustainable society. We are walking the talk. By 2020, the target is that Södra's own production will be totally fossil-free.





THIS IS SÖDRA

This is Södra

Södra is Sweden's largest forest-owner association, with more than 51,000 forest owners as its members. Södra is also an international forest industry group, with operations based on processing its members' forest products.

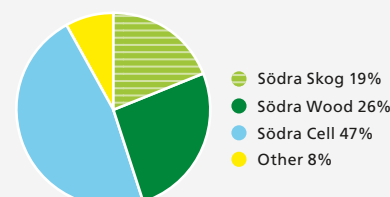
Södra's business is built on value-generating relationships and a long-term approach. The overall assignment from our owners is to secure markets for our members' forest products and promote the profitability of their forest estates by providing advice and support, enabling members to conduct responsible and sustainable forestry, and to contribute to a market-based return on their forest products.

The wood from their forest estates is processed in Södra's mills and becomes sawn and planed timber, interior wood products, biofuel and pulp for the pulp market.

Södra has one of the largest sawmill operations in Europe, and is one of the biggest European suppliers of softwood sulphate pulp to the pulp market. Södra also converts hardwood into dissolving pulp. Södra's three pulp mills generate large volumes of surplus energy, and production is almost fossil-free. This bio-based energy is sold as both green electricity and district heating. Södra also owns the house-manufacturing company, Trivselhus.

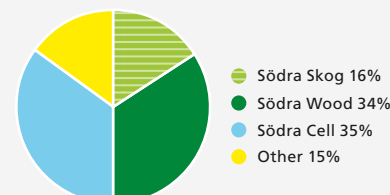
Södra purposefully focuses on innovation to develop new products based on renewable wood raw material. In 2017, the wood volume was 15.9 million m³sub (cubic metres solid volume underbark). Södra's sales amounted to SEK 20.5 billion and the number of employees was approximately 3,400.

SALES PER BUSINESS AREA



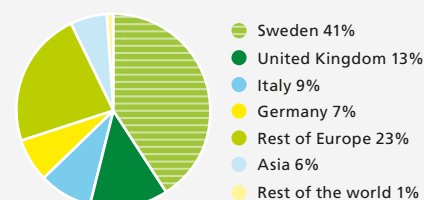
SEK 20,518 million in total, excluding internal deliveries.

EMPLOYEES PER BUSINESS AREA



3,402 employees in total.

GEOGRAPHIC MARKETS



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

The year in brief

- Net sales increased 11 percent to SEK 20,518 million.
- Sharply improved operating profit of SEK 1,917 million.
- Return on capital employed of 12 percent.
- Innovative biofuel production initiatives.
- Proposed profit distribution of SEK 868 million.

KEY INDICATORS	2017	2016 ¹⁾	2015	2014	2013
Net sales, SEK million	20,518	18,482	18,267	17,339	16,580
Operating profit before taxes, depreciation and amortisation, SEK million	3,009	1,887	3,146	2,552	937
Operating profit/loss, SEK million	1,917	979	2,162	1,516	-417
Profit/loss before tax, SEK million	1,830	913	2,072	1,460	-450
Return on capital employed, %	12	7	17	13	neg.
Equity ratio, %	56	54	62	61	59
Cash flow after investments, SEK million	356	-1,581	218	267	597
Profit distribution, SEK million	868	602	1,002	553	281
Affiliated forest area, 1,000 hectares	2,517	2,481	2,440	2,392	2,368
Wood volume, million m ³ sub	15.9	15.0	15.1	15.3	15.0
No. of employees	3,402	3,594	3,599	3,524	3,776
CO ₂ fossil from production, ktonnes	80	99	87	131	185
CO ₂ fossil from transportation, ktonnes	191	199	193	210	235
Rate of forest growth, m ³ fo/ha and year	6.9	6.9	6.6	6.9	6.2
Occupational injuries with absence (LTA) ²⁾ , no.	96	94	75	104	89
Lost-time-accident rate (LTAR) ³⁾	17	16	13	18	15

¹⁾ 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 2013–2015 can be compared with historic financial statements.

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

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



Södra Skog

Södra Skog purchases forest products from 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 final harvesting. The business activities are locally based, in 19 forestry operations areas and 36 forestry districts.



Södra Wood

Södra Wood comprises two product segments: sawn timber and interior wood products. High-grade sawn and planed construction materials are produced at Södra's sawmills and planing mills. Interior wood products include moulding, panelling and flooring. Södra Wood also offers pellets, wood shavings and other by-products of wood raw material.



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 – members' forests. Softwood pulp accounts for most of the production volume, the rest is hardwood pulp. Dissolving pulp is also produced in the pulp mill at Mörrum.

Södra is a major supplier of bio-fuel, green electricity and district heating.



THIS IS SÖDRA

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The Board of Directors and President of Södra Skogsägarna ekonomisk förening (corporate identity number 729500-3789) hereby submit the 2017 Annual Report for the Group and the Parent Company. The Annual Report comprises pages 8–29 and 48–97. 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 23 May 2018 for adoption. The Sustainability Report comprises pages 30–47 and 102–111. The statutory Sustainability Report comprises pages 23 and 113. The Corporate Governance Report comprises pages 116–120.



Strong local presence with international focus

Södra combines the individual forest management of its members with the global approach of an internationally active group. This reach creates a competitive Södra – from seed to finished product.

STRONG LOCAL INVOLVEMENT

Södra's more than 51,000 members own over half of all privately owned forest in southern Sweden. This totals almost 2.5 million hectares of forest land. The corresponds to one-quarter of the entire area of Götaland. This position of strength offers major benefits, but also responsibilities. A responsibility that Södra has accepted for 80 years.

Every year, Södra's members harvest and deliver about 9 million m³ of wood raw material to Södra's mills. That represents about one-tenth of Sweden's total harvested volume, and about 80 percent of Södra's industrial needs. The annual rate of forest growth is greater than the volume harvested in Sweden. Due to this responsible approach, the volume of growing stock rises every year. Södra works together with its members across the entire ecosystem, from seed to harvest and forest regeneration. For every tree harvested, three new trees are planted, to ensure regrowth for future generations and tomorrow's needs. Environmental considerations in forest regeneration create conditions for higher conservation value, compared with how forests used to be regenerated.

SÖDRA'S PRODUCTION UNITS

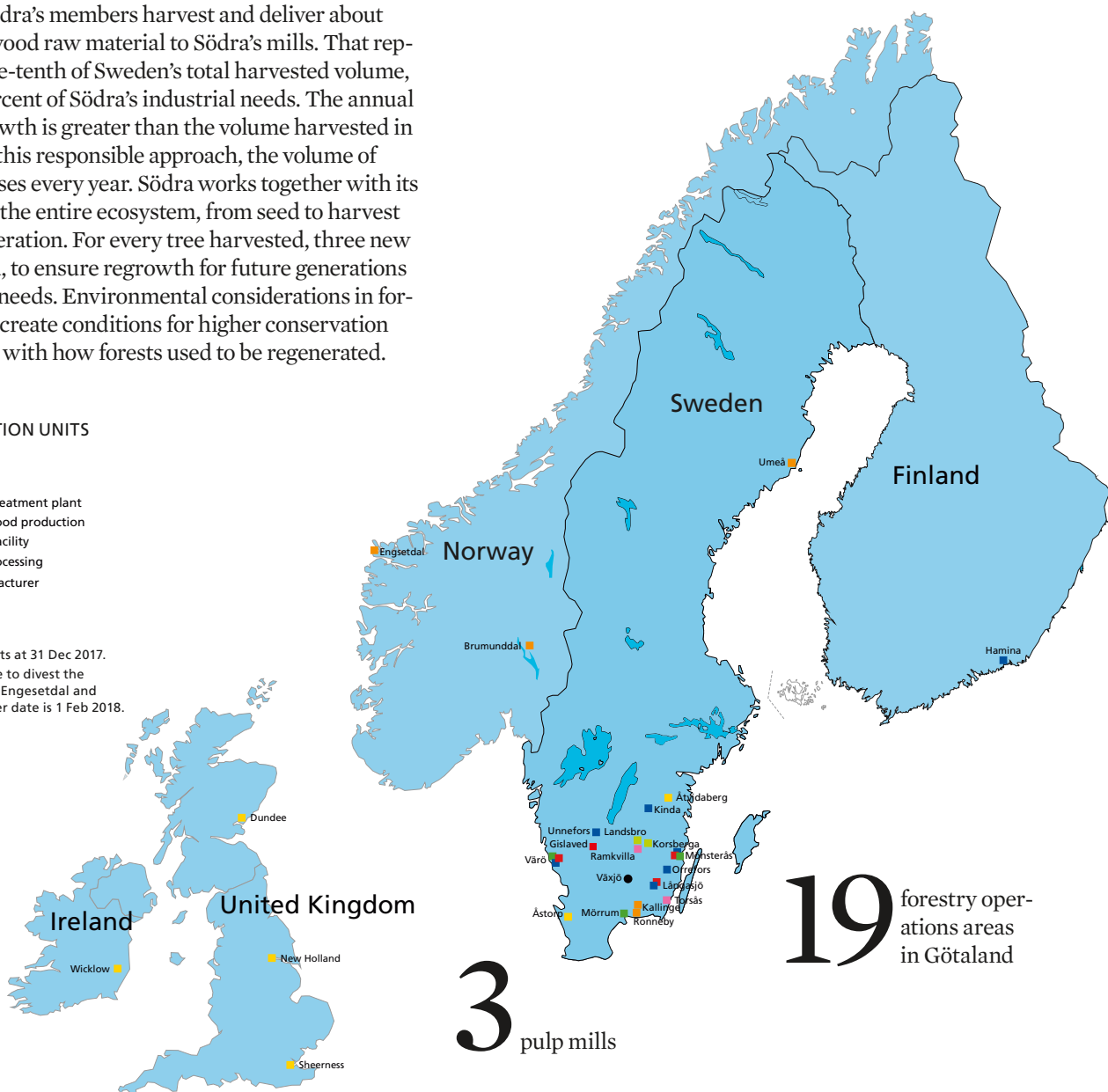
- Södra Cell, pulp mill
- Södra Wood, sawmill
- Södra Wood, pressure treatment plant
- Södra Wood, interior wood production
- Södra Wood, grinding facility
- Södra Wood, further processing
- Trivselhus, house manufacturer
- Södra, pellets factory
- Head office

Relates to production units at 31 Dec 2017.

A decision has been made to divest the Norwegian operations in Engesetdal and Brumunddal. The takeover date is 1 Feb 2018.

WORLD-CLASS INDUSTRIAL PROCESSING

Södra produces some 1.8 million m³ of sawn timber and tens of millions of linear metres of flooring, panelling, planed products and interior wood products. Production takes place in Sweden, Norway, Finland, Ireland and the UK. The products are mainly delivered to construction companies, and the furniture and wood industries.





Södra is one of the largest manufacturers of bleached softwood sulphate pulp in the world and also meets the growing demand for hardwood-based dissolving pulp. The pulp is mainly sold to European manufacturers of tissue, specialty paper, packaging and publishing paper. Now that Södra's ambitious investment programme of about SEK 10 billion is largely complete, the pulp mills and sawmills maintain world-class standard. The annual production capacity of the pulp mills is now nearly 2 million tonnes.

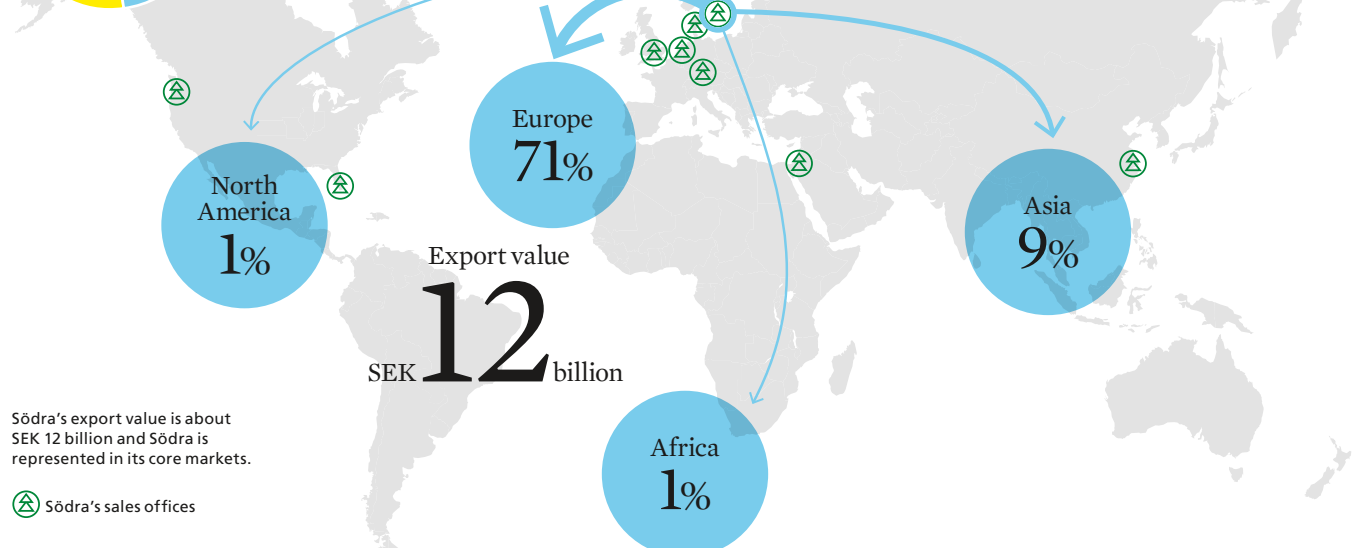
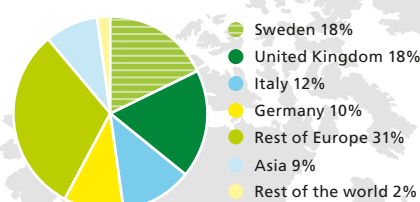
INTERNATIONAL FOCUS

Sweden is the world's third-largest exporter of sawn softwood timber and third-largest exporter of softwood pulp

The Södra Group is a leading player in the global market and contributes to Sweden's strong position. Almost 80 percent of the processed products from Södra's pulp mills and sawn-timber production units are exported. The total value of exports is about SEK 12 billion per year.

The Södra brand is firmly established among discerning customers across most of the world. The largest single export markets for Södra are the UK, Italy and Germany. Pulp is delivered to several major paper manufacturers, mainly in Europe, and growth is also strong in the Asian region, mainly in China. Sawn-timber customers are more diversified, with a wider geographic spread.

NET EXTERNAL SALES PER GEOGRAPHIC MARKET



Södra's export value is about SEK 12 billion and Södra is represented in its core markets.

Södra's sales offices



Strong result and innovative initiatives

During the year, we built a stronger and more cohesive Södra. Net sales rose 11 percent to SEK 20,518 million, an effect of both higher volumes and favourable prices for Södra's finished products. Operating profit totalled SEK 1,917 million and the Board proposes a profit distribution of SEK 868 million. Södra is investing heavily in the development of liquid biofuels.



GROUP STRATEGY IS BEARING FRUIT

2017 was a good year for Södra. We can now begin reaping the benefits of Södra's Group strategy, which has guided our investments in the pulp mills, and the restructuring of the sawmills and interior wood business. The strategy also provides a direction for new initiatives to increase processing, for our sustainability efforts and the ongoing employee development.

HIGH DEMAND AND A STRONG RESULT

Partly due to favourable economic conditions, Södra's net sales rose 11 percent to SEK 20,518 million, attributable to both higher volumes and higher prices for paper pulp and sawn timber. Operating profit totalled SEK 1,917 million, up SEK 938 million compared with 2016, which was a year characterised by major changes. The strong result means that Södra has achieved its financial targets. The proposed profit distribution to our members is SEK 868 million, bringing total profit distribution over the past five years to SEK 3,307 million.

INVESTMENTS IN THE FUTURE AND RESTRUCTURING

Our competitiveness and products must be continuously improved and adapted to changing market trends and demand. That applies across Södra's entire value chain. At the same time, Södra's unique ownership model is improving conditions for our partners to be forest owners. Due to a sustainable and profitable industrial operation, market-leading prices for wood, and a high and even distribution of profit throughout changing economic conditions, we are continuously strengthening the economic viability of forest estates.

Since 2014, Södra has invested approximately SEK 10 billion to increase the capacity, efficiency and profitability of our production facilities. Most of this investment has focused on the pulp mills. But the rate of investment in modernising and increasing the market orientation of sawn timber production has also been high. Efforts to strengthen competitiveness in our sawn timber operations are progressing in line with the adopted multi-year plan. Activity was high in 2017, with

extensive investment in the sawmills, continued restructuring and divestments of interior wood operations in Sweden, Lithuania and Norway.

These investments in Södra's future were mainly achieved through a strong cash flow. With these investments in place, Södra is now one of the largest producers of market pulp in the world. We are also a leading producer of sawn timber and interior wood products, and of single-family houses through our Trivselhus subsidiary. Södra is Sweden's largest purchaser of wood raw material from private forest owners. Furthermore, we are one of Sweden's largest purchasers of various logistics solutions for transport to and from our facilities.

INNOVATION CAPACITY AND PROCESSING FOR A SUSTAINABLE SOCIETY

While Södra is an innovative company in many ways, it is important to remember that Södra is predominantly a business-to-business company. The core business is production of paper pulp, dissolving pulp and sawn timber. A high-priority area is the continued

development and refinement of the quality of our market pulp. In the wood raw material operations, we have decided to take further steps towards a higher degree of processing with a pilot plant for the production of cross-laminated timber (CLT).

Growing forests absorb CO₂ and play an important role in the transition to a fossil-free society and the achievement of global climate targets. Södra's sustainability targets are more ambitious than the Swedish government's environmental objectives, and efforts to reduce our climate impact have made good progress.

As we usually say, forests are climate-smart. Due to our active and long-term efforts with resource efficiency, we are one of the biggest producers of solid biofuels and green energy in Sweden. With a focus on sustainability, we took new initiatives in the processing of forest products and their residual and by-products during the year by investing in two major projects for increased liquid biofuel production. We are investing in the production of methanol for vehicle fuel at the pulp mill at Mönsterås, and have made a joint investment of almost SEK 0.5 billion in a demo facility for the production of liquid biofuels from forest biomass with Statkraft and technology provider Steeper through the joint venture Silva Green Fuel. Södra has also been a partner in SunPine for many years, which produces liquid biofuels that are successfully refined, marketed and sold by fuel company Preem.



“These investments in Södra's future were mainly achieved through a strong cash flow.”

SÖDRA'S LEADING DIGITAL SOLUTIONS

Södra aims to lead the way in digital forestry. Digitisation has only just begun but is already transforming the business models of companies. We have to leverage the opportunities it creates for new revenue and lower costs. We want to be the number-one forest company in the world in this digital revolution. It is therefore gratifying that Södra's digital forestry solutions were shortlisted in both the international PPI Awards for the pulp and paper sector, and the Smart Industry project run by the Royal Swedish Academy of Sciences.

LEVEL PLAYING FIELD FOR LONG-TERM BUSINESS POLICY

Sweden is a role model when it comes to combining an innovative and knowledge-intensive forest industry with forestry that embraces biodiversity and a long-term approach. Forests are Sweden's most valuable natural asset and the forest industry accounts for approximately SEK 125 billion of Sweden's net exports, and is therefore highly significant for the Swedish economy. Private forest ownership is the backbone of active forestry and its profitability. The right of individuals to manage their forests on reasonable terms is crucial for promoting a sustainable forest industry. The concept of freedom with responsibilities has been successful and led to growth, production and the achievement of environmental goals. About 25 percent of the forest area in Sweden is now excluded from production forestry. Forestry policy in both Sweden and the EU has been at risk of moving in the wrong direction recently. As an example, that is why we work actively to strengthen ownership of property rights and to reduce red tape for forest owners. We also work to ensure clear conditions in relation to the Species Protection Ordinance and key habitat regulations, and to stop the introduction of an EU directive to prevent the use of forest biomass for liquid biofuel production.

80 YEARS OF COOPERATION

In 2018, Södra will celebrate its 80th anniversary. By cooperating, Södra's members have worked through times of both success and adversity to build a

! Did you know that...

- Södra's innovation and development activities have acquired more significance in Södra's strategic transition.
- Södra has decided on strategic investments to increase liquid biofuel production.
- Södra is a global leader in digital forestry solutions.
- The Swedish forest industry must have a level playing field to promote its strong position and continued contributions to Swedish exports and welfare.

globally active company with strong local involvement. This is a fantastic story that started with the management of forest owners' timber, wood handling and very limited processing, to being a global leader in market pulp and running one of the largest sawmill operations in Europe. Södra is also the largest association of forest owners in Sweden, with everything that entails. This story should make us feel proud, but also humbled.

SÖDRA CONTINUES TO SHOW THE WAY

In a changing business environment, Södra is continuing to follow its roadmap and pursue the company's strategy to strengthen competitiveness. The future is growing in the forest, and the Swedish forest industry is at the forefront. Forests have so much more to offer in the process of developing a more sustainable society. There is still much to be done, and Södra wants to be part of – and take a leading role in – this development, based on its own conditions. This requires continuous improvements, an ability to listen and be highly flexible, but also a clear and level playing field. Much seems to indicate that these favourable economic conditions will continue for a time. With a well-invested industry and ongoing initiatives in processing and innovation in selected areas, Södra is well-positioned for the future.

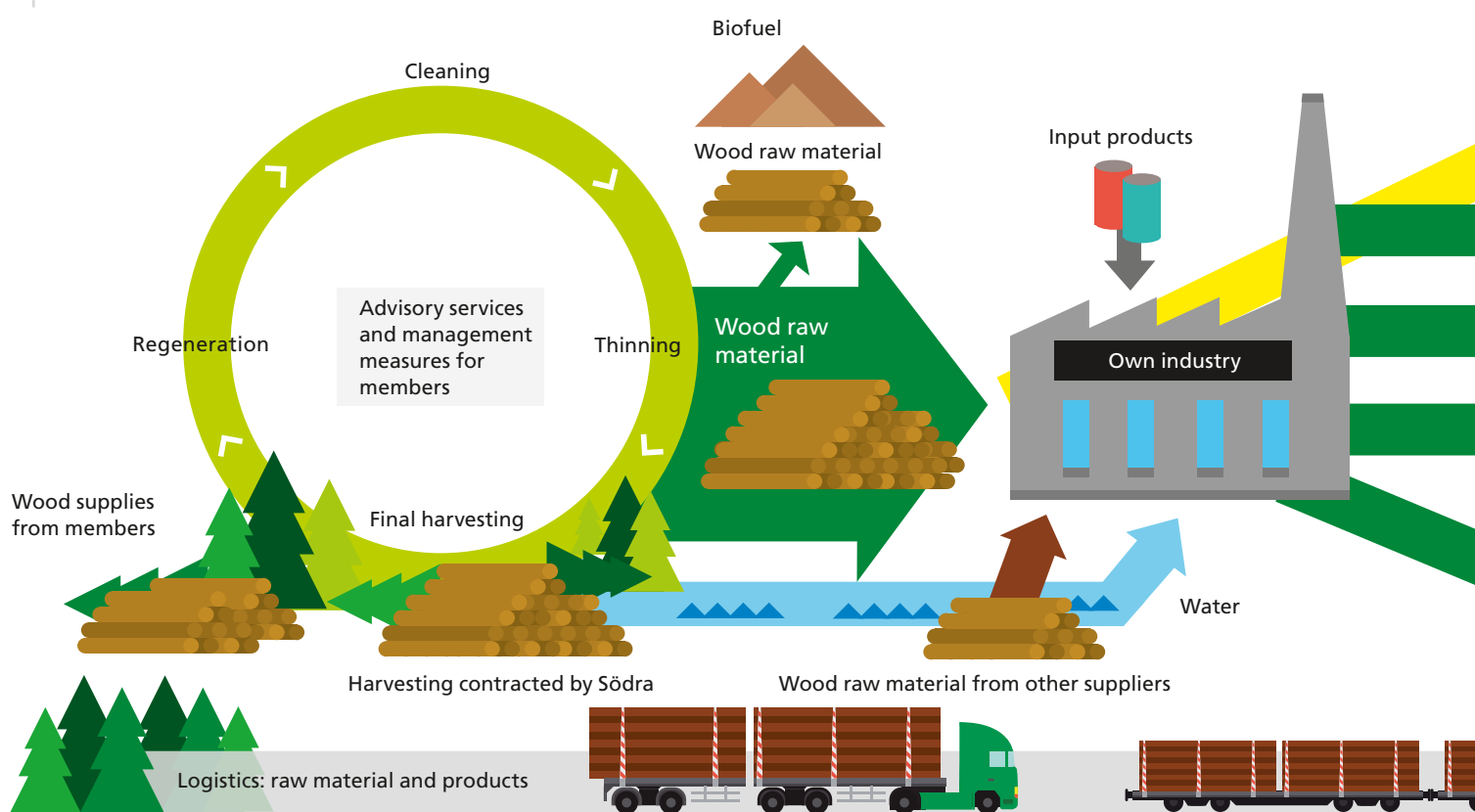
Lars Idermark
President and CEO
Södra



How Södra generates value

Södra is the largest forest-owner association in Sweden and an international forest industry group. The operations are based on processing the renewable, recyclable and biodegradable raw material from the forest and its by-products. The ability of growing forests to absorb CO₂ and the use of wood can play a key role in reducing greenhouse gas emissions.

Value chain



VALUE-GENERATING OPERATIONS

Most of the wood raw material processed in Södra's sawmills and pulp mills has been delivered by Södra's members, who are also Södra's owners. Approximately two-thirds of members are certified. Södra offers forestry services and can manage members' forests on their behalf – from planting and forest management to final harvesting. In cooperation with its members, Södra strives to maintain a balance between production and environmental and social values. The forest operations are locally based, in 19 forestry operations areas and 36 forestry districts.

EFFICIENT LOGISTICS

The handling of raw material from the forest requires logistics with extreme precision. Transportation from a harvesting site to mills, and then to end customers, takes place by truck, train and ship. By optimising this transport, Södra can reduce its environmental impact and lower costs. As part of the process, wood volumes are also exchanged with other operators. Södra's target is that transport will be fossil-free by 2030. Most of Södra's own trucks already run on liquid biofuel.

A SUSTAINABLE SUPPLY CHAIN

Södra's members supply about 80 percent of the wood raw material used in Södra's mills. Other wood raw material and other materials, goods and services required for Södra's operations are mainly purchased from suppliers in Sweden and the EU. The suppliers shall be compliant with the Södra Supplier Code, which contains requirements related to business ethics, working conditions, human rights and the environment. The aim is that all suppliers are risk-assessed, and prioritised suppliers are reviewed based on the Supplier Code.

A CLEAR SET OF VALUES

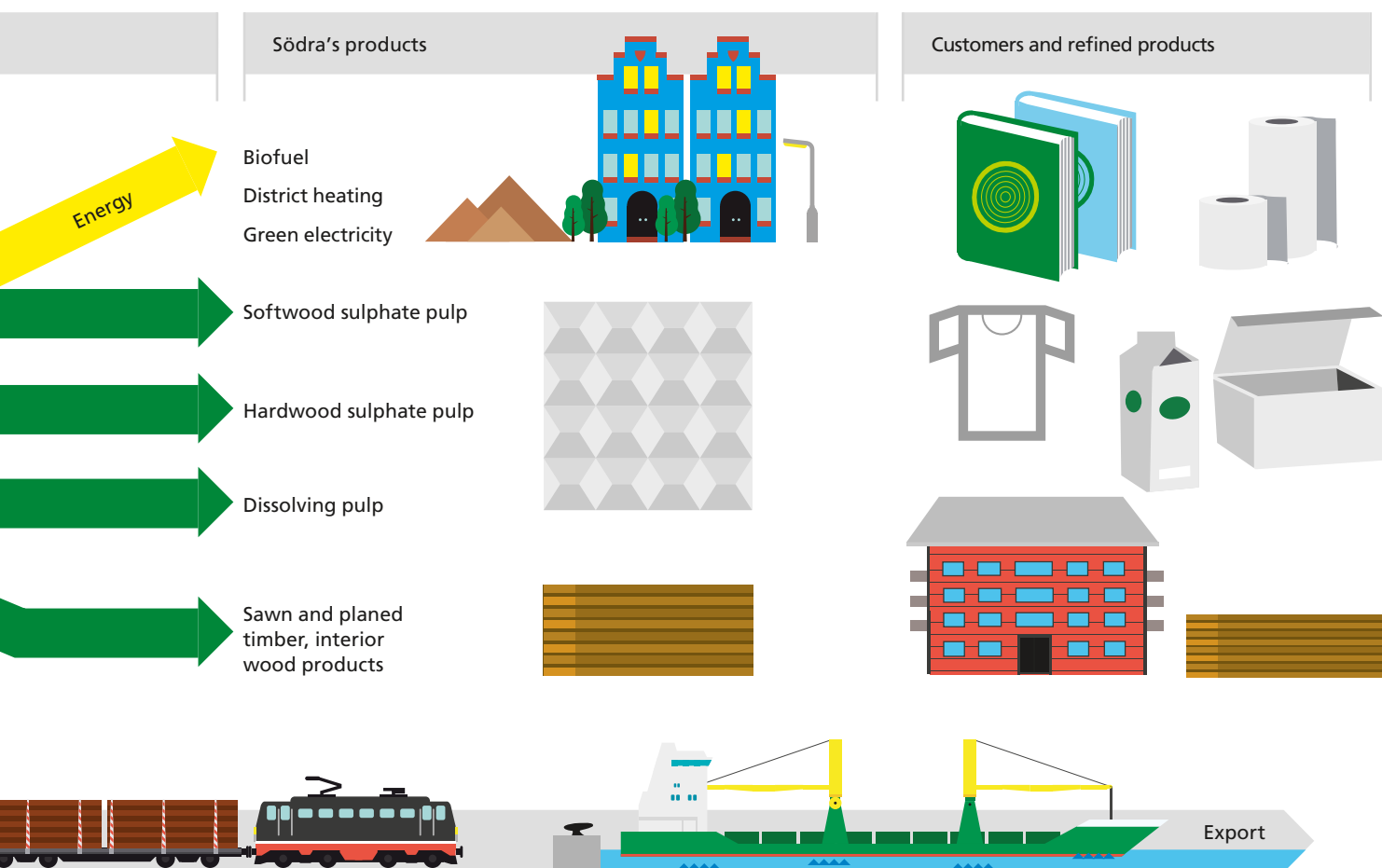
Södra's set of values – value-generating relationships, a long-term approach – guide day-to-day procedures, creates a sense of belonging in the Group and support Södra's efforts to become a next-generation forest company. All of Södra's employees have a key role to play in this respect.

A WIDE SPECTRUM OF PRODUCTS AND CUSTOMERS

The various grades of pulp supplied by Södra are used to make consumer products, including kitchen paper, soft facial tissues, toilet paper, coffee filters and wallpaper. Customers also produce printer paper, paper for exclusive printed materials, brochures, catalogues and packaging. More and more clothing is being made from dissolving pulp, in line with the growing demand for sustainable products

based on this renewable and recyclable raw material from the forest.

Södra's sawn timber and interior wood products meet demands for sustainable timber-frame construction with new engineered products. End customers are predominantly active in the construction sector, building trade and house manufacturing, packaging and wood processing industries.



PROCESSING IN THE MILLS

At Södra's sawmill and planing mills, sawlogs are processed into building and interior wood products. The combined capacity and expertise at Södra's pulp mills at Värö, Mörrum and Mönsterås make us one of the leading European manufacturers of high-grade market pulp, and our mills are almost fossil-free. Softwood pulp accounts for most of the production volume, the rest is hardwood pulp. The industrial operations are characterised by a safety culture and Södra has a zero accident vision.

GREEN ENERGY AND BY-PRODUCTS

Södra mainly uses biofuels for its industrial production processes. The excess energy is delivered as electricity to the open market, as district heating supplies to the communities around the pulp mills and sawmills, and as solid biofuels to thermal power stations. Via the industrial operations, raw material from the forest is contributing to the local community's sustainable energy transition. Efficient use of the this raw material from a material and energy perspective creates new conditions for sustainable products. Södra's dedicated innovation initiatives are showing the way to a more sustainable society.

MAJOR EXPORTER

About 80 percent of the products processed in Södra's pulp mills and sawmills are exported, thereby generating value for Södra's stakeholders – owners, customers, suppliers, employees and society. Annual exports amount to approximately SEK 12 billion. Södra's largest export markets are the UK, Italy and Germany.



Assignment, vision, objectives and strategy

Södra's assignment from its owners is to secure markets for its members' forest products and promote the profitability of their forest estates. This assignment also includes promoting high-yield and valuable forest production that integrates nature and cultural conservation, and monitoring and promoting the business policy interests of its members, particularly in regard to property ownership rights.

VISION:

Södra shows the way. Södra challenges expectations of what a forest company should be. Södra has a strong sense of self-confidence and acts clearly. Together with our members, Södra is showing what it means to be a next-generation forest company.

TARGET:

Södra's overall objective is to be a more profitable, more 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 independence, a higher rate of forest growth and a zero accident vision.

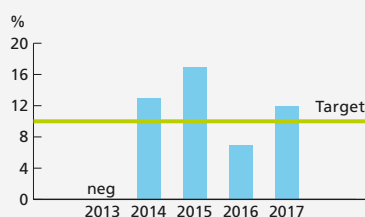
FINANCIAL TARGETS

- The aim is to generate value for our members by implementing the strategy. Implementation 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 must be strong 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 an assessment 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.

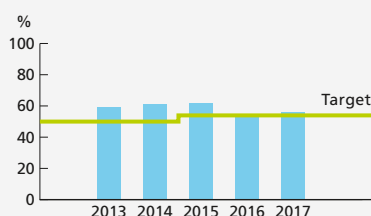


Return on capital employed was 12 percent (7) and exceeded the long-term target of 10 percent, mainly attributable to higher volumes and an upward price trend for Södra's finished products.

EQUITY RATIO

55%

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

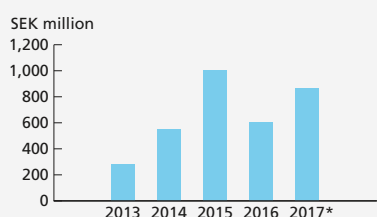


The balance sheet remains very strong. The equity ratio was 56 percent, which exceeded the financial target.

PROFIT DISTRIBUTION

50%

Overall long-term profit distribution should correspond to at least 50 percent of profit before tax.



The Board's proposed profit distribution for 2017 is SEK 868 million, corresponding to 47 percent of profit before tax. The profit distribution for the past five years is 57 percent.

* Proposed profit distribution.

STRATEGY

Growth

A company must grow in order to be competitive and generate long-term value. Södra's owners have growing stock due to responsible forest management, with replanting, proper care and long-term management. Södra therefore has access to a large amount of raw material that requires markets. Södra has therefore invested in higher production capacity to meet the growing needs of our members for markets, and the rising demand from customers for products based mainly on Swedish wood 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. Improved profitability is also achieved by increasing efficiency and using joint resources more efficiently.

Focus on core business

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

wood products. Efforts to develop new products and services have also been intensified.

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, are expected to account for much of the increased demand.

New products and innovation

Södra's product portfolio largely comprises high-volume products, such as pulp and sawn timber. Innovations in existing product categories are essential for strengthening our customer offering. Efforts to speed up the development of new products for commercial use are being intensified.

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. In 2016, Södra introduced 15 overall sustainability targets, of which three are prioritised and have the same status as the financial targets.

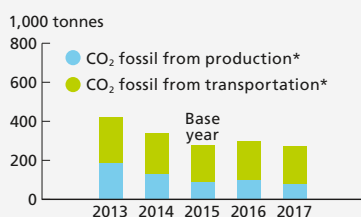
SUSTAINABILITY TARGETS

- 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 play a key role in reducing greenhouse gas emissions. By 2050, the annual rate of forest growth on Södra members' estates will be 20 percent higher than in 2015.
- Workplace health and safety initiatives are preventive, and conducted systematically. Södra has a zero accident vision and the lost-time-accident rate (LTAR) will decrease 15 percent per year until 2020.

FOSSIL-FUEL FREE

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



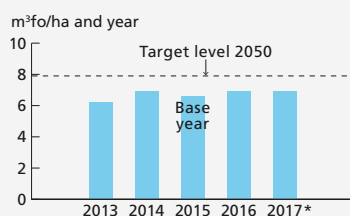
* The production target includes production, working machinery (including external harvesting contractors working on Södra's behalf) and internal transportation. The transportation target includes other transportation, including Södra's own haulage operations.

Fossil CO₂ emissions from production, working machinery and internal transport declined compared with 2015 due to reduced use of fossil fuel oil in the pulp mills. Fossil CO₂ emissions from transportation remained unchanged compared with 2015.

FOREST GROWTH

20%

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



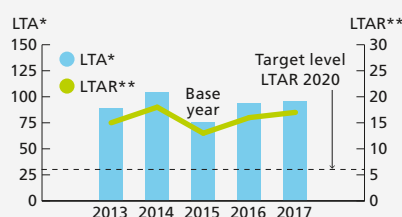
* 2017 relates to average growth in the 2011–2015 period, the most recent value available. The rate of forest growth is based on data from land owned by Södra members.

The rate of forest growth rose 5 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.

OCCUPATIONAL INJURIES

0

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



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

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

In 2017, occupational injuries increased slightly year-on-year. Initiatives during the year were mainly focused on a safety culture and safe behaviours.



Market conditions

In 2017, a generally strong global economy led to positive growth, strong demand and rising prices for the forestry sector. While higher prices were positive for raw material suppliers, the sawmill industry was adversely impacted.

DRIVERS AND TRENDS IN 2017

Södra operates in a global market where customer demand for market pulp and sawn timber, in particular, is influenced by general economic trends, especially in regard to construction, welfare, employment and demographics, but also by exchange rates trends for some key currencies. Economic growth was favourable in most of Södra's markets, primarily Europe, Asia and North America. Demand grew and prices rose.

CUSTOMERS AND PRODUCTS

Södra's sells most of its market pulp to manufacturers of tissue, fine paper, printing paper and specialty products. Södra's customers produce kitchen paper, soft facial tissues and toilet paper, coffee filters and wallpaper. Customers also produce printer paper, paper for exclusive printed materials, brochures, catalogues and packaging. Dissolving pulp is increasingly used for made-to-measure clothing but also for ready-to-wear in line with the growing demand for sustainable products.

Södra's sawn timber and interior wood customers are predominantly active in the construction industry, building trade and house manufacturing, packaging and wood processing industries.

THE WOOD MARKET

The wood market in Södra's area was characterised by high supply for both pulpwood and saw logs. Demand for fresh fibre increased during the year in line with higher production rates in the pulp market year-on-year. Inventory levels remained stable and prices for both saw logs and pulpwood rose during the year. Demand was favourable for both spruce and pine logs. The notified final harvesting area in Södra's area was higher year-on-year.

MARKET FOR SAWN TIMBER AND INTERIOR WOOD PRODUCTS

In 2017, total global production of sawn timber was record-high, almost 350 million m³. Production volume increased particularly in Russia, Finland, Austria and Germany. In Sweden, the production volume remained unchanged year-on-year.

While the market for sawn timber mainly benefited from higher consumption in Asia and the US, the European construction market also improved. Pine exports increased to the Middle East and North Africa in 2017, but political and financial uncertainty has continued to affect several countries throughout the region. The Swedish construction market increased sharply with approximately 70,000 completed

housing units, and domestic wood consumption rose. The UK market remained stable and the effects of the upcoming Brexit have not yet impacted sawn timber consumption. The UK wood industry benefited from the growing proportion of timber-frame buildings. In the UK building trade, competition from growing domestic sawmill production was intense.

Construction activity increased in the US and European sawn timber exports to the US rose sharply in 2017. This trend is expected to continue in 2018. The Canadian sawmill industry was unable to meet the growing US demand, and the US also imposed anti-dumping duties on softwood imports from Canada.

China's imports rose sharply during the year. Russia accounted for the greatest increase. During the first half-year, Swedish exports to China were impacted by limited access to containers and a strike in the Port of Gothenburg.

Södra's sales of interior wood products are concentrated to Sweden and Norway. Despite high levels of construction activity, the market was adversely impacted by growing competition from new suppliers.

MARKET PULP

Underlying growth in the pulp market was strong and market prices rose in 2017. Economies in Europe, which is Södra's largest market, showed a positive trend with rising consumption and increased investment. Growth in China remained stable at a high level. China is now the world's largest producer of paper and board. A revised view of environmental issues in China is impacting the market for fibre, paper and board due to the closure of domestic pulp mills and tightened regulations on imports of recycled fibre.

Capacity growth, particularly in the Nordic region, for bleached softwood sulphate pulp (softwood pulp), will be positive until 2018 and may lead to a temporary market disequilibrium. Brazil has invested heavily in eucalyptus-based hardwood pulp, but the country's global competitive position has been hampered by rising land prices for plantations, lack of infrastructure and long transport distances.

The tissue and specialty paper product segments account for most of Södra Cell's pulp deliveries. Tissue is less sensitive to economic fluctuations and consumption is rising in line with growing prosperity. Growth for various types of specialty paper, such as filter paper and label paper, was positive and demand for these products increased in both emerging and mature markets. Packaging paper is mainly dependent on the global economic trend, but has shown strong long-term growth. The decline in demand for graphic paper across the western world continued, but at a slightly

slower rate. Publishing paper growth is also declining in China.

The average market equilibrium for softwood pulp remained at about 93 percent during the year. A strengthened market equilibrium for both softwood and hardwood pulp led to a sharp increase in prices during the year, and the price difference between softwood and hardwood pulp declined dramatically in 2017. The inventory situation was mainly in line with normal seasonal variations, with high consumption during the spring and autumn. The inventory level was slightly lower than normal due to strong demand and a stable price trend.

The positive price trend for dissolving pulp continued, due to strong demand and a limited addition of new pulp capacity in this segment.

ELECTRICITY AND ELECTRICITY CERTIFICATE MARKET

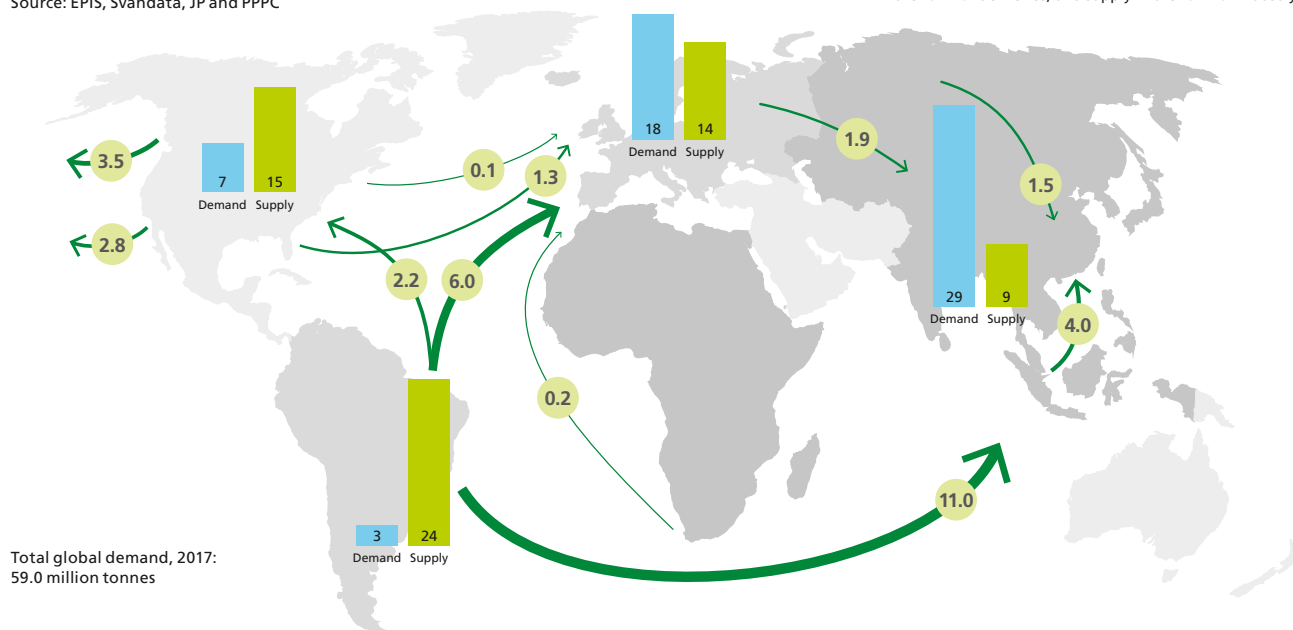
Södra is a major producer of electricity from renewable energy sources, and this production exceeds Södra's needs. In 2017, electricity prices rose year-on-year. Higher prices for primary production combined with higher demand for biofuels contributed to the rising price formation.

The Swedish electricity certificate market remained highly uncertain. Prices fell sharply at the beginning of the year but rose somewhat in the second half. The market uncertainty is due to operators weighing the balance of increased demand due to higher quota obligations against the increased supply that is expected to follow the strong ongoing expansion of large-scale wind power generation and its lower production costs.

BLEACHED SULPHATE PULP MARKET, 2017 (in million tonnes)

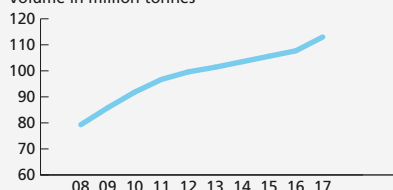
Source: EPIS, Svandata, JP and PPPC

* Market equilibrium is defined as the relationship between demand in the form of deliveries, and supply in the form of industry capacity.



CONSUMPTION OF PAPER AND BOARD IN CHINA

Volume in million tonnes

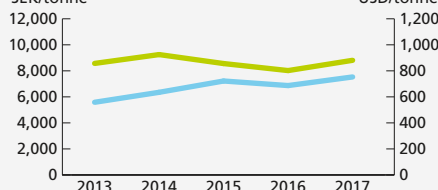


The Chinese consumption rate fell to about 2 percent per year from a significantly higher level due to lower demand for writing paper.

Source: RISI

PULP PRICES

SEK/tonne

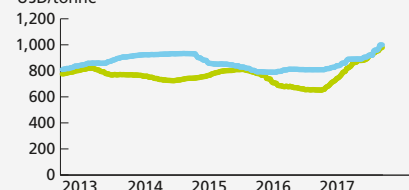


The price of bleached softwood sulphate pulp rose slightly in USD during the year. The diagram shows the average prices for softwood sulphate pulp delivered to European customers.

Source: Foex PIX Pulp Index

LIST PRICE FOR SOFTWOOD AND HARDWOOD PULP

USD/tonne



The price difference between softwood and hardwood pulp declined during the year. The diagram shows gross prices before discounts in the North European market.

Source: RISI



Sharply improved result

2017 was a strong year for Södra. Net sales amounted to SEK 20,518 million (18,482), and operating profit totalled SEK 1,917 million (979). Return on capital employed was 12 percent (7), and the equity ratio 56 percent (54). The Board's proposed appropriation of profits corresponds to profit distribution of SEK 868 million (602).



HIGH RATE OF PRODUCTION AT THE PULP MILLS

Investments in the pulp mill at Värö were completed in 2016. After a run-in period, the production rate gradually increased, enabling the mill to reach its quality target and maximum capacity of 700,000 tonnes.

NET SALES

Consolidated net sales amounted to SEK 20,518 million (18,482), corresponding to growth of 11 percent.

RESULT

Operating profit totalled SEK 1,917 million (979), representing an operating margin of 9 percent (5). Adjusted for restructuring costs in the second quarter of 2016, accumulated operating profit for the preceding year was SEK 1,208 million, representing an operating margin of 7 percent. The positive earnings trend for the year was mainly attributable to favourable volume growth and upward price movement for both market pulp and sawn timber. Operating profit for

both the current year and the comparative period has been restated to reflect the changed policy for planned maintenance costs that Södra introduced prior to preparation of the annual accounts for 2017. For more detailed information, see Note 49.

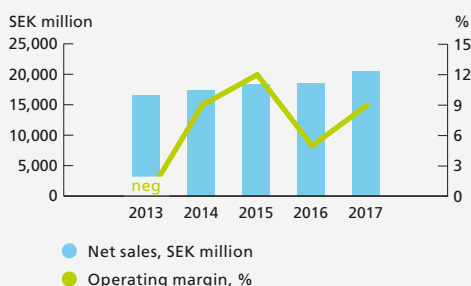
Tax expense for the year was SEK 259 million (102). The Group's net financial items amounted to an expense of SEK 87 million (expense: 66).

Return on capital employed was 12 percent (7).

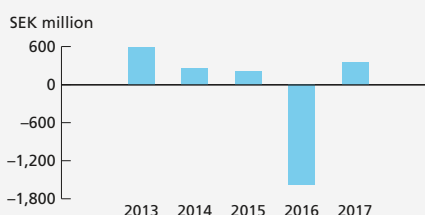
Södra Skog's operating profit totalled SEK 76 million (67). The earnings trend reflects lower expenses.

Södra Wood's operating profit totalled SEK 38 million (loss: 302). The sawmill operations improved SEK 477 mil-

NET SALES AND OPERATING MARGIN



CASH FLOW AFTER INVESTING ACTIVITIES





lion year-on-year. Full-year profit totalled SEK 157 million (loss: 320, including non-recurring costs of SEK 204 million related to restructuring), which partly reflects the favourable market conditions but also the ongoing improvement measures. Interiör's profitability was unsatisfactory throughout 2017 due to a dramatic change in the competitive situation. Full-year loss totalled SEK 119 million (profit: 18) and led to strong measures. Structural adjustments were made in the Swedish operations and the operations in Lithuania and Norway were divested, the latter as of 1 February 2018.

Södra Cell's operating profit totalled SEK 1,924 million (1,342). The improved earnings were due to higher volumes combined with a continued favourable price trend, particularly for softwood sulphate pulp.

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

Operating profit for Trivselhus totalled SEK 57 million (72). The year-on-year deterioration was mainly attributable to higher contracting costs.

CASH FLOW AND LIQUIDITY

Cash flow before investments amounted to SEK 1,915 million (2,315), and after investments to SEK 356 million (neg: 1,581). At year-end, cash and cash equivalents and current investments amounted to SEK 1,321 million (1,034).

FINANCIAL POSITION

At 31 December 2017, equity amounted to SEK 12,884 million (11,766), of which paid-up and issued contributed capital accounted for SEK 3,310 million (3,108).

Total assets increased slightly to SEK 23,104 million (21,671). At 31 December 2017, the equity ratio was 56 percent (54). Södra's borrowings comprised loans of SEK 3,106 million (2,781) from members, a nine-year loan of SEK 1,000 million (1,000) from Nordic Investment Bank and a four-year green bond of SEK 1,000 million (1,000) listed on Nasdaq Stockholm. Loan commitments of EUR 210 million and SEK 1,000 million, maturing in June 2019, were unutilised at the balance-sheet date.

INVESTMENTS, ACQUISITIONS AND DIVESTMENTS

For full-year 2017, investments amounted to SEK 1,606 million (4,256), of which SEK 60 million (71) pertained to Södra Skog, SEK 147 million (416) to Södra Wood and SEK 1,249 million (3,640) to Södra Cell. The investments were mainly focused on expansion, productivity and the environment.

Silva Green Fuel AS received a shareholders' contribution of SEK 25 million. Södra's company in Lithuania, UAB SIWood, was divested during the year.

SUSTAINABILITY

The Group's sustainability targets were gradually integrated into Södra's operations during the year.

Fossil CO₂ emissions from production were 80 ktonnes (99). The use of fossil fuel oil in the pulp mills declined due to increased use of internal biofuels. Fossil CO₂ emissions from transportation were 191 ktonnes (199).

The rate of forest growth on Södra members' land was 6.9 m³fo per hectare and year (6.9).



The number of occupational injuries with absence was 96 (94) and the lost-time-accident rate was 17 (16).

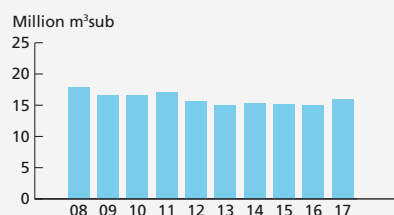
EVENTS AFTER THE CLOSE OF THE PERIOD

On 1 February 2018, Södra Wood AS was divested to Sörnsen Holzleiten. In 2017, Södra Wood AS generated sales of SEK 363 million and the loss for the year totalled SEK 39 million. No other significant events occurred after the close of the period.

PROFIT DISTRIBUTION

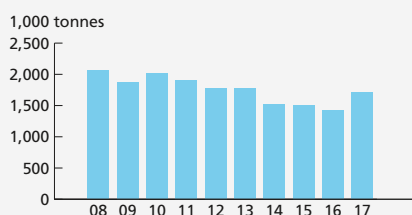
The Board's proposed appropriation of profits corresponds to profit distribution of SEK 868 million (602).

WOOD VOLUMES



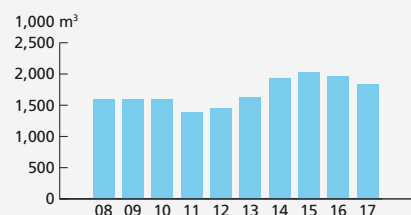
Wood supply in Södra's area was in line with the preceding year.

PULP PRODUCTION



Production volume increased to approximately 1.7 million tonnes as the pulp mill at Värö reached full capacity.

SAWN AND PLANED TIMBER PRODUCTION



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



Södra Skog – growing demand for fresh fibre

Södra's expanded production capacity increased demand for forest products. Plant breeding and improved management methods are contributing to higher growth rates in sustainably managed forests. e-service initiatives are further developing digital precision forestry.

SIGNIFICANT EVENTS 2017

- Increased pulp production contributed to favourable sales of fresh fibre.
- New measurement method with laser measurement and photography of timber stacks on trucks at Värö.
- New innovation project with a greenhouse birch plantation.

Södra Skog purchases timber and offers forestry services. These services include all stages of forest regeneration – from site preparation, cultivars from Södra's own nurseries, planting, cleaning, thinning, harvesting and Green Forest Management Plans to forest-economic advisory services.

STRATEGIC FOCUS

Members' forests are growing faster, and Södra's investments in its mill operations are securing future markets for wood. The range of services and forest-economic advice to members is increasing, especially digital services.

Continuous logistical improvements are required to meet the demands of both customers and forest owners in terms of delivery precision, efficiency and flexibility. Increased cooperation with contractors contributes to higher productivity and greater safety awareness. At the same time, responsible forest management, effective forest management planning and efficient transport solutions will also ensure a level of harvesting in line with Södra's sustainability targets.

OPERATIONS 2017

Net sales amounted to SEK 9,774 million and operating profit totalled SEK 76 million. The contracting rate remained stable and wood supplies to Södra's mills met demand. External sales of sawable ranges increased. The high demand for forestry services, such as harvesting, site preparation, planting, cleaning and forest management plans, continued. Harvesting services purchased by Södra Skog amounted to

approximately SEK 1 billion. Contracted transport services accounted for approximately SEK 1 billion. The rising logistical challenges were met.

Wood sales. Wood supply was slightly higher year-on-year. Södra purchased more than 15.5 million m³sub, comprising about 56 percent pulpwood and cellulose chips, 33 percent saw logs and about 11 percent biofuels. Imports totalled 0.5 million m³sub, mainly comprising birch, aspen and a smaller volume of softwood thinnings. The largest volume of imports comprised hardwood from the Baltic region.

Saw logs and pulpwood. In southern Sweden, prices for both saw logs and pulpwood rose during the year, in line with the growing demand. The supply of wood raw material to Södra's



Did you know that ...

In one year, Södra handles 25,000 contracts with members encompassing 300,000 loading points in forests.



CUSTOMER SATISFACTION IN FOCUS

Södra works purposefully, and applies different approaches, to increase customer satisfaction. While digitisation and a wider range of e-services are important, the development of personal interaction is key. Södra Skog's employees have taken part in a coaching programme to support this goal. Södra should be characterised by an ability to listen, competency and commitment in discussions and meetings.

expanded industry met demand and flowed smoothly.

Biofuel. Demand for biofuels from district heating plants was slightly lower year-on-year.

Plant breeding and plant protection. Regeneration and regrowth are central to active and sustainable forestry. Södra conducts successful plant breeding in a laboratory environment and in seed orchards by selecting high-quality trees (healthy, straight and high quality) and propagating them. A pilot project commenced during the year with birch seeds in a greenhouse. The aim is to produce high-quality birch seeds in a controlled environment. During the year, half of the seedlings sold were coated with mechanical plant protection.

Soil protection guarantee. The soil protection guarantee for final harvesting was a significant factor in the achievement of Södra's sustainability target for considerations in final harvesting, which means a 95 percent approval rate in the Green Balance Sheet. The guarantee also applies to forest residue handling and site preparation.

Measuring deliveries. Laser measurement and photography of every timber delivery by truck at Värö has led to higher productivity and precision, benefitting both suppliers and mills.

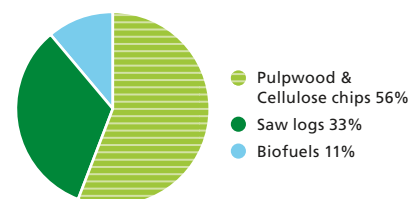
Wider range of e-services. By continuing to focus on personal interaction and digital tools, Södra is meeting its members' needs for advice and discussion to help them realise their forest-estate goals, in issues related to strategy, analysis, profitability and generational shifts. The Green Forest Management Plans provide the basis for analysis and goal formulation. During the year, a digital wood delivery service and drone-based services were developed, enabling greater precision when inspecting and making inventories of members' woodlands.

“During the year, a digital delivery service and drone-based services were developed.”

OUTLOOK FOR 2018

The market potential for both saw logs and pulpwood is favourable due to a strong economy and expectations of continued high production volumes at sawmills and pulp mills. The potential for meeting the growing demand for wood is high, due to opportunities for increasing both thinning and final harvesting on members' forest estates. Since harvesting volumes are expected to exceed the needs of Södra's sawmills, Södra also expects to maintain the level of its external saw-log sales.

WOOD SALES



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

Every delivery of wood raw material by truck is photographed and measured by laser beam at Värö.



SÖDRA SKOG 2017

KEY INDICATORS

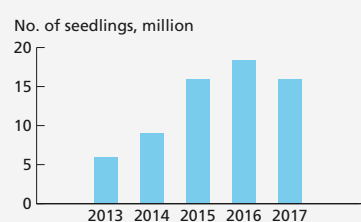
	2017	2016
Net sales, SEK million	9,774	9,139
of which to own industry	5,779	5,314
Operating profit, SEK million	76	67
Return on operating capital, %	9	6
Investments, SEK million	60	71
No. of employees	539	540

ACQUISITION OF WOOD

	2017	2016
Total, million m ³ sub	15.5	15.0
From members, total	9.7	9.4
– as wood deliveries	1.3	1.6
– as harvesting assignments	8.4	7.8
Imports	0.5	0.5
Other (including woodchips)	5.3	5.1

Wood volumes acquired from members rose 3 percent year-on-year.
The total wood volume was 15.9 million m³sub, including a change of 0.4 million m³sub in inventories.

SALES OF SEEDLINGS WITH MECHANICAL PROTECTION



Total sales of seedlings rose to 32 million (29). Half of these were coated with mechanical plant protection.

FORESTRY SERVICES

	2017	2016
Harvesting, million m ³ sub	8.7	8.1
Site preparation, ha	9,600	7,600
Cleaning, ha	16,400	15,700
Forest management plans, 1,000 ha	104	133
Seedling sales, million	32	29

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



Södra Wood – change programme and future initiatives

Restructuring and market adaptation combined with a strong economy contributed to a marked improvement in profitability. Strategic investments and concentration to larger units are securing long-term markets for members' saw logs.



PROCESSING INITIATIVE

The construction sector is moving away from on-site construction towards the assembly of structural components. This trend toward product systems is increasing demand for processed wood products, such as cross-laminated timber.

In line with the company's growth strategy and ambition to increase processing, Södra is investing SEK 100 million in a cross-laminated timber (CLT) facility at Värö. At present, there is no facility for CLT production in southern Sweden. As a first step, Södra is investing in a small-scale CLT facility, but the plan is to build a large-scale facility in the future. Production is scheduled to commence in early 2019, and the annual production rate is an estimated 5,000 m³ per shift. The location at Värö has been strategically chosen for its proximity to several high-growth Nordic regions, but also for the ease of shipping to the UK as well as other export markets.

SIGNIFICANT EVENTS 2017

- Continued focus and restructuring. Divestment of interior wood operations.
- Investment in a CLT facility to increase engineered wood products.
- New sawmill line at Långasjö in operation.

The product offering includes sawn, planed and pressure-treated goods for structural engineering, and for the furniture and wood industries. Spruce accounts for some 75 percent of the volume, pine for 24 percent. Customers are primarily in the building trade, and the housing, packaging and wood-processing industries. The interior wood production units are highly specialised and the range includes moulding, panelling and flooring. Customers include the

building trade, construction companies, joineries and house manufacturers.

STRATEGIC FOCUS

Södra Wood aims to increase sales by meeting the needs of its customers in high-priority markets. This requires a focus on efficient and profitable production, a streamlined range and increased processing. It builds on the assignment to create long-term markets for saw logs from forest estates in close collaboration with Södra Skog around timber harvesting and transport. Södra is working actively to promote wood as a sustainable and economically competitive building material. Sustainability aspects contribute to innovative solutions with a higher degree of timber-frame off-site construction. Research and development

into timber-frame construction is taking place in partnership with Södra's Trivselhus subsidiary, as well as research and academic institutions.

OPERATIONS 2017

Net sales amounted to SEK 5,934 million and operating profit totalled SEK 38 million. The year-on-year improvement was mainly attributable to the favourable market conditions, and to the effects of the restructuring that commenced in 2016. Operating profit was charged with a goodwill impairment of SEK 29 million related to the interior wood business. Cash flow was not affected. Södra's core markets are Sweden, the UK and the Netherlands. In Sweden and the UK, wood is increasingly used as a building material. The UK market, where Södra has a



Did you know that ...

Södra supplies sawn timber to more than 40 countries.

local presence, has a major need for sawn timber imports and is Södra's largest single market for sales of timber for industrial and construction purposes. The timber is delivered from Södra's own warehouses in the UK, or by boat from Sweden. Customers in the Netherlands are offered a wide range, with direct deliveries from Sweden.

INVESTMENTS

The investment of just over SEK 100 million in Långsjö will increase the sawmill's capacity from 280,000 m³ to 360,000 m³. In addition to a small log line, a stacker with automated stick laying, a totally new wood dryer and a new 8,000 m² warehouse are being built.

Södra is strengthening the long-term competitiveness of its planing operations. The units in Ronneby and Kallinge are being co-located to Kallinge, where SEK 25 million will be invested in a coating system with high environmental performance, new machinery and an improved logistics centre. In line with Södra Wood's new strategy for long-term profitability, a decision has been made to invest SEK 100 million in a pilot plant for cross-laminated timber (CLT).

Stronger international presence. Södra Wood's international initiatives



Södra is focused on fewer but more processed interior wood products.

are aimed at strengthening the company's market presence, and boosting its sales of sawn timber in prioritised export markets. Södra has a subsidiary in the UK, and sales offices in the US and China. To further strengthen Södra's position in China, a sales office was established in Hong Kong in 2017.

CONTINUED RESTRUCTURING AND RATIONALISATION

The change programme in the sawmill and planing operations continued in relation to both production units and warehousing. The changes that are planned to take place over several years, will streamline and rationalise Södra's sawmill structure with fewer, but larger, units.

Strong measures have been adopted in interior wood and continued stream-

lining is ongoing. The operations in Lithuania and Norway were divested. The market adaptation entails focusing on a smaller number of specialised markets, and fewer, but more processed, products.

OUTLOOK FOR 2018

The change programme that commenced in 2016 will continue as planned in 2018. Phase two of the strategy period began with a focus on new products, service offerings, greater flexibility and combined facility issues. Ongoing restructuring measures combined with strategic investments in Södra's future are aimed at securing long-term profitability and favourable markets for members' wood raw material. The market for sawn timber is expected to remain favourable and in equilibrium.

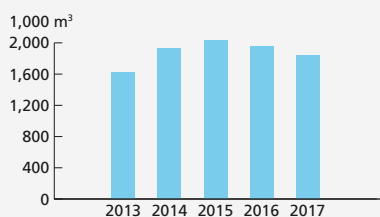
“The change programme that commenced in 2016 will continue as planned in 2018.”

SÖDRA WOOD 2017

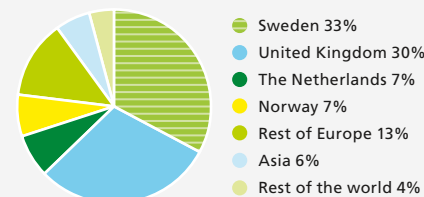
KEY INDICATORS

	2017	2016
Net sales, SEK million	5,934	6,091
Operating profit/loss, SEK million	38	-302
Return on operating capital, %	1	neg.
Investments, SEK million	147	416
No. of employees	1,158	1,380
Production, 1,000 m ³	1,841	1,955
Saw log consumption, 1,000 m ³ sub	3,654	3,925

SAWN TIMBER PRODUCTION



SALES PER MARKET



**PULP MILL AT MÖNSTERÅS
60 YEARS**

Södra's first pulp mill was inaugurated in 1958, but the plans for a mill at Mönsterås had already been presented to Södra's Board in 1952. Demand for firewood fell after World War II. A totally new mill was built in the 1970s, and expanded in the 1980s. Södra has invested heavily in all three pulp mills over the past few years. The capacity of the pulp mill at Mönsterås is now 750,000 tonnes.

The combined facility at Mönsterås involves all of Södra's business areas. In addition to the pulp mill, there is a sawmill and regional and forestry operations area offices, and the facility even has its own port. In line with Södra's sustainability targets for fossil-fuel independence and resource efficiency, Södra is now investing in a biomethanol plant to upgrade a by-product that is currently being used as internal fuel.

Södra Cell – high production and favourable market growth

Demand for Södra Cell's products was strong and the overall production volume was about 1.7 million tonnes of pulp. Expansion of the pulp mills at Värö and Mörrum strengthened Södra's global market position and delivery volumes rose.

SIGNIFICANT EVENTS 2017

- The pulp mill at Värö reached full capacity after a run-in period.
- Investments in the pulp mill at Mörrum were completed and are being run-in.
- The pulp mill at Mönsterås continued to deliver large volumes and high quality.
- Continued quality management and high level of customer satisfaction.

Södra's three pulp mills produce softwood pulp of spruce and pine, and hardwood pulp of birch. The pulp is mainly sold to European manufacturers of tissue, specialty paper, packaging and publishing paper. The quality and properties of the various end-products depend on the fibre dimension and pro-

duction technique. Long-fibre softwood pulp has good strength properties, with high absorbency. Hardwood pulp has short fibres, providing softness and good printability.

Dissolving pulp is mainly made from birch in the pulp mill at Mörrum, and used in the textile industry for the production of, for example, viscose and Lyocell.

STRATEGIC FOCUS

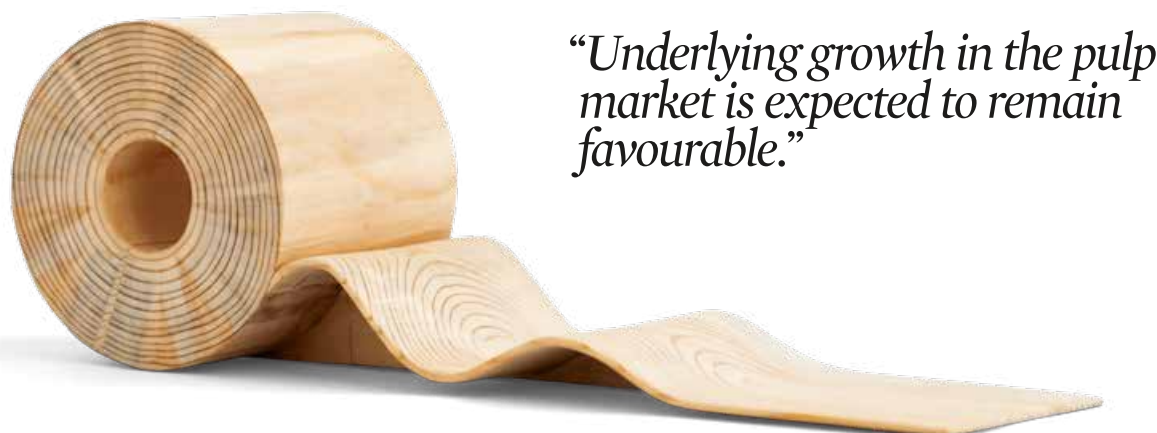
Södra Cell's operations are based on profitable organic growth, using raw material from Swedish forests for the production of high-grade pulp products. The company's structure is designed for large production volumes. Investments in expansion of the pulp

mills is aimed at achieving the strategic objectives by strengthening competitiveness so that Södra can grow together with its customers in the global market.

OPERATIONS 2017

Net sales amounted to SEK 9,822 million and operating profit totalled SEK 1,924 million. The earnings improvement was mainly a result of increased volumes combined with higher prices for pulp.

Purposeful work with continuous improvements in operating activities, combined with continued investments and efficiencies in the pulp mills, contributed to the high level of productivity. The total production volume for the



“Underlying growth in the pulp market is expected to remain favourable.”

three pulp mills was approximately 1.7 million tonnes (1.4).

Full capacity at Värö. Värö is now one of the largest and most modern pulp mills in the world for softwood sulphate pulp production. Total investments of SEK 4 billion in the mill at Värö were completed in 2016, and followed by a run-in period. The production rate gradually increased during the year, enabling the mill to reach its quality target and maximum capacity of 700,000 tonnes.

Expansion completed at Mörrum. About SEK 1.7 billion has been invested in Mörrum to increase the production capacity to approximately 470,000 tonnes per year, comprising 300,000 tonnes of paper pulp and 170,000 tonnes of dissolving pulp. During the year, the second stage of the investment programme was completed, comprising new evaporation and pulp washing facilities.

Stable and high production at Mönsterås. The pulp mill at Mönsterås is one of the world's largest and most high-performing producers of softwood pulpwood. The pulp mill is highly flexible in terms of adapting the fresh fibre to customers' high quality requirements. The production capacity is 750,000 tonnes per year.

A customised service concept, Pulp+.

Pulp+ offers new added value that meets customised product performance and high quality requirements clearly and efficiently. For example, Södra offers unique product data on grades of fibre and pulp that helps to deepen understanding and customer relationships.

OUTLOOK FOR 2018

In 2018, underlying growth in the pulp market is expected to remain favourable. Competition is expected to intensify in pace with investments in new capacity, which may lead to temporary market disequilibrium. Södra is well-positioned to meet customer needs in this highly competitive market.

SÖDRA CELL 2017

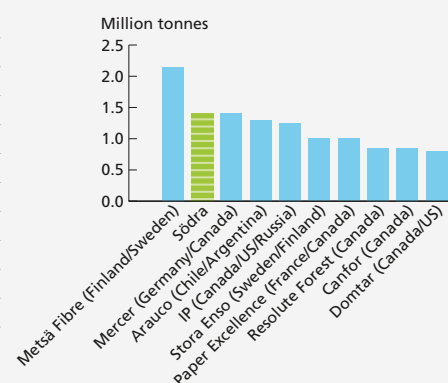
KEY INDICATORS

	2017	2016
Net sales, SEK million	9,822	7,845
Operating profit, SEK million	1,924	1,342
Return on operating capital, %	16	13
Investments, SEK million	1,249	3,640
No. of employees	1,185	1,177
Production, 1,000 tonnes	1,712	1,429
– softwood sulphate pulp	1,408	1,174
– hardwood sulphate pulp	181	128
– dissolving pulp	123	127
Fibre consumption, million m ³ sub	8.1	6.7
– of which softwood fibre	6.8	5.6

PRODUCTION

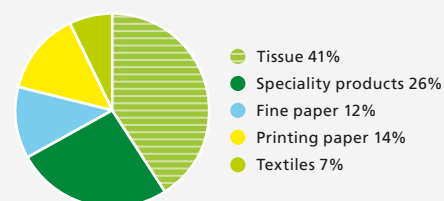
1,000 tonnes	2017	2016
Mörrum	370	378
of which softwood sulphate	247	251
dissolving pulp	123	127
Värö softwood sulphate	585	331
Mönsterås	757	720
of which softwood sulphate	576	592
hardwood sulphate	181	128
Total	1,712	1,429

LEADING GLOBAL PRODUCERS OF BLEACHED SULPHATE PULP



Excluding fluff and other specialty pulps, and internal deliveries.

APPLICATIONS FOR SÖDRA'S PULP



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



Did you know that ...

In 2017, Södra's pulp deliveries corresponded to 6.6 billion rolls of toilet paper, 480 million sweaters, 150 billion coffee filters and 110 billion sheets of A4 paper.



Other segments

Other segments includes Trivselhus, Södra Vind, Södra Medlemsel and the associates SunPine AB and Silva Green Fuel AS.

TRIVSELHUS AB

Södra's subsidiary, Trivselhus, is one of the largest single-family house manufacturers in Sweden. In addition to premium homes, Trivselhus markets and sells homes under the Movehome brand. Over the past few years, Trivselhus has almost exclusively delivered turnkey housing. Trivselhus also develops land for detached houses, and for the construction of duplex housing projects, comprising apartments in terraced, linked and semi-detached houses. Trivselhus also partners with landowners to develop sites for duplex housing projects.

In 2017, Trivselhus delivered 581 housing units. Operating profit totalled SEK 57 million (72). About 534 new housing contracts were signed, and duplex housing projects accounted for a growing proportion. Sales in Sweden are conducted via 26 sales offices, from Malmö in the south to Luleå in the north. The UK is a growing market, where Trivselhus markets, sells and delivers homes in predominantly duplex housing projects. Trivselhus has approximately 300 employees.

SÖDRA VIND AB

Södra owns six wind turbines at Mönsterås. The electricity generation was 34 GWh (33).

SÖDRA MEDLEMSSEL AB

Södra's pulp mills are self-sufficient in electricity and generate excess green electricity. Södra Medlemsel offers green electricity to Södra's members, employees and business partners. The number of customers was approximately 5,000 and the sales volume totalled 82 GWh.

SUNPINE AB

SunPine's mission is to use the raw material from sustainably managed Swedish forests to extract products that enable the transition to a green economy. Tall diesel, rosin and bio-oil are extracted from crude tall oil. Tall diesel is produced from the by-products of Södra's pulp industry and is a liquid biofuel with low CO₂ emissions and low energy consumption throughout production and all life cycle stages. SunPine produces approximately 100,000 m³ crude tall diesel annually,

which is blended with standard diesel fuel. Rosin is used as an ingredient in printing inks and adhesives. SunPine is owned jointly by Södra, Sveaskog, Preem, KIRAM and Lawter. Södra's share of SunPine's profit was SEK 58 million.

SILVA GREEN FUEL AS

Silva Green Fuel AS is 49-percent owned by Södra, and 51-percent by Statkraft. The company's mission is to identify a cost-efficient technology for the profitable large-scale production of second-generation liquid biofuels using forest biomass. During the year, Södra and Statkraft decided to invest approximately SEK 500 million in a demo facility for liquid biofuel. Silva had a negative impact of SEK 16 million on Södra's result.



Did you know that ...

Trivselhus is one of Sweden's largest single-family house manufacturers.



Electric turbine in the pulp mill at Värö. Södra's pulp mills are self-sufficient in electricity and generate excess green electricity.

Other information

REGULATED ACTIVITIES

Of Södra's net sales, 75 percent (73) are subject to permit or mandatory notification requirements under the Swedish Environmental Code. At year-end, Södra conducted 54 (55) activities that were subject to permit or mandatory 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 timber terminals, biofuel terminals, mills for processing sawn timber and wind turbines.

The pulp mills hold permits with conditions for air and water emissions among others. In 2017, Södra Cell Mönsterås submitted notification for the construction of a new pulp warehouse and covering of a landfill at Hångevik. All pulp mills were issued new permits for greenhouse gas emissions.

The sawmills hold permits with conditions for noise and air emissions among others. In Södra Wood, the sawmills at Unnefors and Mönsterås received new production permits during the year for 200,000 m³ and 800,000 m³, respectively. The sawmill at Värö was issued changed conditions for noise. The planing mill in Umeå was granted a new production permit for 40,000 m³ of finished products.

There were no other significant permitting changes in 2017.

SUSTAINABILITY REPORT ACCORDING TO 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 chosen to prepare a Sustainability Report that is separate from the Annual Report. The scope of the Sustainability Report is presented on page 113.

PARENT COMPANY Result

Parent Company net sales amounted to SEK 17,649 million (15,886). The growth in sales was 11 percent, of which Södra Cell accounted for 25 percent and Södra Skog for 7 percent, while Södra Wood reported a decline of 4 percent due to consolidation of the operations.

Operating profit for the year totalled SEK 1,651 million (705). The year-on-year earnings improvement amounted to SEK 946 million, of which increased volumes combined with higher prices for Södra Cell accounted for SEK 596 million, while Södra Wood's improve-

ment of SEK 368 million was mainly due to favourable market conditions.

Net financial items amounted to income of SEK 66 million (81). Net financial items were mainly impacted by dividends of SEK 44 million from Södra Wood Ltd, SEK 25 million from SunPine AB and SEK 3 million from Södra Timber A/S, and reversal of an impairment loss of SEK 40 million on the shares in the associate SunPine AB. Profit after net financial items totalled SEK 1,717 million (786).

Members

At 31 December 2017, the number of members was 51,009 (50,771). The affiliated membership area was 2.52 million hectares (2.48).

Appropriation of profits

The Board proposes that the Annual General Meeting approve an appropriation of profits entailing a distribution of SEK 868 million (602) to members. The profit distribution comprises a dividend of 6 percent (4) on contributed capital totalling SEK 198 million (124), a dividend of 10 percent (8) on wood deliveries totalling SEK 454 million (343), and a bonus issue of 15 percent (10) totalling SEK 216 million (135).



Research and development

Robust initiatives in liquid biofuels

Initiatives in liquid biofuels, cross-laminated timber and sustainable packaging solutions are important steps towards achievement of the sustainable innovation targets.



SIGNIFICANT EVENTS 2017

- SEK 100 million invested in a biomethanol plant at the combined facility at Mönsterås.
- SEK 500 million invested in a demo facility for liquid biofuels based on forest biomass through Silva Green Fuel.
- Active participation in Treesearch, a national research platform, for the development of expertise and knowledge for future innovation using forest biomass.

The sustainable innovation target is that Södra has commercialised at least three products with better sustainability performance than today's alternatives by 2020. In 2017, Södra decided to make significant investment in liquid biofuels. Investments are also being made in engineered wood through a CLT facility at Värö, and the development of DuraPulp. The focus of innovation activities is therefore making an active contribution to several of Södra's sustainability targets. Product and process development for Södra's existing markets and customers remains central to innovation activities.

The Group's research and development initiatives amounted to SEK 96 million (95), equivalent to 0.5 percent of sales, and includes own operations as well as external research projects.

During the year, a decision was also made to invest approximately SEK 400 million in new and innovative products, mainly liquid biofuels and engineered wood products.

PRODUCT AND PROCESS DEVELOPMENT

Efforts within the framework of product and process development continued to focus on Södra Cell's investments for organic growth, with a particular focus on quality development in connection with the running-in process in the pulp mill at Värö.

A key component of the innovation unit's activities in existing business is to support Södra Cell's service concept through customer activities in the form of joint projects, such as the "Fibre Education" training course at Värö. With the aim of strengthening the customer offering and product development of textile fibres, Södra has established a viscose laboratory.

Södra's sawmill at Långasjö has been certified by the Swedish Wood organisation for certified primed cladding (CMP), which is a key innovation in the transition to a sustainable society. CMP reduces the time required for planning and assembly, and can be assembled all-year round.

NEW PRODUCTS

Several ongoing projects can be linked to Södra's sustainability targets for fossil-free production by 2020 and fossil-free transportation by 2030. Achievement of the fossil-free vision by 2030 will require deeper collaboration with various partners. The Board decided to invest more than SEK 100 million to produce biomethanol, a sustainable vehicle fuel from forest biomass. The biomethanol will be made from the crude methanol derived from the manufacturing process at Södra's pulp mill. Södra and Statkraft decided to make a joint investment of approximately SEK 500 million in a demo facility through the joint venture Silva Green Fuel for the production of liquid biofuels using forest biomass.

The market for high-rise construction with timber is growing, driven by both economical and sustainability aspects. In 2017, Södra decided to invest in a cross-laminated timber (CLT) facility to meet this demand for structural timber.

Since 2016, the development of DuraPulp has been included in the EU project "Fresh," a collaboration around a complete value chain – from packaging raw products to ready-meal trays. The objective of the project is to iden-

tify a cellulose-based alternative to existing fossil fuel-based plastic packaging. The first solution was tested during the year and the first market tests will take place in 2018.

RESEARCH IN THE STRATEGIC ARENAS

Innovation activities are taking place in several strategic arenas, both internally at Södra, and in collaboration with customers through new cluster partnerships with other industrial sectors in various value chains. Södra also collaborates with research institutions and universities.

Södra plays an active role in research projects coordinated by research institutions, universities and colleges at both national and European level. The research projects normally span several years and Södra participates in projects in various strategic areas. These projects are mainly focused on forestry activities, and on industrial processes related to paper and textile production.

The project related to the Swedish strategic innovation programme, BIO-Innovation, is continuing. Södra is participating together with several other operators from the textile value chain. Projects focused on sustainable bio-based textile production, using textile fibres from wood and recycled bio-based textiles, are also ongoing. Södra is also involved in a construction and design project, related to bio-based construction and housing in the future.

TREESEARCH – A NATIONAL RESEARCH PLATFORM

Treesearch is Sweden's largest to-date focus on basic research and knowledge and competence building in the field of new materials and specialty chemicals from forest biomass. A collaboration between the public sector, academia and industry is creating a world-class, open research environment in the form of a national research platform, that contributes to the development of competence and knowledge that enables future innovations based on forest biomass. Södra, together with Billerud-Korsnäs, Holmen, SCA and Stora Enso, is taking part in an initiative to create a national research platform with the aim of developing the field of bio-based materials, and realising the green transition of the industry.

THE SÖDRA RESEARCH FOUNDATION

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. The Foundation was established in 1995, when SEK 100 million was set aside for research projects with the forest as a common denominator. Since then, three additional provisions of SEK 50 million each have been made, the most recent in 2015. During the year, the Foundation granted SEK 13 million to various projects, including SEK 3 million to research projects with a connection to biodiversity. This is the first time since funding commenced in 1995 that the Södra Research Foundation has called for research projects with a specific theme. The aim is to develop knowledge in order to improve assessments of biodiversity development in the forests of southern Sweden. Over the years, the Research Foundation has granted funding of SEK 196 million.



SUSTAINABLE INNOVATION

TARGETS

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



OUTCOMES 2017

- In 2017, Södra's Board made a number of decisions to invest in the commercialisation of new products with better sustainability performance than today's alternatives in several strategic arenas.
- In some cases, Södra chose to use a pilot plant to reduce the risks associated with commercialisation.
- Progress during the year was in line with meeting the target.

RESEARCH IN THE STRATEGIC ARENAS

Forestry activities	Industrial processes
Gentle logging methods	Sustainable bio-based textile production, based on raw material from the forest
Forest management techniques	Pulp for tissue and packaging
Plant breeding	Lignin-based products and biochemicals



LIQUID BIOFUELS – AN INVESTMENT IN THE FUTURE

Södra's biomethanol is made from 100-percent forest biomass, which means that fossil CO₂ emissions from combustion are zero. However, the manufacturing process does, at present, account for marginal fossil CO₂ emissions. From a climate-impact perspective, replacing fossil fuel with Södra's biomethanol would reduce CO₂ emissions by about 99 percent – the highest percentage in the market today.



Risks and risk management

Södra is exposed to risks that could have a significant impact on the Group. Prevention and control of risks can present opportunities, while poorly managed risks can lead to damage and loss.

Södra operates in a global market and is therefore impacted by the general economic trend and currency fluctuations, as well as more industry and Group-specific factors. The most significant risks for Södra's ability to achieve the Group's defined targets and how each of these risks is managed is presented below.

Well-managed risks can become opportunities, while poorly managed risks often lead to damage and loss. Södra works with preventive measures to minimise the identified risks. If this is not possible, risks can be offset by hedging or taking out insurance policies.

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 risks.

OPERATIONAL RISKS

Operational risks are part of day-to-day procedures and managed in operating activities. Risks can often be influenced. Control and management are regulated with policies and guidelines. Operational risk areas include tangible assets, the organisation, personnel and IT, which are often insurable.

RISKS	CONTROL AND MANAGEMENT
Facilities. Unforeseen events that can damage facilities, cause production losses and damage to goods during transport.	<p>Systematic work with preventive maintenance.</p> <p>Property and business interruption insurance where facilities are insured up to their replacement value.</p> <p>In the event of production losses, the insurance covers the profits that would have been earned.</p> <p>Goods being transported are insured, when considered justified.</p> <p>The value of the seed orchard is secured through geographic distribution and crosswise ownership.</p>
Health and safety. 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.	<p>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 OHSAS 18001 occupational health and safety standard. Södra's occupational health and wellness initiatives also contribute to creating a healthy workplace.</p> <p>Employee surveys are conducted on a regular basis.</p> <p>Several initiatives took place during the year – members of Group Senior Management conducted "Safety Walks" in many of the manufacturing units, Södra Wood conducted a behaviour-based safety programme.</p>
Environmental risks. Environmental impact due to consumption of water, energy and raw materials, as well as emissions from transport. Risk of unexpected emissions into air, water or soil and their impact on the environment/humans/local communities.	<p>Södra complies with current environmental legal requirements, including the Seveso Directives, and conditions for industrial production, and works continuously to improve energy efficiency. Södra's 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.</p> <p>There are also a large number of area-specific initiatives to reduce Södra's environmental impacts, such as efforts to achieve fossil-free operation in pulp production, HVO fuel for own and sub-contracted hauliers, and the introduction of watercourse classification – blue management targets – in Green Forest Management Plans.</p> <p>Södra Skog has introduced a broad training programme – Nature Conservation Södra – for all field workers, and contractors are certified with green and blue driving licenses to ensure that environmental considerations are taken into account both on land and around watercourses.</p>
Product safety. Several of Södra's products are used in the food and construction industries, both of which exercise clear and comprehensive regulations concerning safety and producer responsibility. Product defects could affect customers and/or consumers.	<p>All business areas are certified according to international standards (ISO).</p> <p>Products hold the relevant markings/approvals, such as FDA and BfR approval for use in the food industry, CE marking for the construction industry, and so forth.</p> <p>Information/recall procedures for defective products are in place.</p> <p>Liability insurance includes global product liability.</p>



RISKS

CONTROL AND MANAGEMENT

Competency provision. 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, together with systematic work for leadership and competency provision, combine to maintain and increase the company's attractiveness over time.

Corruption. 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 addition 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 risk exposure and ensuring that regulations and guidelines are in place for managing identified risks.

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

Climate and nature. Climate change can impact the 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 pests, root rot and browsing damage primarily affects individual forest owners, but also Södra in the long term.

Forest management measures reduce risk and are continuously communicated with forest owners: thinning, selective plant breeding, stump treatment, and so forth.

Major training initiatives are implemented through, for example, the 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 that are changing conditions for forestry are addressed by such measures as adapting the existing seed orchard and the More Pine project.

Economy. 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.

A global market focus with sales to customers across many sectors and countries reduces vulnerability, and the effects of local economic trends. Alongside continued investment in each business area's core markets, Södra is working actively to increase its presence in new markets and developing regions and Södra Wood, for example, has now established sales offices in China and the US.

Competition. 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 digitisation, 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 and interiors.

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.

Investments in the core business lead to greater efficiency, and strengthen Södra's competitiveness and market position. The large-scale investment projects at Södra Cell are being run-in.

Södra Wood's restructuring of the production capacity in its sawmills is now completed. Restructuring and rationalisation of the capacity in the planing mills is ongoing.

The innovation strategy's focus on faster commercialisation of innovation and new products will secure long-term competitiveness.

Raw material risk. Industrial growth and intensifying market competition over the next few years will increase 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. FSC® and PEFC™ certification of the wood raw material is 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 – be beyond Södra's control, but also has a major impact on competitiveness.

The forestry field organisation is focusing on broader 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.

In 2014, Södra's FSC® and PEFC™ certifications were renewed for a period of five years. The proportion of certified members is continuously monitored and in 2017, 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. Purchasing of other input products is conducted centrally using index-based contracts and contract durations that balance supply, price and assessed market conditions.



RISKS

Political risks. Södra operates in a highly regulated industry. Political 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 political decisions, there is also a risk of negative influence on public opinion based on the widening knowledge gap between forestry experts and the general public.

Brand risk. Trust and confidence are fundamental to Södra's ability to contract the wood volumes required by our 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.

CONTROL AND MANAGEMENT

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 CEPF at both national and international level. At regional level, Södra collaborates directly with LRF's regional organisation.

In 2017, the focus was on the Species Protection Ordinance, a review of the Swedish Forestry Act, participation in the Swedish Forest Agency's consultation groups, influencing decision-making at EU level and shaping public opinion from a forest owner's perspective. A business policy pod was started during the year. Södra supports members in legal processes related to encroachment and integrity.

Södra engages in active internal work around the company's set of values and Code of Conduct. A supplier monitoring process is linked to the Supplier Code. Södra's Code of Conduct and Supplier Code contain guidelines and requirements related to business ethics, working conditions, human rights and the environment. The members' forests are covered by a well-established audit programme.

Responsibility for trademark rights has been centralised, and resources and expertise in business policy communication have been strengthened.

The Group's crisis management capacity has been strengthened by a methodology development initiative, and a practical exercise.

FINANCIAL RISKS

Södra is exposed to financial risks with regard to variations in earnings and cash flow due to fluctuations in exchange rates, raw material prices, interest rates and refinancing and credit risks. The Group's financial risk management is handled by the Treasury Unit whose mandate is regulated by a financial policy established by the Board. For more information about financial risk management and risk mandates, see Note 22.

RISKS

Foreign exchange risk. Södra's currency exposure consists of translation exposure and transaction exposure. The former arises when the company has an asset or liability in a foreign currency that is translated into the Parent Company's currency. The latter is when the sales or purchasing price is denominated in a foreign currency.

Pulp price risk. Pulp price risk at Group level is defined as the risk of Södra receiving a lower than average price for sales of pulp than the price anticipated by the Group. Pulp-price risk is managed by pulp derivative trading.

Liquidity and financing risk. Liquidity and loan risk refers to the risk that sufficient liquidity is not available when required, or that refinancing is costly or problematic.

Interest-rate risk. Interest-rate risk pertains to the risk of adverse changes in market interest rates, which could have a negative impact on earnings and cash flow.

Share price risk. Share price risk is the risk of a decline in the value of the portfolio, due to changes in the market price of shares.

Credit risk. Södra is exposed to two main financial credit risks: issuer risk and counterparty risk. Issuer risk is the risk of a change in the value of a security linked to the issuer of a security. Counterparty risk is defined here as the risk that a counterparty to a derivatives transaction cannot fulfil their obligations.

Customer credit risks. Södra has many customers, most of them in Europe, North America and Asia. Should Södra be unable to meet the high demands of its largest customers, or customers be unable to fulfil their payment obligations, a customer credit risk may arise that affects the Group negatively.

CONTROL AND MANAGEMENT

The aim of risk management is to minimise fluctuations in the consolidated income statement and balance sheet. According to the financial policy, up to 0–70 percent of forecasted currency flows during the next 12-month period should be hedged, and 0–50 percent of the flow during the subsequent 12-month period. The two subsequent 12-month periods may be hedged from 0–30 and 0–20 percent, respectively. Translation exposure attributable to net values in foreign subsidiaries is only hedged if special reasons exist. See also Note 22.

According to the financial policy, Södra's sales price for pulp may only be hedged with pulp price derivatives. The main strategy is to be restrictive with such hedges. Hedged risk pertains to cash flow risk, which is the risk that Södra will receive a pulp price that is lower than the price level anticipated by the Group. The fair value risk, which arises when Södra offers pulp to buyers at a fixed price through its PulpServices Hedging value-added service, is fully hedged in accordance with the financial policy.

The financial policy sets out the requirements for an adequate liquidity reserve. Cash and cash equivalents plus credit commitments are to correspond to at least 10 percent of forecasted rolling 12-month sales.

For the Group's interest-bearing investments, the financial policy specifies how the interest-rate risk is to be limited by allocating investments to different fixed-rate periods. The investment portfolio's composition and purpose is described in Note 22. For financial liability, the objective is to maintain fixed-rate terms within the 0–18 month interval because Södra deems that a relatively short fixed-rate period reduces the Group's financing costs in the long term.

To limit the share price risk in share investments, the portfolio should be well-diversified in terms of industry/sector, country/region and individual shares.

Credit risk is limited through the financial policy's stipulation that Södra's cash and cash equivalents are to be invested in financial instruments with high liquidity and a Standard & Poor's credit rating of BBB-/K1 or higher, or similar assessments from established agencies.

Customer credit varies, according to the market and product. Södra's financial policy contains guidelines for managing the Group's customer credit. The basic principle is to insure customer credit that is possible to insure. Exceptions are made for certain large customers with long-term relationships and high credit ratings. In markets where customer credit is impossible to insure, letters of credit, prepayments or bank guarantees are used instead to secure payments.

SENSITIVITY ANALYSIS

Several of the Group's operations are highly cyclical and currency-dependent, which is why Södra is exposed to major earnings fluctuations. 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 purchased volumes.

In Södra Wood, sawmill earnings are mainly affected by changes in the sawn timber price, saw log cost and wood-chip price.

For Södra Cell, changes in pulp prices, currencies, volume and fibre costs have the greatest impact on earnings.

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.

Sensitivity analysis

Variable	Change	Effect on 12-month profit, SEK million
USD/SEK	+/- SEK 0.50	+/-330
Pulp price	+/- SEK 300/tonne	+/-370
Fibre cost for the pulp mills	+/- SEK 25/m ³ sub	-/+200
Pulp production	+/- 50,000 tonnes	+/-130
Sawn timber price	+/- SEK 50/m ³	+/-90
Saw log cost for sawmills	+/- SEK 25/m ³ sub	-/+80
Sawn timber production	+/- 50,000 m ³	+/-30
Oil price	+/- USD 10/barrel	-/+10
Total salary cost	+/- 3%	-/+80

Profit effect of change in closing rate

Variable	Change	Profit effect, SEK million
Trade receivables	USD +/- SEK 0.5	49
	EUR +/- SEK 0.5	30
	GBP +/- SEK 0.5	2
Trade creditors	USD +/- SEK 0.5	0
	EUR +/- SEK 0.5	17
	GBP +/- SEK 0.5	0

The effect on equity corresponds to the effect on profit.

Södra has an overarching sustainability target of zero accident vision. By conducting Safety Walks at Södra's production facilities, the CEO Lars Idermark and HR Director Christer Thörn increased the focus on Södra's systematic occupational health and safety management. Safety Walks are a proven way of working to raise awareness, and to create more understanding and commitment to safety-related issues among both managers and employees.





A Sustainable Södra

Södra's operations are based on the renewable, recyclable and biodegradable raw material from the forest. The Group's focus on sustainability is driving Södra forward and contributing to the transition to a bio-based society.

SIGNIFICANT EVENTS 2017

- Södra's updated Sustainability Policy governs and guides sustainability efforts and reflects Södra's current sustainability focus.
- Södra's sustainability targets are included in all relevant business plans and are monitored at Group level.

TOMORROW'S RAW MATERIAL

Södra's products and services are based on processing the raw material from the forest. Growing forests and the use of wood play a key role in reducing greenhouse gas emissions and the transition to a sustainable society. Growing forests absorb CO₂ through photosynthesis and the effect increases when they are managed sustainably.

In Sweden, forests are growing faster than they are harvested and Södra's target is an even higher rate of forest growth. The number of trees planted already exceeds the harvesting.

Södra applies a long-term approach for sustainable forestry and uses wood raw material efficiently. Forests are managed responsibly and members' forest products are processed into paper pulp, dissolving pulp, sawn timber and renewable energy.

Södra's ambitious initiatives in research and development are showing the way. The aim is to identify new applications, methods and products based on raw material from the forest.

RESPONSIBILITY FROM SEED TO CUSTOMER

Södra promotes sustainability at all stages, from seed to customer. Södra creates value and reduces risk and negative effects – in advisory services to forest owners, through forestry measures, in industrial processes and in transactions with suppliers and customers.

By conducting operations based on resource efficiency and an ecosystem approach, Södra offers products that

are more sustainable than many fossil-based alternatives. Wood can replace concrete, paper can replace plastic and clothing can be made from wood fibres. By doing so, Södra is contributing to the transition to a sustainable, bio-based society.

Committed employees are driving the operations forward and Södra is continuously striving for secure, healthy and attractive workplaces. Södra's corporate form, ownership structure and stable financial position provide flexibility, and enable long-term sound decisions and investment in sustainable solutions.

STRATEGIC FOCUS AREAS AND SUSTAINABILITY TARGETS

Sustainability is a key aspect of Södra's Group strategy. Sustainability initiatives are based on six strategic focus areas and 15 Group-wide targets. Three of these targets are high priority and have the same status as the Group's financial targets.

The strategic focus areas and sustainability targets are based partly on analyses of Södra's most important sustainability issues, and partly on dialogue with the Group's key stakeholders. The analyses and stakeholder dialogues have also helped to determine the contents of the Sustainability Report.

During the year, the targets were integrated with business and action

plans. Where needed, Group-wide projects were initiated to ensure achievement of the targets.

During the year, the Group's Sustainability Policy was also updated. The policy aims to govern and guide the work taking place in Södra's strategic focus areas for sustainability.

SÖDRA HAS ENDORSED THE UN'S SUSTAINABLE DEVELOPMENT GOALS

The 17 UN's Sustainable Development Goals have been set out in a joint 2030 agenda. The role and commitment of the business sector are central to these efforts.

During the year, Södra analysed the global goals. The following goals were considered material for the Group:

- Goal 7: Affordable and clean energy
- Goal 8: Decent work and economic growth
- Goal 12: Responsible consumption and production
- Goal 13: Climate action
- Goal 15: Life on land

The selection was based on Södra's impacts on society and the Group's ability to influence and contribute.

In 2018, the selected global goals will be integrated with Södra's strategic sustainability efforts. This will take place in connection with materiality analysis, monitoring and reporting.



Södra's strategic focus areas

Södra's strategic focus areas	UN's Sustainable Development Goals
Climate-positive operations	7, 13, 15
Sustainable forestry	13, 15
Sustainable innovation	7, 8, 12
Resource efficiency	7, 8, 12, 13, 15
Responsible employer and committed employees	8
Responsible business	7, 8, 12, 13, 15



Södra's sustainability targets



CLIMATE-POSITIVE OPERATIONS

Södra's net emissions of greenhouse gases are to be less than zero.

TARGETS

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

[Read more on page 32.](#)



SUSTAINABLE FORESTRY

Södra aims to conduct and promote sustainable, long-term forestry with consideration for conservation values, social values and cultural values.

TARGETS

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

[Read more on page 34.](#)



SUSTAINABLE INNOVATION

Södra develops new solutions from the forest.

TARGETS

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

[Read more on page 24.](#)



RESOURCE EFFICIENCY

Södra optimises the use of forest products from a material and energy perspective.

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.

[Read more on page 38.](#)



RESPONSIBLE EMPLOYER AND COMMITTED EMPLOYEES

Södra creates positive, attractive and stimulating work conditions and promotes an inclusive workplace culture.

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.
- By 2020, at least 85 percent of employees would recommend Södra as an employer.

[Read more on page 42.](#)

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



RESPONSIBLE BUSINESS

Södra engages in responsible business to develop a sustainable value chain, from seed to customer.

TARGETS

- By 2017, the Supplier Code will be included in all of Södra's supplier agreements.
- By 2020, all suppliers under contract to Södra will be risk-assessed, and prioritised suppliers will be evaluated according to the requirements of Södra's Supplier Code.*
- By 2020, sustainability-related criteria will be used as a basis for Södra's investments and transactions.

[Read more on page 44.](#)

* Prioritised suppliers are suppliers at higher risk of non-compliance with the Supplier Code.



Climate-positive operations

Growing forests and the use of wood play a key role in reducing greenhouse gas emissions, in combination with the phase-out of fossil fuels. Södra shows the way through initiatives for fossil-fuel independence, forest growth and research and development.

SIGNIFICANT EVENTS 2017

- Launch of “A Fossil-Free Södra” project to reduce the Group’s dependence on fossil fuels.
- Decisions to invest in the production of bio-methanol and in a demo facility for liquid biofuels from forest biomass.
- Successful trial of nutrient recycling by spreading bio-ash on forest land.

CLIMATE CHANGE IMPLICATIONS

Climate change entails both opportunities and risks for Södra’s operations and value chain. The opportunities include higher demand for sustainable products and the EU’s policy measures to reduce greenhouse gas emissions. Risks include changes to vegetation boundaries and more pest infestations. Read more about risk and risk management on pages 26–28.

The Group’s products comprise processed forest products. Renewable forest products can replace fossil-based materials in many applications. This substitution effect is one of the most important long-term impacts of forestry. Demand for sustainable products is rising as customers and consumers become more aware of how their behaviour impacts the environment and the climate. During the year, Södra decided to make two investments in liquid biofuel production: biomethanol in Södra’s pulp mill at Mönsterås and liquid biofuels from forest biomass in Tofte, Norway. Read more about research and development on pages 24–25.

The EU has introduced several policy measures to reduce greenhouse gas emissions, including the EU Emissions Trading System for CO₂, the European Energy Certificate System and Guarantee of Origin certificates. Read more on page 38.

FOSSIL-FREE PRODUCTION

Södra’s production is almost entirely driven by biofuels. In 2017, 99.3 percent

(98.7) of the fuel used by the Group’s production processes originated from renewable sources. Primarily pulp mills account for the small percentage of fossil fuel in the form of fuel oil and liquefied petroleum gas (LPG).

The use of biodiesel (HVO) has increased for working machinery and internal transportation at Södra’s mills. Forest machinery still runs predominantly on fossil diesel. In total, 20 percent (13) of the fuel used by Södra’s working machinery and for internal transportation originated from renewable sources.

Targets and outcomes

Södra’s production, working machinery and internal transportation is to be fossil-free by 2020. This target also includes external harvesting contractors working on Södra’s behalf.

In 2017, fossil CO₂ emissions from production, working machinery and internal transportation declined from 99 to 80 ktonnes. The use of fossil fuel oil in the pulp mills declined due to increased use of internal biofuels. In

October, all work vehicles and cranes at Södra’s port at Mönsterås transitioned to HVO. Södra’s harvesting teams use HVO.

During the year, “A Fossil-Free Södra” project was launched to intensify the Group’s efforts to increase resource efficiency and reduce fossil-fuel dependence. A current status and impact assessment confirmed that although Södra can become completely independent of fossil fuels, there are major challenges in the form of access to liquid biofuels and policy decisions. A roadmap for fossil-free production and fossil-free transportation was adopted. The roadmap contains activities that are expected to generate both long and short-term results, such as efficiencies, substitution to fossil-free alternatives, and research and development.

FOSSIL-FREE TRANSPORTATION

Transitioning to fossil-free transportation is an extensive process and will require external collaboration. In April 2017, Södra joined the Fossil Free Sweden initiative and committed to the



Södra’s port at Mönsterås became fossil-free in October 2017. A total of four cranes and 16 work vehicles are now run on HVO. The port handles some three million tonnes of goods annually, comprising 430,000 tonnes of paper pulp and 170,000 m³ of sawn timber.



challenge of fossil-free transportation by 2030.

Inbound deliveries of raw materials to Södra's mills are mainly transported by truck, while outbound deliveries of products are mainly transported by boat. Södra's aim is to increase freight transport by rail and more terminal solutions are under development. However, these efforts are hampered by the lack of infrastructure and inadequate railway maintenance.

Targets and outcomes

Södra's transportation will be fossil-free by 2030. This target includes inbound deliveries of raw materials to Södra's mills and outbound deliveries of products to Södra's customers. (Internal transportation is included in the target for fossil-free production.)

In 2017, 29 percent (20) of the fuel for Södra's transportation originated from renewable sources. Fossil CO₂ emissions from transportation amounted to 191 ktonnes (199), which is approximately on par with the year-on-year level.

HVO is available as an alternative to diesel at ten of the 11 filling stations at Södra's mills. HVO is also offered to external transport companies under contract to Södra. During the year, 193 GWh (124) of renewable fuel was delivered into fuel tanks at Södra's filling stations, representing 79 percent (47) of all fuel dispensed at Södra's filling stations.

In 2017, Södra sold 34,035 tonnes (24,140) of crude tall oil for the production of crude tall diesel and tall oil-based chemicals.

FOREST GROWTH

Growing forests and the use of wood play a major role in combatting climate change. Growing forests absorb CO₂ through photosynthesis. The effect increases if forests are managed properly and adapted to the growing conditions of each soil type.

Old-growth trees absorb little or no CO₂ but harvesting and replanting help to restore the CO₂ uptake. On average, Södra's members plant more than three seedlings for every tree harvested. The

accumulation of carbon is highest when forests are 30–70 years old. Over a rotation period, a forest felled in cycles absorbs large amounts of CO₂ and is a large carbon sink. Swedish forests continue to grow faster than they are harvested. Over the past five years, the increase in Södra members' growing stocks corresponds to an average carbon dioxide uptake of 1.9 million tonnes (16.2) per year.

Targets and outcomes

The annual rate of forest growth on members' estates will be 20 percent higher by 2050 compared with 2015.

A precondition for this target is that biodiversity must be preserved, and that the natural functions and productive capacity of the forest land be maintained. Consideration must be made for conservation values, social values and cultural values. The target entails that the positive trend for forest growth will continue at the same rate as in recent decades, at a minimum.

In 2017, the annual rate of forest growth was 6.9 (6.9) m³fo/ha and year. The trend in recent years has been an increased rate of forest growth.

During the year, Södra commenced an analysis of measures to increase forest production. It has already been shown that effective advisory services in relation to forest management and control of forest damage are key measures.

Research and development is also essential, and projects in somatic embryogenesis and other tree breeding methods continued during the year. Södra also conducted a trial of returning nutrients to forest land by spreading bio-ash. Read more about this initiative on page 41.

In addition, Södra intends to review its seed orchard strategies in order to increase tree breeding. Finally, Södra is involved in the Swedish Forest Agency's "Cooperation process for forest production" project. The aim is to bring the forestry sector and Swedish government together to agree on an official joint position on forest production in Swedish forests.



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 Södra members' estates will be 20 percent higher than in 2015.

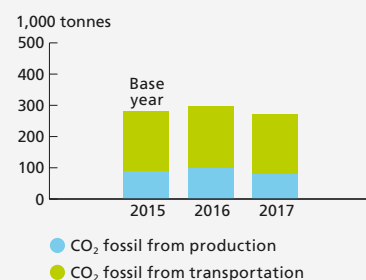


OUTCOMES 2017

- CO₂fossil from production: 80 ktonnes, 9 percent lower compared with 2015 (base year).
- CO₂fossil from transportation: 191 ktonnes, 1 percent lower compared with 2015 (base year).
- Forest growth: 6.9 m³fo/ha per year, up 5 percent compared with 2015.



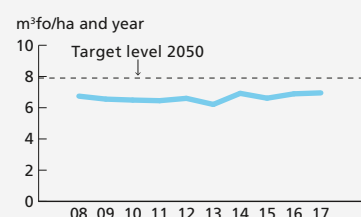
FOSSIL-FUEL FREE



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

FOREST GROWTH

2017 relates to the average growth rate during the 2011–2015 period, the most recent value available. The rate of forest growth is based on data from land owned by Södra members.



For more detailed information

about Södra's energy use and CO₂ emissions, refer to Sustainability data on pages 106 and 108.



Sustainable forestry

Private property ownership rights and freedom with responsibilities are driving the development of sustainable forestry. Södra promotes sustainable, long-term forestry in which conservation, social and cultural values are key elements.

SIGNIFICANT EVENTS 2017

- Blue management targets (aquatic environment considerations) were included in the Green Forest Management Plans.
- Södra achieved its target of a 95 percent approval rate for final harvesting considerations.
- A forestry impact assessment of the land owned by Södra members showed that a sustainable harvesting rate for Södra's members lies between 5.9–7.1 m³fo per hectare and year.

CONDITIONS FOR SUSTAINABLE FORESTRY

There is a high degree of commitment to responsible forest management among Södra's members. Södra and its members strive to maintain a balance between production, and environmental and social values. This takes the form of voluntary nature conservation allocations, and general considerations in association with all types of forestry measures.

According to the principle of freedom with responsibilities, members decide themselves how their forests are to be managed. Södra's basic structure, comprising many small-scale forest farmers

with a range of ideas and goals for their forest estates, contributes to widely varied and highly diverse forests. Södra contributes by offering a range of advisory and other services related to care and management in sustainable forestry. Representatives of Södra engage actively in business policy discussions to ensure that the principle of freedom with responsibilities continues to govern private ownership rights.

Södra's offerings also include the Södra School training concept. The Södra School is based on the needs of forest owners and aims to raise knowledge of sustainable forestry and inspire active forest management in order to achieve a higher rate of growth and profitability with consideration for all of the values associated with forests.

SUSTAINABLE HARVESTING RATE

Södra's sustainable harvesting rate is based on the forestry impact assessments conducted every five years by the Swedish Forest Agency and the Swedish University of Agricultural Sciences (SLU). The most recent forestry impact assessment was performed in

2015. In 2017, Södra commissioned a forestry impact assessment based on data from the land owned by Södra members using the same methodology as the Swedish Forest Agency and the SLU.

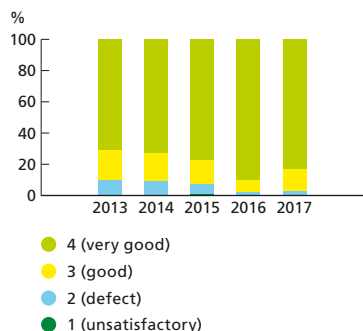
Targets and outcomes

Forests are a resource that should be used, but not overused. The impact assessment shows that a sustainable harvesting rate for Södra's members would be 5.9–7.1 m³fo per hectare and year, corresponding to 11–13 million m³sub per year based on the current affiliated forest area. The current rate of harvesting lies in the middle of that interval, with an upward trend.

HARVESTING CONSIDERATIONS IN THE GREEN BALANCE SHEET

Completed final harvesting and thinning operations are reviewed and rated using a Green Balance Sheet. In 2017, 353 (298) sites were inspected, corresponding to 1,637 (1,453) hectares. The field work is performed by Södra's forest management auditors and the Green Balance Sheet is used as a basis

IMPACTS ON SOIL AND WATER



In 2017, 97 percent of the final harvesting sites were approved in the Green Balance Sheet in the category of impacts on soil and water.

Responsible forest management contributes to widely varied and highly diverse forests.





for continuous improvements. The reports are available at sodra.com.

Targets and outcomes

Final harvesting considerations are to achieve an approval rate of 95 percent by 2020. The outcome for 2017 was an approval rate of 95 percent (95).

Södra has produced clear guidelines for conservation considerations when handling forest residues (branches and treetops) in order to promote biodiversity. Forest residues are used to produce valuable biofuels, and make a positive contribution to climate change mitigation. Forest residues also provide attractive habitats for many species, especially insects and fungi. Further initiatives to raise the considerations rate in forestry measures will commence in 2018. These include the inclusion of forest-residue handling in the Green Balance Sheet, and monitoring the effects of forest-regeneration considerations one-two years after final harvesting. The review includes consideration for cultural relics, buffer strips and sensitive habitats.

NATURE-CONSERVATION MEASURES

Many forestry environments with high conservation value in southern Sweden have a history of traditional forest management or use that has created this value. Typical examples are older pastures with tall hardwood trees that are now being overgrown by spruce. Protecting or developing them requires further efforts using special management methods.

Targets and outcomes

The area where nature-conservation measures are performed is to be 3,000 hectares per year by 2020. Following a decline in recent years, the outcome for 2017 was 1,452 hectares. However, this area is lower than the desirable long-term level. One limiting factor is that nature-conservation measures are only possible to perform during certain parts of the year.

POSITIVE TREND FOR FOREST BIRDS

Using data from the Swedish Bird Survey and the National Forest Inventory, researchers at Lund University are attempting to determine whether there is any link between changes in bird fauna and forest development. The period studied, 1998–2015, showed that of 58 forest bird species, 33 had increased, 6 had decreased, and 19 remained at a stable level. The National Forest Inventory showed that the conservation considerations practiced in forestry had led to an increase in the area of hardwood and old-growth forest since 1995, as well as the amount of dead wood and number of trees left untouched. Another factor weighted in the study is climate change with rising summer temperatures. However, the study does not draw any definite conclusions about whether increased conservation values or a warmer climate, or a combination thereof, can explain the positive trend for some of the forest birds.



SUSTAINABLE FORESTRY

TARGETS

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



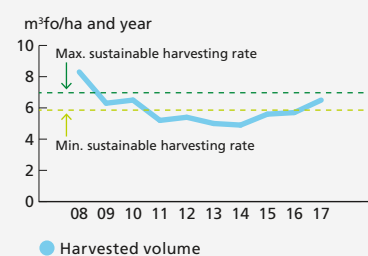
OUTCOMES 2017

- The harvesting rate was 6.5 m³fo/ha per year, up 15 percent compared with 2016 and within the sustainable harvesting rate.
- The percentage of approved final harvesting sites in the Green Balance Sheet was 95 percent, which was unchanged compared with 2016.
- The area where nature-conservation measures were performed was 1,452 hectares, up 33 percent compared with 2016.



SUSTAINABLE HARVESTING RATE

2017 refers to the means for 2013–2015, in the same way as for other years.



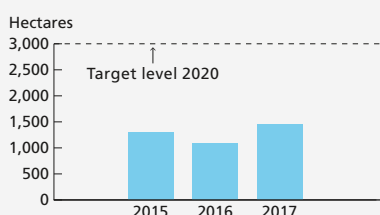
The sustainable harvesting rate is based on data from the land owned by Södra members.



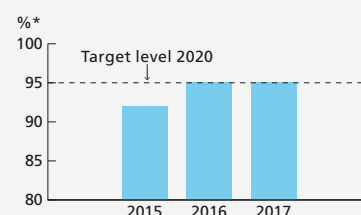
Did you know that ...

Swedish forests are growing faster than they are harvested.

NATURE CONSERVATION MEASURES



FINAL HARVESTING CONSIDERATIONS



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





CERTIFICATION OF MEMBERS AND CONTRACTORS

Forest certification is an important tool for responsible management of members' forests. Approximately two-thirds of Södra's members hold FSC® (Forest Stewardship Council) and/or PEFC™ (Programme for the Endorsement of Forest Certification) certification. Forest owners can become affiliated with Södra's group certification scheme, and undertake to comply with the certification requirements. The requirements include preparing a Green Forest Management Plan. Monitoring takes the form of annual audits. Read more at sodra.com.

Contractors who perform forestry measures on behalf of Södra must hold PEFC™ certification. The contractor's employees must also have a green driving license. Forestry operations in aquatic environments require a blue driving license to ensure appropriate environmental considerations. All contractors are also covered by the Södra Supplier Code.

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, which are produced jointly by forestry stakeholders, and the industry-wide "Considerations for ancient and cultural relics in forestry" policy.

GREEN FOREST MANAGEMENT PLAN WITH BLUE

MANAGEMENT TARGETS

Most members use Södra's Green Forest Management Plan to plan their forestry. The plan sets long-term management objectives for each forest stand. The objectives are broken down into four targets and detailed descriptions are added for each zone. The Green Forest Management Plans help the forest landscape to maintain a balance between valuable wood production and the conservation or creation of biodiversity. The plans also include consideration for the cultural heritage and social values of forests. With Södra's digital services, forest owners can continuously update their forest management plans.

The Green Forest Management Plans now include blue management

targets. This means that watercourses are evaluated, and that the level of ambition for aquatic environment considerations is specified. For blue management target classification, a natural value assessment is performed first on the basis of natural value, impact, sensitivity and any added values.

VERIFICATION OF ORIGIN

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.

CERTIFICATIONS

	2017		2016		2015	
	Area (mill. hectares)	Percentage, %	Area (mill. hectares)	Percentage, %	Area (mill. hectares)	Percentage, %
FSC®	1.7	66	1.6	64	1.5	63
PEFC™	1.7	67	1.8	72	1.7	71

The certified membership area is growing. Individual forest owners appreciate the added value of forest certification.

Södra is certified according to FSC® and PEFC™ with license numbers:

FSC-C014930
FSC-C006947
FSC-C015771
FSC-C030473



The mark of
responsible forestry

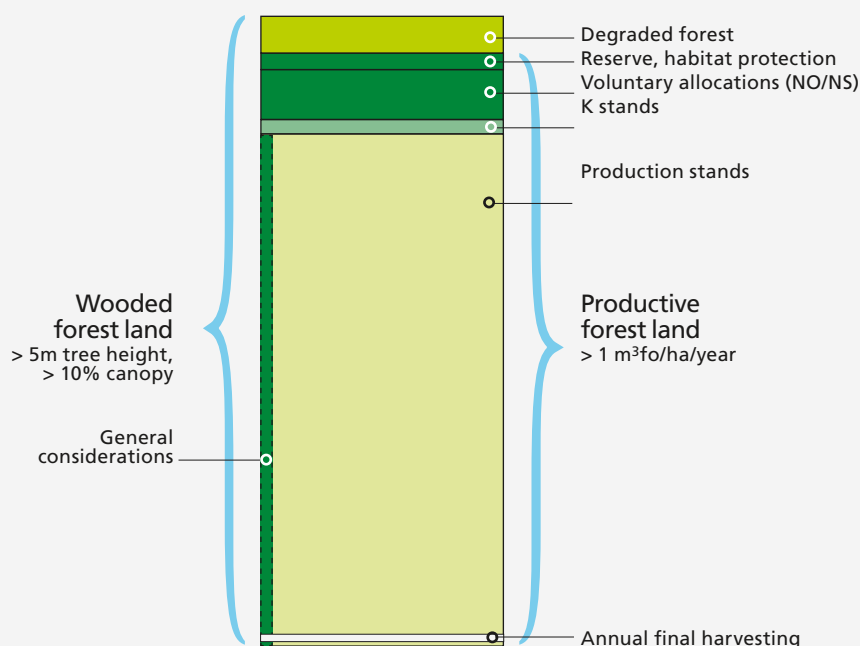
PEFC/05-22-11
PEFC/05-35-48
PEFC/05-32-20
PEFC/05-35-89



Responsible forestry creates richly varied forests, and for each tree harvested, three new trees are planted.



SUSTAINABLE FORESTRY – CONSIDERATION AREAS



All forestry measures performed include general conservation considerations. It may include buffer strips, sensitive habitats and groups of trees. In addition to general considerations, voluntary allocations of productive forest land are valuable contributions to the national environmental objective of "Living Forests." Both the Green Forest Management Plan with blue management targets and the forest certification systems require voluntary allocations (NO/NS) of at least 5 percent of the productive forest land area.

AREA OF SÖDRA MEMBERS' ESTATES

	2017	2016	2015
Degraded forest¹⁾			
area ²⁾ (ha)	174,000	171,000	210,000
percentage of wooded forest land (%)	6.9	6.9	8.0
Official site protection (reserve, habitat protection)			
area (ha)	75,000	72,000	52,500
percentage of productive forest land (%)	3.0	2.9	2.2
Voluntary allocations (NO/NS)			
area (ha)	138,000	144,000	148,000
percentage of old-growth forest (%)	85	85	83
percentage of productive forest land (%)	8.1	8.1	8.0
Management Target K (combined production and environmental objectives in addition to general considerations)			
area (ha)	43,000	43,000	35,000
percentage of productive forest land (%)	2.5	2.4	2.0
Final harvesting considerations			
percentage of production stands (%)	5.1	5.4	5.5
Annual final harvesting (a rotation age of 80 years)			
percentage of production stands (%)	1.25	1.25	1.25

¹⁾ Degraded forest is unproductive land and has a certain degree of high conservation value.

²⁾ The same percentage of degraded forest as in Götaland in its entirety has been used.

VALUE OF FOREST LAND, VOLUNTARY ALLOCATIONS 2017

The voluntarily allocated area with conservation considerations (NO/NS) on land owned by Södra's members (PEFC-certified) is just under 138,000 hectares. The mean of this forest area was SEK 16 billion, with a variation of SEK 11–20 billion. The price interval is based on the average price of forest land according to price statistics from LRF Konsult, and the average price of compulsory purchased land (habitat protection) from the Swedish Forest Agency.

Increased conservation considerations, with more hardwood forest and dead trees, have led to an increase in the number of forest birds.





Resource efficiency

Södra optimises the use of forest products from a material and energy perspective. Resource efficiency is a prerequisite for Södra's control of costs and environmental impacts and, in the long term, for the Group's competitiveness.

SIGNIFICANT EVENTS 2017

- Historically high net deliveries of electricity – 335 GWh compared with 52 GWh in 2016.
- A high percentage of wood powder (internal biofuel) in Södra Cell Värö's lime kiln – 75 percent, compared with 66 percent in 2016.

ENERGY SUPPLY

Södra is largely self-sufficient in energy. The energy for Södra's industrial production is mainly derived from wood raw material (sawlogs and pulpwood). The energy is generated at Södra's pulp mills and sawmills. The pulp mills recycle the cooking chemicals used for pulp production and simultaneously generate energy. The sawmills burn bark and other biofuels to generate heat for wood drying. Södra supplements this by purchasing biofuels (4 percent) and fossil fuels (0.7 percent).

All business areas make external deliveries of energy in the form of electricity, district heating and biofuels. Further improved energy efficiency at Södra's mills will release more bio-based energy for society.

Södra generates electricity in the pulp mills at Mönsterås, Mörrum and Värö. The recovery boilers in the pulp

mills burn organic substances from the wood, primarily lignin, and the steam that is generated is used to produce electricity. Södra also owns six wind turbines at Mönsterås, with a total power output of 14 MW. During the year, 99.5 percent (99.4) of Södra's total electricity generation was derived from renewable fuels.

Heat is delivered both internally in Södra and to the district heating systems of nearby communities. The pulp mills at Mönsterås and Värö transfer heat to the sawmills at the combined facility. External deliveries of heat are transferred from the Group's three pulp mills, and the sawmills in Kinda and Torsås, to nearby communities. The heat delivered comprises to more than half of excess heat from production processes.

Biofuels are used in several ways across Södra's value chain. Forest residues (branches and treetops) are a by-product of forest harvesting operations. Forest residues are used as fuel in thermal power stations. Wood is debarked in the pulp mills, and the bark is used for both internal energy generation and biofuel sales. The sawmills produce a variety of biofuels: bark from debarking, chips from trimming,

and shavings from sawing and planing. Pellets are made from sawdust and screener shavings. Peat is harvested from bogs.

Targets and outcomes

Södra's electricity and heating consumption is to decline 10 percent by 2025, compared with 2015. The key figures are specific electricity and heating consumption for the production of pulp and sawn timber. In addition, Södra's annual electricity generation is to exceed its electricity consumption.

Electricity and heating consumption for pulp production declined year-on-year due to investments and high production volumes.

Electricity and heating consumption for sawn timber production declined year-on-year due to process improvements.

In 2017, electricity generation was 1,719 GWh (1,326) of which wind power accounted for 34 GWh (33). The increase in electricity generated in 2017 was attributable to higher production volumes in the pulp mill at Värö. The Group's electricity consumption was 1,384 GWh (1,274), generating net deliveries of 335 GWh (52).

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 green electricity from 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.



In 2017, Södra delivered more than three times as much electricity compared with 2015.

EXTERNAL DELIVERIES OF ENERGY

GWh	2017	2016	2015
Electricity	335	52	97
District heating	414	368	383
Solid biofuels (forest fuel, bark, pellets, residual products and energy peat)	3,641	3,613	4,264
Total	4,390	4,033	4,744

In 2017, external deliveries of energy totalled approximately 4,400 GWh. Deliveries of electricity and district heating supplies were higher compared with preceding years due to higher production volumes in the pulp mills. Deliveries of solid biofuels remained in line with 2016.



For more detailed information

about Södra's raw materials, energy, products, by-products, waste and air and water emissions, refer to Sustainability data on pages 106–108.



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 2017

- Electricity and heating consumption for pulp was 3 percent (electricity) and 6 percent (heating) lower, respectively, compared with the base year of 2015.
- Electricity consumption for sawn timber remained unchanged compared with the base year of 2015, while heating consumption was 6 percent lower.
- Electricity generation exceeded electricity consumption, net deliveries were 335 GWh.



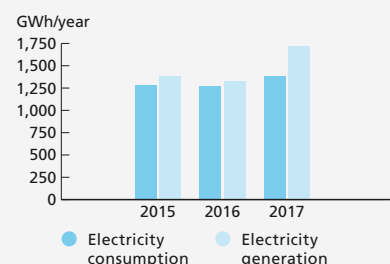
ELECTRICITY AND HEATING CONSUMPTION – PULP

kWh/tonnes of pulp	Target level 2025	2017	2016	2015
Electricity	672	727	792	747
Heating	3,119	3,261	3,572	3,466

ELECTRICITY AND HEATING CONSUMPTION – SAWN TIMBER

kWh/m ³ sawn timber	Target level 2025	2017	2016	2015
Electricity	59	66	68	66
Heating	236	248	251	262

ELECTRICITY CONSUMPTION AND ELECTRICITY GENERATION





RESOURCE USE

The most important resources 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 in their production processes, which is nearly 100-percent recovered. Chemicals for bleaching the pulp are both manufactured on site, and purchased on an ongoing basis. Efficient use of wood raw material and chemicals is fundamental, since this helps to reduce environmental impact and lower costs. Södra conducts development projects with the aim of optimising the use of wood raw material from a material and energy perspective.

Water

Södra's mills, especially the pulp mills, require good access to water. The pulp mills use surface water from the Emån, Mörrumsån and Viskan rivers. Most of the sawmills use surface water. Water court rulings have been issued for all mills that extract raw water, to regulate their withdrawals and ensure their activities do not cause any negative effects.

The pulp mills apply a number of water-saving measures, including the counterflow principle in the pulp washing system. This principle refers to the system of countercurrent washing. The cleanest water is used for washing the cleanest pulp. The wash water is then evaporated and the vapours are condensed in the recovery boiler. Condensate from the evaporation is reused as wash water in the process.

Most sawmills recirculate the water they use for wetting down logs. Climate control systems are used to adjust the amount of water after evaporation. The interior wood facilities use municipal water systems.

There was a water shortage in 2016, especially in southeastern Sweden. These problems continued into early 2017, but there was a lot of rain at the end of the year and the water reservoirs were filled.

AIR AND WATER EMISSIONS

The air and water emissions of Södra's mill operations are regulated in environmental permits. Södra is working to reduce the environmental impact of its forestry and mill operations. Air emissions are mainly attributable to the

pulp mills and to transportation. Odours, dust and noise from Södra's industrial and forestry operations can affect adjacent areas.

Water emissions are mainly attributable to the pulp mills. Wastewater is transferred to the pulp mills' own water treatment systems before being discharged into the Kattegatt, or the Baltic Sea. Treated wastewater from the pulp mills maintains high quality and complies with the EU's Industrial Emissions Directive.

In 2016, water treatment problems in the pulp mill at Mörrum led to increased emissions. In 2017, several different measures were tested. Unfortunately, testing at the beginning of the year had a negative effect on emissions and the guideline values were exceeded. Towards the end of the year, the measures that were taken yielded results and emissions of nitrogen and phosphorus into water declined.

BY-PRODUCTS AND RECYCLING

All of Södra's products are based on raw material from the forest that is processed to varying degrees. By-products from Södra's operations are used in construction materials, as bio-



Wastewater is purified in the water treatment facilities of the pulp mills to reduce emissions of organic material and nutrients into the sea.



fuels, for the production of liquid bio-fuels and as raw material for the chemical industry. Södra conducts research and development to identify new methods, products and applications for forest products.

During the year, nutrient recycling was tested by spreading bio-ash on forest land. Testing will continue over a larger geographic area. The aim is to create an ecosystem to ensure long-term forest productivity. The bio-ash is produced in the pulp mill at Mönsterås by mixing ash from the bark boiler with nutrients extracted from wood raw material in the digester. Södra's bio-ash contains magnesium, potassium and calcium, which help to neutralise soil acidity in the forest. The bio-ash is produced from materials that were previously sent to landfill, which further increases resource-efficiency.

ENVIRONMENTAL COSTS

SEK million	2017	2016
Supervision, permits and licenses	12	12
Environmental charges, taxes	14	13
Operation of purification equipment, waste management, etc.	69	48
Personnel, training, research and development, environmental management, etc.	49	44
Premiums for certified timber	130	126
Total costs	274	243

Environmental costs for the year amounted to SEK 274 million (243), environmental investments to SEK 156 million (60) and energy investments to SEK 402 million (303). Investments comprised both environmental and energy initiatives, and the environmental component of other investments.

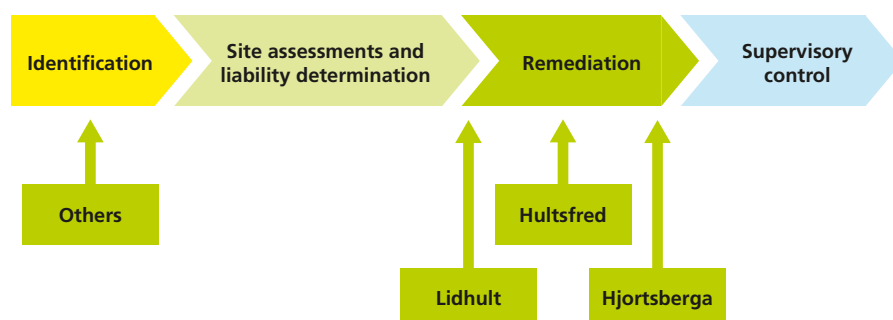
WASTE

Södra prioritises recycling and energy recovery for the waste that is generated. Landfill waste dominates in terms of weight and is mainly sent to Södra's own landfills. The landfilled waste comprises inorganic materials, particularly green liquor sludge, ash and lime sludge from the pulp mills.

Södra's hazardous waste mainly comprises various types of oil and paint waste.

REMEDIATION OF CONTAMINATED SOIL

Södra owns, or has owned, areas contaminated by earlier industrial production, mainly discontinued sawmills and former timber-treatment plants. Remediation measures are prioritised on the basis of risk to human health and the environment. During the year, decontamination of the former timber-treatment facility in Hultsfred continued by conducting environmental site assessments. The extent of the contamination in surface layer soil was confirmed and sampling is currently taking place to determine the depth of the contamination. Remediation of the closed sawmill in Hjortsberga continued and the results are currently being evaluated. In Lidhult, an environmental site assessment began on a site where Södra has previously conducted sawmill operations. Partial decontamination was conducted in a small area during the summer due to high levels of contamination in the surface layer of soil.



The remediation process for contaminated soil consists of four steps: identification, site assessments and liability determination, remediation and supervisory control. The figure shows the status of Södra's ongoing remediation processes. "Other" includes objects identified in assessments by county administrative boards, but that are not subject to regulation.



Did you know that ...

Södra is testing nutrient recycling by spreading bio-ash on forest land, to promote forest ecosystem function.

PERMIT VIOLATIONS

Environmental permits for Södra's mill operations regulate air and water 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 2017, Södra's activities exceeded a total of 57 guideline values. No limit or constraints were exceeded.

Södra Skog exceeded the guideline values for suspended solids into water from peat bogs on five occasions.

Södra Wood exceeded guideline values on four occasions. Södra Wood Värö and Unnefors exceeded the guideline value for noise, and Södra Wood Långsjö exceeded the guideline values for dust to air, and noise.

Södra Cell exceeded guideline values on 48 occasions. Södra Cell Mönsterås exceeded the guideline value for noise. Södra Cell Mörrum exceeded the guideline values for sulphur into air, suspended solids, nitrogen, phosphorus and chlorate into water, and noise. Södra Cell Värö exceeded the guideline values for nitrogen oxides into air, suspended solids, total organic carbon and chlorate into water, and noise.

In addition to notifications regarding exceeded guideline values, several other environmental incidents were reported to the relevant supervisory authority in 2017, including fire, discharges of oil and chemicals, and operational disturbances in treatment and analysis equipment.

COMPLAINTS

During the year, Södra's industries received more than 55 (44) external complaints. Most of these referred to odors 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.

During the year, Södra's forestry operations received 20 (12) formal comments, mainly related to the forestry measures performed.



Responsible employer and committed employees

As a responsible employer, Södra is focused on shared values, occupational health and safety, competency provision and performance management. It requires commitment and accountability.

SIGNIFICANT EVENTS 2017

- Strategic planning decisions to reduce occupational injuries and sickness absence.
- Revised recruitment process with a greater focus on equality and inclusion.
- 130 managers completed the "Develop your organisation" programme via the Södra Academy.

SHARED SET OF VALUES

Södra's set of values: value-generating relationships, a long-term approach, are aimed at developing and deepening the Group's organisational culture. The culture is summarised in the concept of "One Södra," entailing a cohesive and more effective Group.

The set of values guide day-to-day procedures and are helping Södra become a next-generation forest company.

SÖDRA'S HR STRATEGY

Södra's HR strategy is based on four focus areas: set of values, occupational health and safety, strategic competency provision and performance management. There are clear targets, key indicators and processes for each of the areas.

By recruiting and developing the right employees, Södra is ensuring job satisfaction and competence. The target is that these initiatives will lead to 85 percent of employees being able to recommend Södra as an employer by 2020.

HEALTH AND SAFETY

Södra should be characterised by a strong safety culture, in which all employees are individually responsible. Occupational health and safety (OHS) initiatives are preventive, and conducted systematically. Much of this work is carried out at local level,

together with trade unions. OHS objectives are adapted to each operation's focus, requirements and needs. Group Senior Management and the Board continuously monitor selected key indicators.

Targets and outcomes

Södra has a zero accident vision and the lost-time-accident rate (number of occupational injuries with absence per million hours worked, LTAR) is to decrease by 15 percent per year. Sickness absence is not to exceed 3 percent. Both targets should be achieved by 2020.

Unfortunately, two fatal accidents occurred during the year, of which a contractor accounted for one. The accidents are being investigated. The fatality in the pulp mill at Värö in 2016 is still being investigated.

The number of occupational injuries with absence (LTA, lost-time-accident) was 96 (94) and LTAR was 17 (16).

Södra is taking action, together with trade unions, to reverse this trend. The focus lies on preventive measures, including risk analyses, risk observations and behaviour-based safety. Employees take part in training programmes for safety, culture and structural issues. An OHS Council was established during the year.

During the year, the Board adopted a programme to reduce the number of occupational injuries and sickness absences. Senior management highlights occupational health and safety as a high-priority area. They have conducted safety walks in Södra's operations. A training programme in behaviour-based safety was also developed. The training course was conducted at Södra's sawmills in 2017 and will be offered to all of Södra's units as of 2018. In 2017, the rate of sickness absence was 3.6 percent (3.7).

Sickness absence is followed-up in various ways, including discussion with the immediate supervisor. An advanced and transparent reporting tool has been developed to support the process of reducing sickness absence. The tool enables business areas to share lessons learned, including targeted support initiatives in consultation with trade unions.

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.

A special insurance means that employees on long-term sick leave can receive support from professional rehabilitation leaders who will support their return to work. Employees on long-term sick leave also receive higher sickness benefits.

NEXT-GENERATION EMPLOYEES

Södra works strategically and systematically to attract, develop and retain the right competencies for the challenges ahead. This is particularly important because large numbers of employees will soon be retiring. Competency development, leadership development and performance management are key elements of this process.

Södra aims to be a welcoming workplace, where everyone contributes to health and well-being. This includes showing respect for each other, regardless of age, gender, ethnicity, faith, disability or sexual orientation. During the year, new procedures were developed, strengthened by training programmes, to make each employee's



responsibility even clearer in regard to zero tolerance for bullying and harassment.

Targets and outcomes

At least 30 percent of Södra employees will be women, and at least 85 percent of employees would recommend Södra as an employer, by 2020.

Södra is working actively to raise the percentage of women, as well as diversity, in the company. There is also an explicit ambition to recruit and retain employees with diverse backgrounds, experience and perspectives. Södra's recruitment process was developed during the year, to become more objective and inclusive.

During the year, Södra conducted a situation analysis and raised managers' knowledge of equality and inclusive workplaces. Policies and action plans for equality and inclusion were further developed and expectations were communicated to managers and employees. At the end of the year, women accounted for 21 percent (20) of Södra's employees. The proportion of women managers was 19 percent (19).

Södra's employee surveys and pulse surveys show that further efforts are required to raise awareness of Södra. These include positioning Södra as an attractive employer by showing the wide range of roles and assignments that this next-generation forest company can offer. Activities are also taking place internally, such as promoting programmes for personal development and employee benefits.

COMPETENCY PROVISION

Södra's competency provision includes identifying, reducing and filling organisational and individual competency gaps. There are clear goals for managers and employees, and these are monitored

continuously as well as formally, on at least two occasions per year.

Södra employees are personally responsible for their own, and their operation's, competency development. Internal mobility is encouraged to strengthen the corporate culture, to stimulate motivation and efficiency, and to promote the development of both individuals and the organisation.

Södra acts responsibly during restructures and organisational changes by offering various solutions such as transition support and relocation.

LEADERSHIP DEVELOPMENT

Södra's leadership development is run by Södra Academy, which offers strategic training programmes and competency building in selected areas. During the year, 130 managers completed the "Develop your organisation" programme. The programme explores issues related to organisational culture, occupational health and safety and equality. Leadership development programmes for various levels of seniority and training programmes for situational leadership were also offered on several occasions.

PERFORMANCE MANAGEMENT

Södra's performance management system is based on a systematic management by objectives (MBO) process and follow-up. The Group's business areas and functions define measurable targets at all levels, from Group to individual.

Södra uses variable remuneration to stimulate the performance of individuals and the organisation. The variable remuneration programme covers all employees except the President. Remuneration is equal for all employees, and no more than one month's salary.



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.
- By 2020, at least 85 percent of employees would recommend Södra as an employer.

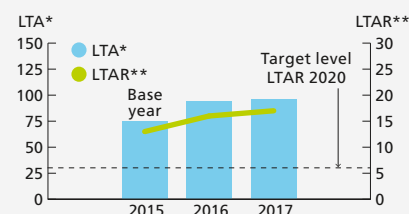


OUTCOMES 2017

- Sickness absence: 3.6 percent, down 3 percent compared with 2016.
- LTA: 96, up 2 percent compared with 2016.
- LTAR: 17, up 6 percent compared with 2016.
- Percentage of women employees: 21 percent, up 5 percent compared with 2016.
- Percentage of employees who recommend Södra: 40 percent, no measurement was conducted during the year.



OCCUPATIONAL INJURIES



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

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

KEY INDICATORS

	2017	2016	2015	2014	2013
No. of employees	3,402	3,594	3,599	3,524	3,776
Women, %	21	20	19	19	20
Employee turnover, %	9.3	8.6	7.0	6.5	6.3
Average age, years	44	44	45	44	45
Wages, salaries and social security contributions, SEK million	2,429	2,400	2,298	2,096	2,135
Sickness absence, %	3.6	3.7	3.7	3.5	3.3

Employee turnover: New employees plus departures, divided by the average number of employees.

Seasonal variations in the number of employees was less than one percent of the total number of employees.



For more detailed information

about Södra employees, refer to Sustainability data on page 109.



Responsible business

Södra creates value and minimises risk by acting responsibly in all relationships. The Group's Code of Conduct and Supplier Code provide the basis for Södra's development as a responsible and attractive business partner.

SIGNIFICANT EVENTS 2017

- Continued development of processes, and expanded coordination between the Group's purchasing organisations for the monitoring of suppliers.
- Special focus on working conditions when reviewing suppliers and sub-suppliers.
- Growing demand for certified products.

INITIATIVES FOR RESPONSIBLE BUSINESS

Södra's set of values "value-generating relationships, a long-term approach" are the starting point for Södra's responsible business. More specifically, responsible business is based on the Group's Code of Conduct and Supplier Code. Product labelling and the certifications applied by Södra are important for the raw material and the products.

THE SÖDRA CODE OF CONDUCT

The Södra Code of Conduct contains guidelines and rules for how employees and other representatives of Södra, including Board members and elected representatives, are expected to behave. The Code sets out the rules that apply to gifts, benefits, remuneration and business-related entertainment, conflicts of interest and competition from a business ethical perspective. Read more about the Södra Code of Conduct and other sustainability governance on page 46.

THE SÖDRA SUPPLIER CODE

Södra's purchasing mainly comprises wood raw material, forestry contracting services, transport services, input products, investments and indirect materials and services. Södra's contracted suppliers are predominantly based in Sweden and the EU, which simplifies evaluation and control.

The Södra Supplier Code contains requirements related to business ethics, working conditions, human rights

and the environment. All suppliers shall be covered by the Supplier Code. Södra's members are private forest owners and not included. The Group's harvesting assignments and wood deliveries are therefore not covered by the Supplier Code. Södra's members are reviewed within the framework of their forest certification.

MONITORING COMPLIANCE WITH THE SUPPLIER CODE

The Supplier Code is included in the agreements that Södra concludes with suppliers. Södra monitors the suppliers' compliance with the Code by conducting risk assessments and reviewing the supplier's operations. This includes an assessment of the suppliers' management and control, requirements specification for supply chain control, business practices, occupational health and safety, working conditions, human rights, the environment and quality.

Suppliers are also reviewed within the framework requirements of the FSC® and PEFC™ standards. Certified members are reviewed within the framework of their forest certification. Non-certified members who have delivered wood to Södra during the financial year are also reviewed.

Södra's monitoring of suppliers was strengthened during the year by developing working methods and coordination between all of Södra's purchasing organisations.

Targets and outcomes

Södra's target was that the Supplier Code would be included in all of Södra's supplier agreements by 2017. All suppliers holding supplier agreements with Södra will be risk-assessed, and prioritised suppliers will be assessed according to the requirements of the Södra Supplier Code by 2020. In addition, sustainability-related criteria will be used as a basis for Södra's

investments and transactions by 2020. The development of sustainability-related criteria for investments and transactions is planned to commence in 2018.

Södra's suppliers are risk-classified on the basis of selected sustainability criteria. Prioritised suppliers are considered to be at higher risk of non-compliance. Södra bases its review method on the supplier's risk classification. In the event of higher risk of non-compliance, the supplier is requested to conduct a self-assessment and the operations are reviewed by monitoring the self-assessments or an on-site audit.

At the end of 2017, 81 percent (39) of Södra's suppliers had signed the Group's Supplier Code. The percentage of Södra's purchasing value in which suppliers had signed the Supplier Code was 98 percent. Suppliers equivalent to 88 percent (63) of Södra's purchasing value were risk-assessed during the year. The assessment resulted in 63 (77) suppliers being classified as prioritised, meaning in need of further monitoring. 16 percent (18) of the prioritised suppliers were reviewed by self-assessment, and 11 percent (8) by on-site audits.

The year's review process focused primarily on the working conditions offered by Södra's suppliers and sub-suppliers. The background is that posted workers are exposed to specific risks. The aim of the reviews was to strengthen the supplier's occupational health and safety, ensure requirements specification for supply chain control and identification of any non-compliance.

A total of 104 (204) suppliers were reviewed during the year. The reviews identified non-compliances among 11 (12) suppliers. Identified non-compliances included defective requirements specification and monitoring of sub-contractors and working hours.



Södra signed agreements for improvements with 82 percent (50) of the suppliers with identified non-compliances. No reviews led to the termination of a contract.

PRODUCT RESPONSIBILITY

Södra offers products made from certified raw material, including pulp, sawn timber, interior wood products and bio-fuel. The products are delivered with Chain of Custody certification from FSC® or PEFC™. Certification guarantees that the wood raw material is a product of responsible forestry, and that its origin has been verified.

Demand is growing and in 2017, 68 percent of Södra's revenue from external sales of physical products was derived from products with either FSC® or PEFC™ certification.

All grades of paper pulp made by Södra Cell are approved for the production of eco-labelled paper products under the Nordic Swan and EU Eco-labels. All 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 compiles annual reports of its CO₂ emissions at product level, based on the Confederation of European Paper Industries (CEPI) model.

CERTIFIED PRODUCTS ACCORDING TO FSC® OR PEFC™

	2017	2016	2015
Percentage of products with either FSC® or PEFC™ certification, %	68	67	63

Percentage of Södra's revenue from external sales of physical products derived from sales of products with either FSC® or PEFC™ certification.

In 2017, all house models produced by Trivselhus under the Movehome brand met the requirements of the Nordic Swan Ecolabel.

The product information provided by Södra is governed by legal requirements (such as safety data sheets for chemicals), and customer requirements (such as Chain-of-Custody certification or eco-labelling). Regular customer surveys are conducted in Södra's operations, and include sustainability.

SOCIAL RESPONSIBILITY

Södra communicates and interacts with the local communities in which the company operates. Södra maintains contact with suppliers, associations and local residents. The issues dealt with are normally related to logistics, safety, training and local community development. During the year, Södra arranged a "timber house safari" in Växjö for local politicians, in cooperation with public operators and academia. The aim was to convey new knowledge, share lessons learned and see how the modern timber city is constructed on site. Södra is often a major player in locations where the company operates, and the Group creates jobs both directly and indirectly. Södra's pulp mills and sawmills supply district heating to nearby communities.

Representatives of Södra also contribute in schools with information about the company, forestry and other topics related to forests and the forest industry. The Group also offers study tours, summer internships and degree projects. In 2017, Södra arranged a summer camp for some 142 children.



RESPONSIBLE BUSINESS

TARGETS

- By 2017, the Supplier Code will be included in all of Södra's supplier agreements.
- By 2020, all suppliers holding supplier contracts with Södra will be risk-assessed, and prioritised suppliers will be evaluated under the requirements of Södra's Supplier Code.
- By 2020, sustainability-related criteria will be used as a basis for Södra's investments and transactions.



OUTCOMES 2017

- Percentage of suppliers that have signed the Södra Supplier Code: 81% (39) (excluding harvesting assignments and wood deliveries not covered by the Södra Supplier Code).
- Percentage of Södra's purchasing value in which suppliers had signed the Supplier Code: 98%
- Percentage of Södra's purchasing value that included a risk assessment of suppliers: 88% (63).
- The risk assessment led to the prioritisation of 63 (77) suppliers.
- Percentage of prioritised suppliers that completed a supplier self-assessment: 16% (18).
- Percentage of prioritised suppliers that were monitored on site (sustainability audit): 11% (8).
- Group-wide efforts with the target of using sustainability-related criteria as a basis for investments and transactions did not commence during the year.

PURCHASING AND SUPPLIERS

PURCHASING CATEGORY	NO. OF SUPPLIERS	PURCHASING COSTS BY GEOGRAPHIC LOCATION FOR CONTRACTED PARTY, %
Wood raw material ¹⁾ (sawlogs, pulpwood and sawn timber)	20,429 ²⁾	95% Sweden, 1% other Nordic countries, 3% rest of Europe and 1% rest of world
Forestry contracting services ³⁾ (independent contractors)	350	100% Sweden
Transport services ⁴⁾ (transportation of wood raw material and products)	171	78% Sweden, 2% other Nordic countries, 19% rest of Europe and 1% rest of world
Input products ⁴⁾ (process chemicals, fuels, energy and packaging materials)	93	73% Sweden, 8% other Nordic countries and 19% rest of Europe
Investments ⁴⁾ (investments in Södra's mills)	37	73% Sweden, 23% other Nordic countries and 4% rest of Europe
Indirect material and services ⁴⁾ (operating materials, vehicles, IT, travel, office supplies and services)	404	98% Sweden, 1% other Nordic countries and 1% rest of Europe

¹⁾ Covers suppliers with annual sales to Södra of more than SEK 100,000.

²⁾ Of which 11,548 harvesting assignments, 8,741 wood deliveries and 140 external suppliers. Harvesting assignments and wood deliveries are not covered by the Södra Supplier Code.

³⁾ Covers suppliers with annual sales to Södra of more than SEK 100,000, and more than SEK 50,000 for forestry contractors.

⁴⁾ Covers suppliers with annual sales to Södra of more than SEK 1,000,000.



Governance and organisation for sustainability

Södra's vision and set of values guide all of the Group's activities. In addition to Södra's strategic focus areas and sustainability targets, there are several policies and guidelines that set the direction for Södra's operations.

SUSTAINABILITY FRAMEWORK

Sustainability is an integral part of Södra's Group strategy, targets, key indicators and monitoring. In December 2017, the Board adopted a new Sustainability Policy for the Group. The aim of the Sustainability Policy is to govern and guide sustainability efforts in key strategic focus areas for a sustainable Södra. The new Sustainability Policy reflects the current focus for Södra's sustainability efforts. During the year, the 15 Group-wide sustainability targets were gradually integrated into Södra's operations.

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's Sustainable Development Goals. Read more on page 30.

Code of Conduct and Supplier Code

The Södra Code of Conduct specifies the rights of Södra employees and their responsibilities in relation to business practices, occupational health and safety, working conditions, human rights, the environment and sustainable forestry. Södra's policies and guidelines also apply for anyone who is representing Södra, including Board members and elected representatives. Södra's corporate language is Swedish, but governing documents are also translated into English.

The Södra Supplier Code contains guidelines on the obligations and responsibilities of Södra's suppliers in regard to business practices, working conditions, human rights and the environment. Read more on page 44.

To raise awareness of the Code of Conduct, every employee undertakes a compulsory online training course.

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 in the Supplier Code.

Södra's Code of Conduct and Supplier Code were updated in 2017 with clarifications related to forced labour, based on the Modern Slavery Act in the UK, which is designed to tackle slavery and human trafficking.

Monitoring compliance with the Code of Conduct

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



The Södra Supplier Code sets out the obligations and responsibilities of suppliers, including business practices, working conditions, human rights and the environment.



Did you know that ...

Three of Södra's sustainability targets are prioritised and have the same status as the financial targets.

whistleblower protection officers to deal with reports from whistleblowers. 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.

CONTROL OF ENVIRONMENTAL ASPECTS

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 business management system. Most of the Group's environmental management systems are ISO 14001-certified. The energy management systems of the pulp mills and sawmills are ISO 50001-certified. Internal and external audits of the 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 operations, and business management systems are a means for obtaining permits. 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 23.

CONTROL OF SOCIAL ASPECTS

Södra's policies and guidelines for social responsibility cover occupational health and safety, equality, 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.

Occupational health and safety

Occupational health and safety (OHS) is given the highest priority at Södra. An OHS Council was established during the year. The 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 stimulating occupational health and safety 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 OHSAS 18001 management system.

Diversity and gender equality

During the year, the Board adopted an action plan to increase diversity and equality in Södra's membership organisation. One of the targets is that at least 40 percent of Södra's elected representatives are to be women by 2025.

SUSTAINABILITY ORGANISATION

In December 2017, Södra formed a new communication and sustainability function. The function is led by the Director of Communications and Sustainability, who is a member of Group Senior Management. Sustainability issues were previously handled by a sustainability function. The new function includes a Sustainability Department, comprising the Sustainability Manager and four employees. The department coordinates the Group's sustainability efforts and drives and

supports development issues. The Sustainability Department is also responsible for the Sustainability Policy and the sustainability targets. Direct responsibility for sustainability issues is delegated within the line organisation, from the President to each Business Area President.

During the year, Södra's sustainability targets were monitored by the Group's Innovation and Sustainability Council. As of 2018, this will be taken over by Group Senior Management and the Innovation and Sustainability Council was discontinued during the year.

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, CFO, Director of Communications and Sustainability and management representatives of the Södra Skog, Södra Wood and Södra Cell business areas. The Council meets twice per year.

Other groups participate in the coordination of Södra's sustainability efforts. These include the Group-wide Sustainability Forum, that was established in autumn 2017, and Södra's internal auditors of business management systems that contribute to the sharing of lessons learned between the business areas. Södra Cell has an Energy Committee and a Chemicals Committee.



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Multi-year summary

	2017	2016 ¹⁾	2015	2014	2013
RESULTS					
Net sales, SEK million	20,518	18,482	18,267	17,339	16,580
Net sales, change in %	11	1	5	5	-1
Operating profit before taxes, depreciation and amortisation, SEK million	3,009	1,887	3,146	2,552	937
Depreciation, amortisation and impairment of assets, SEK million	-1,092	-908	-984	-1,036	-1,354
Operating profit/loss, SEK million	1,917	979	2,162	1,516	-417
Operating margin, %	9	5	12	9	neg.
Financial income and expense, SEK million	-87	-66	-90	-56	-33
Profit/loss before tax, SEK million	1,830	913	2,072	1,460	-450
FINANCIAL POSITION					
Non-current assets, SEK million	14,932	14,413	11,948	10,044	9,230
Inventories, SEK million	3,036	3,097	2,801	2,615	2,570
Equity, SEK million	12,884	11,766	11,945	10,524	9,495
Return on equity, %	12	6	14	11	neg.
Net debt, SEK million	3,901	3,879	1,290	1,050	1,048
Debt/equity ratio, times	0.3	0.3	0.1	0.1	0.1
Average capital employed, SEK million	16,493	14,600	12,639	11,349	11,434
Return on capital employed, %	12	7	17	13	neg.
Total assets, SEK million	23,104	21,671	19,248	17,229	15,998
Equity ratio, %	56	54	62	61	59
CASH FLOW					
Cash flow from operating activities, SEK million	1,915	2,315	3,123	1,988	1,455
Investments, SEK million	1,606	4,256	2,959	2,046	952
Cash flow after investments, SEK million	356	-1,581	218	267	597
VOLUMES					
Wood volume, million m ³ sub	15.9	15.0	15.1	15.3	15.0
Deliveries of biofuels, 1,000 m ³ s	4,393	4,632	4,678	4,758	4,997
Sawn timber production, 1,000 m ³	1,841	1,955	2,031	1,932	1,624
Pulp production, 1,000 tonnes	1,712	1,429	1,512	1,521	1,774
Electricity generation, GWh	1,719	1,326	1,379	1,419	1,664
SUSTAINABILITY					
CO ₂ fossil from production, ktonnes	80	99	87	131	185
CO ₂ fossil from transportation, ktonnes	191	199	193	210	235
Rate of forest growth, m ³ fo/ha per year	6.9	6.9	6.6	6.9	6.2
Occupational injuries with absence (LTA) ²⁾ , no.	96	94	75	104	89
Lost-time-accident rate (LTAR) ³⁾	17	16	13	18	15
OTHER					
Profit distribution, SEK million	868	602	1,002	553	281
No. of members	51,009	50,771	50,360	50,227	50,296
Affiliated forest area, 1,000 hectares	2,517	2,481	2,440	2,392	2,368
Members' wood deliveries, million m ³ sub	9.7	9.4	9.4	9.0	8.1
No. of employees	3,402	3,594	3,599	3,524	3,776
USD/SEK (average rate)	8.55	8.56	8.43	6.86	6.51
EUR/SEK (average rate)	9.64	9.47	9.35	9.10	8.65
NBSK (average rate, USD/tonne)	881	802	856	925	857

¹⁾ 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 2013–2015 can be compared with historic financial statements.

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

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



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 %

	2017	2016	2015	2014	2013
Opening	18,482	18,267	17,339	16,580	16,807
Closing	20,518	18,482	18,267	17,339	16,580
Change	11	1	5	5	-1

Explanation

Shows Södra's growth.

Definition

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

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

	2017	2016 ¹⁾	2015	2014	2013
Operating profit/loss	1,917	979	2,162	1,516	-417
Depreciation, amortisation and impairment of assets	1,092	908	984	1,036	1,354
EBITDA	3,009	1,887	3,146	2,552	937

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.

OPERATING MARGIN, %

	2017	2016 ¹⁾	2015	2014	2013
Operating profit/loss	1,917	979	2,162	1,516	-417
Net sales	20,518	18,482	18,267	17,339	16,580
Operating margin	9	5	12	9	neg.

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 provide acceptable dividends. 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.

RETURN ON EQUITY, %

	2017	2016 ¹⁾	2015	2014	2013
Equity OB	11,766	11,806	10,524	9,495	10,242
Equity CB	12,884	11,766	11,945	10,524	9,495
Average equity	12,325	11,786	11,235	10,009	9,869
Profit/loss before tax	1,830	913	2,072	1,460	-450
Standard tax, 22%	-403	-201	-456	-321	99
Return	12	6	14	11	neg.

Explanation

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

Definition

Profit after net financial items less 22 percent standard tax in relation to average equity.

NET DEBT, SEK MILLION

	2017	2016	2015	2014	2013
Interest-bearing provisions	—	—	—	12	3
Interest-bearing liabilities	5,222	4,914	2,624	2,421	2,395
Financial receivables	—	-1	-1	-1	-2
Current investments and cash and cash equivalents	-1,321	-1,034	-1,333	-1,382	-1,348
Net debt	3,901	3,879	1,290	1,050	1,048

Explanation

Shows Södra's financial strength when current investments and cash and cash equivalents exceed borrowings.

Definition

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

¹⁾ 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 2013–2015 can be compared with historic financial statements.

DEBT/EQUITY RATIO, TIMES

	2017	2016 ¹⁾	2015	2014	2013
Net debt	3,901	3,879	1,290	1,050	1,048
Equity	12,884	11,766	11,945	10,524	9,495
Debt/equity ratio	0.3	0.3	0.1	0.1	0.1

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

	2017	2016 ¹⁾	2015	2014	2013
Assets	23,104	21,671	19,248	17,229	15,998
– Financial assets	–1,341	–1,052	–1,351	–1,402	–1,366
– Provisions ²⁾	–160	–180	–114	–253	–395
– Income tax ²⁾	–1,201	–1,038	–1,257	–1,089	–909
– Operating liabilities	–3,313	–3,505	–3,083	–2,649	–2,465
Capital employed	17,089	15,896	13,443	11,836	10,863
Average	16,493	14,600	12,639	11,349	11,434

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, %

	2017	2016 ¹⁾	2015	2014	2013
Average capital employed	16,493	14,600	12,639	11,349	11,434
Operating profit/loss	1,917	979	2,162	1,516	–417
Return	12	7	17	13	neg.

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, %

	2017	2016 ¹⁾	2015	2014	2013
Equity	12,884	11,766	11,945	10,524	9,495
Assets	23,104	21,671	19,248	17,229	15,998
Equity ratio	56	54	62	61	59

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.

¹⁾ 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 2013–2015 can be compared with historic financial statements.

²⁾ Not considered in the calculation of Operating capital.

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.



Consolidated statement of comprehensive income

SEK million	Note	2017	2016
Net sales	2, 3	20,518	18,482
Other revenue	4	190	213
Change in inventories of finished products and products in process		-31	-141
Capitalised work		12	15
Raw materials and consumables		-12,092	-11,365
Goods for resale		-201	-79
Freight and transport		-992	-837
Employee expenses	6	-2,503	-2,472
Other expenses	5, 7, 9	-1,966	-1,937
Depreciation, amortisation and impairment of assets	8	-1,092	-908
Share of profit of associates	10	74	8
Operating profit	2	1,917	979
Finance income		5	22
Finance expenses		-92	-88
Net financial items	11	-87	-66
Profit before tax		1,830	913
Income tax	13	-259	-102
Profit for the year		1,571	811
Other comprehensive income/loss			
Actuarial gains and losses		-78	-71
Tax attributable to items that will not be reclassified to profit or loss		17	16
Items that will not be reclassified to profit or loss		-61	-55
Translation differences for the year on translation of foreign operations		8	27
Revaluation of available-for-sale financial assets to fair value		0	0
Share of other comprehensive income of associates		—	0
Tax attributable to items that will be reclassified to profit or loss		0	0
Items that will be reclassified to profit or loss		8	27
Other comprehensive income/loss for the year	14	-53	-28
Total comprehensive income for the year		1,518	783
Profit attributable to:			
Parent Company		1,571	811
Profit for the year		1,571	811
Total comprehensive income for the year attributable to:			
Owners of the Parent		1,518	783
Total comprehensive income for the year		1,518	783



Consolidated statement of financial position

31 December, SEK million	Note	2017	2016
ASSETS	15, 44, 45		
Non-current assets			
Intangible assets			
Goodwill		241	271
Other intangible assets		143	130
Total intangible assets	16	384	401
Property, plant and equipment			
Buildings and land	17	3,499	3,346
Machinery and equipment	18	9,902	8,670
Construction in progress	19	319	1,224
Total property, plant and equipment		13,720	13,240
Biological assets	20	540	524
Shares and participations in associates	10	222	164
Financial investments	21	20	17
Non-current operating receivables	25	39	54
Deferred tax assets	26	7	13
Total non-current assets		14,932	14,413
Current assets			
Inventories	27	3,036	3,097
Tax assets		66	48
Current operating receivables	29	3,749	3,079
Current investments	21	199	276
Cash and cash equivalents	30	1,122	758
Total current assets		8,172	7,258
TOTAL ASSETS		23,104	21,671



> Consolidated statement of financial position, cont.

31 December, SEK million	Note	2017	2016
EQUITY AND LIABILITIES			
Equity			
Contributed capital		3,310	3,108
Other paid-up capital		1,413	1,413
Reserves		-24	-32
Retained earnings including profit for the year		8,185	7,277
Equity attributable to owners of the Parent		12,884	11,766
Total equity	31	12,884	11,766
Liabilities	15, 44, 45		
Non-current liabilities			
Non-current interest-bearing liabilities	22, 34	2,482	2,278
Provisions for pensions	35	324	268
Non-current provisions	36	160	180
Deferred tax liabilities	26	1,188	1,015
Total non-current liabilities		4,154	3,741
Current liabilities			
Current interest-bearing liabilities	34	2,740	2,636
Income tax liabilities		13	23
Current operating liabilities and provisions	36, 38	3,313	3,505
Total current liabilities		6,066	6,164
Total liabilities		10,220	9,905
TOTAL EQUITY AND LIABILITIES		23,104	21,671

For information about the Group's pledged assets and contingent liabilities, see Notes 40 and 41.



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 2017	3,108	1,413	-32	0	7,277	11,766
Profit for the year	—	—	—	—	1,571	1,571
Other comprehensive income/loss for the year	—	—	8	0	-61	-53
Comprehensive income for the year	—	—	8	0	1,510	1,518
Contributed capital, paid-up by members	108	—	—	—	—	108
Contributed capital, paid-out to members	-41	—	—	—	—	-41
Dividends to members	—	—	—	—	-467	-467
Bonus issue	135	—	—	—	-135	—
Closing balance 31 Dec 2017	3,310	1,413	-24	0	8,185	12,884

SEK million						
Opening balance 1 Jan 2016	2,930	1,365	-59	0	7,709	11,945
Effect of new accounting policy for recognition of planned maintenance shutdowns	—	—	—	—	-139	-139
Adjusted opening balance 1 Jan 2016	2,930	1,365	-59	0	7,570	11,806
Profit for the year	—	—	—	—	811	811
Other comprehensive income/loss for the year	—	—	27	0	-55	-28
Comprehensive income for the year	—	—	27	0	756	783
Contributed capital, paid-up by members	88	—	—	—	—	88
Contributed capital, paid-out to members	-37	—	—	—	—	-37
Dividends to members	—	—	—	—	-874	-874
Bonus issue	127	—	—	—	-127	—
Allocation to restricted funds	—	48	—	—	-48	—
Closing balance 31 Dec 2016	3,108	1,413	-32	0	7,277	11,766

For additional information, see Note 31 Equity and Note 14 concerning other comprehensive income.



Consolidated statement of cash flows

SEK million	Note	2017	2016
Operating activities			
Profit before tax		1,830	913
Adjustment for non-cash items			
Amortisation		1,059	828
Impairment of non-current assets		33	80
Change in value of current investments		—	—
Profit/loss from sale of non-current assets		–35	–99
Other items not affecting cash flow		–98	295
Income tax paid		–92	–133
Net cash flow from operating activities before change in working capital		2,697	1,884
Change in			
Inventories (increase –)		15	–75
Operating receivables (increase –)		–620	293
Operating liabilities (increase +)		–177	213
Cash flow from operating activities		1,915	2,315
Investing activities			
Acquisition of subsidiaries and associates	10	–25	–309
Sale of companies	15	–6	20
Change in other financial assets		–3	12
Sale of other financial assets		—	–1
Investments in intangible assets		–9	—
Investments in property, plant and equipment		–1,597	–3,947
Disposal of property, plant and equipment		81	329
Cash flow from investing activities		–1,559	–3,896
Cash flow after investing activities		356	–1,581
Financing activities			
Contributed capital, paid-up		108	88
Contributed capital, paid out		–41	–37
Dividends paid		–467	–874
Change in loans from members		324	293
New loans		12	2,014
Repayment of other loans		–30	–217
Dividends received		28	—
Change in current investments with maturity > 90 days		78	717
Cash flow from financing activities		12	1,984
CASH FLOW FOR THE YEAR	42	368	403
Cash and cash equivalents at beginning of year		758	340
Exchange gains/losses on cash and cash equivalents		–4	15
Cash and cash equivalents at end of year	30	1,122	758



Parent Company income statement

SEK million	Note	2017	2016
Net sales	2, 3	17,649	15,886
Change in inventories of finished products and products in process		23	-117
Capitalised work		12	15
Other revenue	4	129	177
Raw materials and consumables		-10,303	-9,695
Other external expenses	5, 9	-2,512	-2,453
Employee expenses	6	-2,196	-2,204
Depreciation, amortisation and impairment of assets	8	-1,028	-881
Other operating expenses	7	-123	-23
Operating profit	2	1,651	705
Profit from shares in Group companies		50	112
Profit from shares in associates		68	15
Interest income and similar profit items		23	23
Interest expenses and similar loss items		-75	-69
Net financial items	11	66	81
Profit after financial items		1,717	786
Appropriations	12	-743	-266
Profit before tax		974	520
Income tax	13	-49	27
Profit for the year		925	547

Profit for the year matches Comprehensive income for the year.



Parent Company balance sheet

31 December, SEK million	Note	2017	2016
ASSETS	44		
Non-current assets			
Intangible assets			
Other intangible assets		6	7
Total intangible assets	16	6	7
Property, plant and equipment			
Buildings and land	17	3,363	3,274
Machinery and equipment	18	9,715	8,465
Construction in progress	19	242	1,161
Total property, plant and equipment		13,320	12,900
Financial assets			
Shares in Group companies	39	1,238	1,251
Non-current receivables from Group companies		—	7
Shares and participations in associates	10	166	101
Endowment policies	35	40	38
Other non-current investments	23	20	17
Other non-current receivables	25	39	15
Deferred tax assets	26	57	68
Total financial assets		1,560	1,497
Total non-current assets		14,886	14,404
Current assets			
Inventories	27	2,075	2,225
Current receivables			
Interest-bearing receivables from Group companies	28	872	786
Deferred tax receivables		56	50
Operating receivables	28, 29	3,350	2,614
Total current receivables		4,278	3,450
Current financial investments	21	279	499
Cash and bank balances		866	291
Total current assets		7,498	6,465
TOTAL ASSETS		22,384	20,869



31 December, SEK million	Note	2017	2016
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Contributed capital		3,310	3,108
Subordinated debentures		—	130
Statutory reserve		1,413	1,413
Total restricted equity		4,723	4,651
Non-restricted equity			
Profit carried forward		2,506	2,568
Profit for the year		925	547
Total non-restricted equity		3,431	3,115
Total equity	31	8,154	7,766
Untaxed reserves	32	5,678	4,858
Provisions			
Provisions for pensions	35	40	41
Other non-current provisions	36	154	175
Total provisions		194	216
Non-current liabilities			
Non-current interest-bearing liabilities from Group companies	33	8	8
Non-current interest-bearing liabilities	34	2,482	2,278
Non-current operating liabilities		—	16
Total non-current liabilities		2,490	2,302
Current liabilities			
Current interest-bearing liabilities from Group companies	33	132	64
Current interest-bearing liabilities	34	2,725	2,503
Current operating liabilities and provisions	36, 38	3,011	3,160
Total current liabilities		5,868	5,727
TOTAL EQUITY AND LIABILITIES		22,384	20,869

For information about the Parent Company's pledged assets and contingent liabilities, see Notes 40–41.



Parent Company statement of changes in equity

SEK million	Restricted equity			Non-restricted equity		Total equity
	Contributed capital	Sub-ordinated debentures	Statutory reserve	Profit carried forward	Profit for the year	
Opening balance 1 Jan 2017	3,108	130	1,413	2,568	547	7,766
Transfer of profit/loss for the period	—	—	—	547	-547	—
Profit for the year	—	—	—	—	925	925
Total equity excluding owner transactions	3,108	130	1,413	3,115	925	8,691
Contributed capital, paid-up by members	108	—	—	—	—	108
Contributed capital, paid-out to members	-41	—	—	—	—	-41
Appropriation of profits	—	—	—	—	—	—
Dividends to members	—	—	—	-467	—	-467
Dividend on subordinated debentures	—	—	—	-7	—	-7
Bonus issue	135	—	—	-135	—	—
Allocation to restricted funds	—	—	—	—	—	—
Paid-out subordinated debentures	—	-130	—	—	—	-130
Closing balance 31 Dec 2017	3,310	—	1,413	2,506	925	8,154
Opening balance 1 Jan 2016	2,930	130	1,365	547	967	5,939
Transfer of profit/loss for the period	—	—	—	967	-967	—
Profit for the year	—	—	—	—	547	547
Total equity excluding owner transactions	2,930	130	1,365	1,514	547	6,486
Contributed capital, paid-up by members	88	—	—	—	—	88
Contributed capital, paid-out to members	-37	—	—	—	—	-37
Appropriation of profits	—	—	—	—	—	—
Dividends to members	—	—	—	-874	—	-874
Dividend on subordinated debentures	—	—	—	-10	—	-10
Bonus issue	127	—	—	-127	—	—
Allocation to restricted funds	—	—	48	-48	—	—
Merger gain	—	—	—	2,113	—	2,113
Closing balance 31 Dec 2016	3,108	130	1,413	2,568	547	7,766

For additional information, see Note 31 Equity.

Profit for the year matches Comprehensive income for the year.



Parent Company statement of cash flows

SEK million	Note	2017	2016
Operating activities			
Profit after financial items		1,717	786
Adjustment for non-cash items			
Depreciation and amortisation according to plan		1,024	801
Impairment		4	102
Reversal of impairment		-40	—
Change in value of current investments		1	4
Profit from disposal of non-current assets		8	14
Loss from sale of Group companies		-6	-133
Other items not affecting cash flow		-34	11
Income tax paid		-44	-239
Net cash flow from operating activities before change in working capital		2,630	1,346
Change in			
Inventories (increase -)		152	150
Operating receivables (increase -)		-758	1,714
Operating liabilities (increase +)		-102	-1,541
Cash flow from operating activities		1,922	1,669
Investing activities			
Acquisition of associate/Group companies	10	-25	-240
Sale of shares in subsidiaries		—	239
Group contributions received		21	35
Group contributions paid		—	-14
Investments in property, plant and equipment and intangible assets		-1,468	-3,533
Disposal of property, plant and equipment		13	182
Acquisition of financial assets		-3	12
Decrease in financial receivables		7	4
Cash flow from investing activities		-1,455	-3,315
Cash flow after investing activities		467	-1,646
Financing activities			
Contributed capital, paid-up		108	88
Contributed capital, paid out		-41	-37
Repayment of subordinated debentures		-130	—
Dividends paid		-474	-884
Change in loans from members		324	293
New loans		100	2,000
Repayment of loans		1	-4
Change in current investments with maturity > 90 days		77	603
Cash flow from financing activities		-35	2,059
CASH FLOW FOR THE YEAR	42	432	413
Cash and cash equivalents at beginning of year		514	101
Cash and cash equivalents at end of year	30	946	514



Notes

Note 1 | Significant accounting policies and valuation principles

GENERAL INFORMATION

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

The Group has three business areas: Södra Skog, Södra Wood and Södra Cell, which purchase and process raw material from the forest into sawn timber, interior wood products, paper pulp and dissolving pulp.

The annual report and consolidated financial statements for the 2017 financial year were approved for publication by the Board of Directors and the President on 12 February 2018. 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 23 May 2018.

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 in force and adopted by the EU on 1 January 2017. 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 valuation 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 profit or loss or as available-for-sale financial assets.

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.

ESTIMATES AND ASSUMPTIONS IN THE FINANCIAL STATEMENTS

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

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

Estimates made by management in the application of IFRS, with significant impact on the financial statements, and assumptions with a significant risk of material adjustments in the following year's financial statements, are described in detail in Note 43 Critical accounting estimates and judgements.

AMENDMENTS TO ACCOUNTING POLICIES AND DISCLOSURES New or amended accounting standards applied

The standards and amendments with impact on the consolidated financial statements and that are applied for the first time in the financial year commencing 1 January 2017 are described below:

- Recognition of deferred tax receivables for unrealised losses – Changes in IAS 12 Income Taxes
- Amendments to IAS 7 Statement of cash flows (the Disclosure Initiative)
- Annual improvements to IFRSs 2014–2016 Cycle

The changes in these amendments did not have any material impact on the recognition, measurements or disclosure requirements in the financial statements.

New standards and interpretations not yet applied

A number of new or amended standards and interpretations will not become effective until the next financial year, and have not been applied in advance in the preparation of these financial statements. No early adoption of updates or amendments that take effect after the 2017 financial year is planned, and none of these are expected to have any material impact on the consolidated financial statements, with the exception of the following:

IFRS 9 Financial instruments is intended to replace IAS 39 Financial instruments: Recognition and Measurement on 1 January 2018 and was approved by the EU in December 2016. The changes to IFRS 9 are mainly related to three areas; classification and measurement, impairment and hedging. IFRS 9 represents a new approach to classification and measurement, where 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. Furthermore, a new impairment model means that revenue to cover expected credit losses, in addition to incurred losses, is set aside. In addition, there are changes regarding possibilities for hedge accounting. The Group has analysed its financial assets and liabilities and the effects of adopting the new standard as of 1 January 2018 are described below. No material effects were identified for the transition to the new standard and since they are considered insignificant, they have not been quantified.

The Group's debt instruments currently classified as Available-for-sale financial assets are expected to continue meeting the new classification requirements, in which changes in fair value are recognised in other comprehensive income. There will not, therefore, be any change in how these assets are recognised.

All investments in equity instruments covered by IFRS 9 will be measured at fair value in the statement of financial position and changes in value will be recognised directly in profit or loss. The Group holds unlisted shares and participations totalling SEK 20 million, where the cost is still judged to be the best estimate of fair value.

For the Group's financial liabilities, no impact has been identified for transition to the new standard.

Changes to the standard in regard to hedge accounting present greater opportunities for the Group to reflect its risk management activities in the financial statements by matching gains or losses on hedging instruments

> Note 1, cont.

with gains and losses on the risk exposures hedged and recognising these in accordance with the hedge accounting framework. The framework is voluntary and the effect on the opening balance is not expected to be material.

Under the new impairment model, expected losses are recognised rather than incurred losses. The effect on the opening balance is not expected to be material.

The expanded disclosure requirements as a result of the new standard will entail changes in future financial statements.

IFRS 9 will be applied retroactively with certain practical exceptions as set out in the standard. The Group will not be restating previous periods.

From 2018, IFRS 15 Revenue from Contracts with Customers will replace all existing standards related to revenue recognition, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 15 Agreements for the Construction of Real Estate. IFRS 15 is based on revenue being recognised when control over goods or services is transferred to the customer, which diverges from the existing basis of transferring the risks and rewards. IFRS 15 introduces new methods for determining how and when revenue should be recognised, entailing new approaches compared with how revenue is currently recognised.

The Group has performed a comprehensive analysis of the Group's revenue recognition and neither qualitative nor quantitative effects were identified from the adoption of the new standard on 1 January 2018. The Group will be using a forward-looking retroactive transition method, but since no effects have been identified, the opening balance for 2018 will be identical to the closing balance for 2017. The expanded disclosure requirements as a result of the new standard will entail changes in future financial statements.

The following accounting policies will be used as of the adoption of IFRS 15 on 1 January 2018:

Net sales: Revenue from sales of goods for the main operations, comprising sales of saw logs, pulpwood and biofuel; sawn, planed and pressure-treated timber; interior wood products and softwood/hardwood/dissolving pulp, are recognised when the customer obtains control of an asset (goods or services). 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, mainly comprehensive forestry services such as harvesting, forest management plans, site preparation etc., are recognised in net profit or loss according to the same policy for sales of goods. Any promise to transfer an asset to a customer that can be separated from other promises in a contract represents a performance obligation. Each distinct performance obligation is recognised separately. An obligation has been satisfied when the customer has 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 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 and, as a practical solution, recognises revenue in the same amount to which the company is entitled to invoice to 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 invoiced sales pertaining to primary activities. Most of 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.

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

Other revenue includes exchange-rate gains pertaining to operating receivables and liabilities arising from translation to the closing-day rate and profit on unhedged derivatives. Other revenue and gains arising from activities outside the company's ordinary operations are also recognised.

IFRS 16 Leasing was published in January 2016 and entails that most of the Group's leases will be recognised in the balance sheet, since the distinction between an operating and a finance lease no longer applies. The standard becomes effective on 1 January 2019 and the Group does not, at this stage, intend to adopt IFRS 16 in advance. No decision has yet been made regarding a transition method.

On the report date, the Group had SEK 295 million in non-cancellable operating leases, see Note 5. Of these, about 5–10 percent are considered to relate to short-term leases and leases of low-value items that will continue to be recognised as an expense in profit or loss.

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 year.

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.

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.

SEGMENT REPORTING

An operating segment is a part of the Group that engages in operations in which it can generate revenue and incur expenses, and for which independent financial information is prepared. The results of an operating segment are monitored by the chief operating decision-maker in order to assess the performance of, and to allocate resources to, that operating segment. See Note 2 Segment reporting for grouping and presentation of operating segments. The Group's operations are divided into the following operating segments:

Södra Skog supplies the Group's mills with wood raw material, conducts external trade with wood raw material and biofuels, and provides forestry services to members.

Södra Wood produces sawn and planed timber, mainly for construction purposes and other building applications, at sawmills in southern Sweden and Finland, and produces a wide range of interior wood products, including moulding, panelling, flooring and interior fittings.

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

Other segments include the operations conducted in Trivselhus, Södra Vind and Södra Medlemsel.

All other activities, called Intra-Group, 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.

SEGMENT ALLOCATION

Segment profit, assets and liabilities include directly attributable items. Interest-bearing receivables and liabilities, pension provisions, cash and cash equivalents and taxes are not included. All investments are included in the segments' investments in property, plant and equipment and intangible assets. The accounting policies for the segments concur with those for the Group.

**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.

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 establishes 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: Two options are available for recognising this: 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 disposals 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 recognised 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.

CHANGES IN NON-CONTROLLING INTERESTS

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

ASSOCIATES

The equity method is used to recognise shareholdings in associates in which the Group has a minimum of 20 percent and maximum of 50 percent of the votes, or otherwise has significant influence and ownership is part of 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.

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.

FOREIGN CURRENCIES**Transactions in foreign currencies**

Foreign currency transactions are translated into the functional currency using the exchange rates on the transaction date. 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 exchange rate at the balance-sheet date. 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 exchange rate on the balance-sheet date. 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.

Translation differences on the translation of currency of foreign entities are recognised in other comprehensive income and accumulated in the translation reserve in equity. When a foreign entity is divested, the accumulated 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.

REVENUE**Net sales**

Revenue from sales of goods for the main operations, comprising sales of saw logs, pulpwood and biofuel; sawn, planed and pressure-treated timber; interior wood products and softwood/hardwood/dissolving pulp are recognised in net profit or loss when the material risks and rewards associated with ownership of the goods has been transferred to the buyer. Revenue from service assignments, mainly comprehensive forestry services such as harvesting, forest management plans, site preparation etc., are recognised in net profit or loss when the services are performed. Revenue is not recognised if it is probable that the economic benefits will not flow to the Group. Revenue is not recognised where there is significant uncertainty regarding payment, associated costs or risk of returns, or if the Group remains involved in the day-to-day management usually associated with ownership. Revenue is recognised at the fair value of the amount received, or is expected to be received.

> Note 1, cont.

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

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

Other revenue

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

Other revenue includes exchange-rate gains pertaining to operating receivables and liabilities arising from translation to the closing-day rate and profit on unhedged derivatives. Other revenue and gains arising from activities outside the company's ordinary operations are also recognised.

LEASING

In the consolidated financial statements, leases are classified as either a finance or an operating lease. A finance lease exists when the financial risks and rewards associated with the ownership are essentially transferred to the lessee. Otherwise, the lease is an operating lease. Assets rented under finance leases are recognised as assets in the Consolidated statement of financial position. Commitments to pay future leasing fees are recognised as non-current and current liabilities. Minimum leasing fees are allocated between interest expenses and amortisation of outstanding liabilities. The interest expense is allocated over the leasing period so that each accounting period is charged with an amount equivalent to a fixed interest rate for the liability recognised in the specific period. Variable fees are expensed in the periods they arise. Under an operating lease, the leasing fee is allocated over the term of the lease on a linear basis. Benefits received when signing agreements are recognised as a reduction of the leasing fee. Variable fees are expensed in the periods they arise.

FINANCIAL INCOME AND EXPENSE

Financial income and expense consists 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.

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 deficit deductions are recognised only to the extent that it is likely that they can be utilised. The value of deferred tax assets is reduced when it is no longer considered likely they can be utilised.

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. Trade receivables are recognised in the consolidated statement of financial position when invoiced. Liabilities are recognised when the counterparty has performed and contractual duty requires payment, even if the invoice has not yet been received. Trade creditors are recognised when the invoice is received.

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.

Acquisitions and sales of financial assets are recognised on the settlement date, which is the date on which the asset is delivered to or from the company.

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.

CLASSIFICATION AND MEASUREMENT

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

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

This category consists of two subgroups: available-for-sale financial assets and other financial assets that the company has initially chosen to place in this category (based on the fair value option). The latter subgroup includes shares, share index bonds and share index certificates. 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. Accumulated gain or loss is recognised in net profit or loss upon disposal of the asset.

LOAN RECEIVABLES AND TRADE RECEIVABLES

Loan receivables and trade receivables are financial assets that are not derivatives that have determined or determinable payments and that are not quoted on an active market. These assets are measured at amortised cost. Amortised cost is based on the effective interest calculated at the date of purchase. Trade receivables are recognised in the amounts that are expected to be received less uncertain receivables.

Provision for a decrease in value of trade receivables is made when there is objective evidence that the company will not receive full payment under the original terms of the overdue receivable. Unpaid or significantly delayed payments and/or significant financial difficulties at the debtor are considered indicators of an impairment requirement. A provision is made



by reducing the carrying amount of the asset through a provision for depreciation while the anticipated loss is recognised in other expenses in the consolidated statement of comprehensive income. The size of the provision consists of the difference between the carrying amount of the asset and the present value of the estimated future cash flow discounted by the original effective interest. When the bad debt loss is determined, it is removed using a counter-entry on the provision for impairment of trade receivables. Recovery of previously impaired amounts is recognised as revenue.

FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Recognition is made here of the Group's derivatives with negative fair value not subject to hedge accounting. Changes in fair value are recognised in net profit or loss.

FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

This includes subordinated debentures, loans from members and credit institutions and other financial liabilities such as trade creditors. The liabilities are measured at amortised cost. See the Parent Company's recognition rules for information about the reclassification of Subordinated debentures from equity to liability.

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 fulfil the requirements of hedge accounting, it is necessary to establish an unambiguous connection to the hedged item. It is also necessary that the hedge effectively protects the hedged item, that hedging documentation is prepared and that its effectiveness can be measured. 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 change in value of the derivative is recognised in net profit or loss along with the change in value of the hedged item. Customer contracts, known as Long Term Fixed Price (LTFP), are recognised here along with the associated derivatives.

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

NON-HEDGE ACCOUNTING

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 that are not used for hedge accounting.

RECEIVABLES AND LIABILITIES IN FOREIGN CURRENCY

Forward contracts are used to hedge receivables or liabilities against exchange-rate risk. Hedge accounting is not applied to protect against foreign exchange risk, 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.

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.

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 accumulated impairment losses. Goodwill is allocated to cash-generating units and impairment tested not less than annually. Goodwill on acquisitions of associates is included in the carrying amount for 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 recognised as intangible assets. Intangible assets are recognised at cost less accumulated amortisation and impairment.

Assets with a finite useful life are amortised straight-line over each asset's estimated useful life. These periods are tested each year and total five years. The Trivselhus brand is considered to have an indefinite useful life and is not amortised.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recognised on a consolidated basis at cost less accumulated depreciation and amortisation, and any impairment. The cost includes the purchase price plus costs directly attributable to bringing the asset into place and in the condition required by the purchase.

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

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

The carrying amount of property, plant and equipment is derecognised from the consolidated statement of financial position on disposal or sale or when no future economic benefits are expected from the use or disposal/sale of the asset. The gain or loss arising on the disposal or sale of an asset represents the difference between the selling price and the carrying amount of the asset less direct selling costs. 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.

DEPRECIATION POLICIES

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 component. Land is not depreciated.

> Note 1, cont.

ESTIMATED USEFUL LIVES

	Group No. of years	Parent Company No. of years
Wind power plants	20	—
Pulp mills	17–25	17–25
Factory buildings	20–25	20–25
Administration buildings	20–50	25–50
Housing	25–50	25–50
Land improvements	20	20
Sawmills	10–25	10–25
Machinery	5–13	5–13
Equipment	3–15	3–15
Mobile transportation equipment	5–7	5–7

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. 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 life periods are retested at the end of each year.

BIOLOGICAL ASSETS

The Group's forest holdings are recognised under the headings land and growing forest. Growing forest is classified as a biological asset and measured at fair value while land 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 developments has been assessed, replanting costs taken into account and provisions made for environmental considerations.

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

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.

EMISSION PERMITS

Södra participates in the European emissions trading system, which aims to reduce emissions of the greenhouse gas CO₂. 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 accumulated 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.

IMPAIRMENT

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

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

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

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

Impairment of financial assets

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

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.

EMPLOYEE BENEFITS

Pension obligations

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.

TERMINATION BENEFITS

An expense for benefits on termination of employees is only recognised if the company is demonstrably committed to a detailed formal plan, without realistic possibility of withdrawal, 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.

SHORT-TERM EMPLOYEE BENEFITS

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

PROVISIONS

A provision is recognised in the Consolidated statement of financial position when a legal or 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.

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 accumulated 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. Impairment losses are recognised as an expense in profit or loss.

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.

FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

As a result of the rules in the Swedish Financial Reporting Board's recommendation RFR 2 and the relationship between accounting and taxation, the rules on financial instruments and hedge accounting in IAS 39 are not applied to the Parent Company as a legal entity.

In the Parent Company, financial assets are 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).

Gains or losses from currency derivatives used to hedge operating assets or liabilities against exchange-rate risk are recognised in profit or loss on the same date as the gain or loss attributable to the hedged item arises. Gains or losses attributable to other assets or liabilities are recognised in net financial items. Currency derivatives that hedge forecast flows are not recognised in the balance sheet. The change in value of such derivatives is recognised in the same period that the flow arises. The principal rule is that trade receivables are remeasured at the closing rate.

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

ANTICIPATED DIVIDENDS

Anticipated dividends from subsidiaries are recognised when the Parent Company alone is entitled to determine the size of the dividend and the Parent Company has made this decision before the financial statements are published.

SEGMENT REPORTING

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.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is recognised at cost less accumulated depreciation and any impairment loss in the same manner as for the Group, but with the addition of any appreciation in value.

LEASED ASSETS

All leases are recognised as operating leases.

INTANGIBLE ASSETS

Research and development

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

> Note 1, cont.

BIOLOGICAL ASSETS

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

SUBORDINATED DEBENTURES

Subordinated debentures are recognised as equity according to the Cooperative Societies' Act. Subordinated debentures do not meet IFRS criteria for equity and are recognised in the consolidated financial statements as a liability.

EMPLOYEE BENEFITS

Defined-benefit plans

The Parent Company uses another basis for calculating defined-benefit plans than that specified in IAS 19. The Parent Company follows the regulations of the Pension 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.

MERGERS

The merger of a wholly owned subsidiary means that the Parent Company takes over the merged company's consolidated value. In the balance sheet, shares in the subsidiary are replaced by the merged company's assets and liabilities. This change affects the Parent Company's equity, partly because the assets and liabilities of the merged company are measured at consolidated value, and have already therefore been recognised in the consolidated income statement. As of the merger date, the merged company's last financial year will be included in the financial information of both the transferor and transferee company.

TAXES

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

GROUP CONTRIBUTIONS AND SHAREHOLDERS'

CONTRIBUTIONS FOR LEGAL ENTITIES

Shareholders' contributions are recognised directly against equity of the receiving company, and capitalised in shares and participations of the issuing company, provided that no impairment is required. Group contributions received and paid are recognised as appropriations.

Note 2 | Operating segments

Group	Södra Skog		Södra Wood		Södra Cell		Other segments		Intra-Group		Eliminations		Total consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Net sales														
from external customers	3,995	3,825	5,286	5,546	9,703	7,791	1,532	1,317	2	3	—	—	20,518	18,482
from other segments	5,779	5,314	648	545	119	54	—	—	7	3	-6,553	-5,916	—	—
	9,774	9,139	5,934	6,091	9,822	7,845	1,532	1,317	9	6	-6,553	-5,916	20,518	18,482
Depreciation, amortisation and impairment of assets	-45	-47	-217	-281	-797	-555	-12	-9	-21	-16	—	—	-1,092	-908
Share of profit of associates	0	1	4	3	—	—	70	4	—	0	—	—	74	8
Operating profit/loss	76	67	38	-302	1,924	1,342	121	87	-275	-266	33	51	1,917	979
Net financial items													-87	-66
Profit before tax													1,830	919
Assets	2,573	2,332	2,405	2,395	10,969	9,245	1,501	1,347	6,799	7,885	-1,143	-1,533	23,104	21,671
Operating profit/loss before depreciation, amortisation and impairment	121	113	255	-21	2,721	1,897	132	96	-254	-248	34	50	3,009	1,887
Operating margin, %	1	1	1	neg.	20	17	8	7	—	—	—	—	9	5
Operating capital*	682	932	3,135	3,263	12,841	11,463	1,127	1,103	—	—	—	—	17,089	15,896
Return on operating capital*	9	6	1	neg.	16	13	11	10	—	—	—	—	12	7
Cash flow after investing activities	317	332	164	-13	467	-1,108	-97	-362	-495	-430	—	—	356	-1,581
Investments	60	71	147	416	1,249	3,640	45	135	105	70	—	-76	1,606	4,256

*) 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.

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 intangi-

ble 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 geographic markets of Sweden SEK 13,982 million (13,671), Estonia SEK 242 million (226), Latvia SEK 210 million (198), Finland SEK 174 million (181), UK 19 (25) and Norway SEK 15 million (54).



	Södra Skog		Södra Wood		Södra Cell		Intra-Group		Eliminations		Total consolidated	
Parent Company	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Net sales												
from external customers	3,956	3,801	3,118	3,609	9,703	7,791	2	3	—	—	16,779	15,204
from other segments	5,779	5,314	1,488	1,201	120	54	7	4	-6,524	-5,891	870	682
	9,735	9,115	4,606	4,810	9,823	7,845	9	7	-6,524	-5,891	17,649	15,886
Depreciation, amortisation and impairment of assets	-44	-46	-168	-264	-796	-554	-20	-17	—	—	-1,028	-881
Operating profit/loss	42	41	20	-348	1,869	1,273	-280	-261	—	—	1,651	705
Net financial items											66	81
Profit after financial items											1,717	786

The change between years is mainly due to the merger of Södra Cell AB.

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

Note 3 | Net sales

Consolidated net sales by geographic market

	2017	Share, %	2016	Share, %
Sweden	8,372	41	7,945	43
UK	2,659	13	1,994	11
Italy	1,750	9	1,228	7
Germany	1,434	7	1,474	8
Austria	972	5	911	5
Norway	550	3	893	5
The Netherlands	471	2	430	2
France	450	2	462	3
Rest of Europe	2,176	11	1,905	10
Japan	554	3	77	0
China	491	2	423	2
Rest of Asia	322	1	461	3
Africa	102	0	85	0
Rest of World	215	1	194	1
Total	20,518	100	18,482	100

Specification of revenue by revenue type

	Group			Parent Company		
	2017	2016	2015	2017	2016	2015
Sale of goods	18,227	16,473	16,429	15,953	14,358	9,612
Services	1,891	1,736	1,565	1,339	1,304	1,259
Electricity certificates	44	12	47	48	10	—
Emission permits	15	0	10	15	0	—
Electricity and district heating	303	234	191	263	194	10
Other	38	27	25	31	20	19
Total	20,518	18,482	18,267	17,649	15,886	10,900

GEOGRAPHIC SEGMENTS

Net sales by geographic market are shown as revenue grouped by customer location.

Parent Company net sales by geographic market

	2017	2016
Sweden	7,040	6,647
UK	1,963	1,648
Germany	1,435	1,473
Italy	1,750	1,228
Austria	972	911
France	450	462
The Netherlands	468	430
Rest of Europe	2,131	2,050
Japan	554	77
China	470	418
Asia	313	457
Africa	102	85
Rest of World	1	0
Total	17,649	15,886

Note 4 | Other revenue

Other revenue by revenue type

	Group		Parent Company	
	2017	2016	2017	2016
Sale of goods	7	33	24	47
Services	2	1	12	16
Rental income	11	12	7	6
Change in fair value of biological assets	6	0	—	—
Exchange-rate effect	—	56	—	62
Capital gains	59	67	15	15
Government grants	7	8	7	7
Insurance/strike compensation	2	1	2	1
Compensation for damages	41	—	41	—
Other	55	35	21	23
Total	190	213	129	177

Other government grants of SEK 7 million (8) are included in the consolidated total, and mainly relate to contributions of SEK 3 million (3) for personnel and SEK 1 million (1) for diesel.

Note 5 | Operating leases

Leases where Södra is lessee.

Non-terminable lease payments amount to:	Group		Parent Company	
	2017	2016	2017	2016
Within 1 year	91	116	62	82
Between 1 and 5 years	152	235	57	133
More than 5 years	52	3	0	3
Total	295	354	119	218

Of the Group's future leasing fees, SEK 73 million (106) pertains to time-charter vessels, SEK 0 million (57) to working machinery, SEK 36 million (69) to equipment and SEK 186 million (122) to leases. The amount of future leasing fees for renting premises is based on the consumer price index. No variable fees otherwise occur.

Expensed fees for operating leases amount to:	Group		Parent Company	
	2017	2016	2017	2016
Minimum leasing fees	152	175	106	98
Total	152	175	106	98

Note 6 | Employee expenses

Average number of employees

	2017			2016			2015		
	No. of	men, %	women, %	No. of	men, %	women, %	No. of	men, %	women, %
Parent Company									
Sweden	3,007	81	19	3,223	82	18	1,971	81	19
Subsidiaries									
Sweden	284	71	29	252	71	29	1,329	82	18
Norway	81	82	18	104	86	14	170	86	14
UK	50	61	39	36	68	32	—	—	—
Finland	50	83	17	36	84	16	—	—	—
Lithuania	34	42	58	53	44	56	65	43	57
Germany	11	34	66	11	32	68	12	33	67
Latvia	7	50	50	6	80	20	5	80	20
Estonia	6	60	40	6	58	42	6	60	40
China	4	33	67	3	33	67	—	—	—
US	3	34	66	3	47	53	—	—	—
Denmark	—	—	—	7	30	70	16	69	31
Total	3,537	80	20	3,740	81	19	3,574	81	19

Men/women in management

	Group						Parent Company					
	2017		2016		2015		2017		2016		2015	
%	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women
Boards												
<30 years	—	—	—	—	—	—	—	—	—	—	—	—
30–50 years	100	—	92	8	100	—	100	—	100	—	100	—
>50 years	70	30	87	13	81	19	67	33	73	27	73	27
Total proportion	81	19	89	11	88	12	70	30	75	25	75	25
Management groups												
<30 years	—	—	—	100	—	—	—	—	—	—	—	—
30–50 years	64	36	62	38	67	33	67	33	100	—	100	—
>50 years	88	12	75	25	71	29	62	38	43	57	50	50
Total proportion	78	22	66	34	69	31	64	36	64	36	64	36


Salaries, benefits and social security costs

	2017		2016	
Salaries, benefits and social security costs	Board and President	Other employees	Board and President	Other employees
Parent Company	16	1,453	15	1,446
Subsidiaries	7	240	7	224
Total	23	1,693	22	1,670

	2017		2016	
	Salaries, benefits and social security costs	Social security contributions	Salaries, benefits and social security costs	Social security contributions
Parent Company	1,469	658	1,461	677
(of which pension costs) ¹⁾		(203)		(219)
Other Group	247	55	231	31
(of which pension costs)		(-1)		(-16)
Total	1,716	713	1,692	708
(of which pension costs) ²⁾		(202)		(203)

¹⁾ Of the Parent Company's pension costs, SEK 4 million (4) pertain to the current and previous President. Outstanding pension obligations to previous Presidents amounted to SEK 40 million (38).

²⁾ Of the Group's pension costs, SEK 5 million (5) pertains to the current and previous President and Board. Outstanding pension obligations to previous Presidents amounted to SEK 40 million (38).

Salaries, remuneration and benefits to the Board and Group Senior Management

	Board fees		Pension cost ⁴⁾	Benefits ⁵⁾	Total
2017, SEK thousand	fixed ¹⁾	variable ²⁾	Salary ³⁾		
Elected Board members in Södra Skogsägarna ekonomisk förening	3,445	1,421	—	—	4,866
President Lars Idermark	—	—	10,959	4,070	339
Group Senior Management, other*	—	—	24,529	9,420	736
Total	3,445	1,421	35,488	13,490	1,075

	Board fees		Pension cost ⁴⁾	Benefits ⁵⁾	Total
2016, SEK thousand	fixed ¹⁾	variable ²⁾	Salary ³⁾		
Elected Board members in Södra Skogsägarna ekonomisk förening	3,010	1,304	—	—	2
President Lars Idermark	—	—	10,845	3,861	368
Group Senior Management, other*	—	—	23,724	12,382	688
Total	3,010	1,304	34,569	16,243	1,058

* Of which estimated variable remuneration of SEK 1 million (0.4).

¹⁾ Fixed Board fees pertain to fees adopted by the AGM.

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

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

⁴⁾ Pension cost including special employer's contribution.

⁵⁾ Applicable benefits are company cars, cleaning services and accommodation.

Fees to elected Board members

	Board fees		Benefits	Total
2017, SEK thousand	fixed	variable		
Lena Ek (Chairman)	885	415	—	1,300
Paul Christensson (Vice Chairman)	465	177	—	642
Karin Andersson	257	112	—	369
Kjell Andersson ¹⁾	158	64	—	222
Hans Berggren	258	22	—	280
Pål Börjesson ¹⁾	158	43	—	201
Marie Hallén ²⁾	167	46	—	213
Ylva op den Velde Hammargren ¹⁾	157	49	—	206
Ola Hildingsson	258	80	—	338
Ulf Johansson	258	165	—	423
Stefan Olsson ²⁾	167	53	—	220
Anders Roman	257	195	—	452
Total	3,445	1,421	—	4,866

	Board fees		Benefits	Total
2016, SEK thousand	fixed	variable		
Lena Ek (Chairman)	865	445	2	1,312
Paul Christensson (Vice Chairman)	465	187	—	652
Karin Andersson	240	38	—	278
Hans Berggren	240	66	—	306
Marie Hallén	240	120	—	360
Ola Hildingsson	240	94	—	334
Ulf Johansson	240	154	—	394
Stefan Olsson	240	95	—	335
Anders Roman	240	105	—	345
Total	3,010	1,304	2	4,316

¹⁾ Board member's fee for the June–December period.

²⁾ Board member's 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 2016 or 2017.

SALARIES AND REMUNERATION TO SENIOR MANAGEMENT

Senior Management in this Note refers to Group management, which consists of the President, business area presidents and heads of Group functions. Members of Group management may be employed in the Parent Company or in subsidiaries. In 2017, Senior Management consisted of 11 people. In 2016, the corresponding figure was 10.

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 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 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 7 | Other expenses

Group	2017	2016
Repairs, maintenance and other operating costs	589	887
Other services and subcontracted personnel	339	234
Vehicle costs	177	185
Travel expenses and cost of sales	156	216
Cost of premises and property	149	133
R&D costs	47	50
Company insurances and other risk costs	53	57
Rent of non-current assets	33	33
Administration expenses	32	29
Other expenses	391	113
Total	1,966	1,937

R&D costs also include employee expenses of SEK 46 million (43) and amortisation of SEK 3 million (2).

Other operating expenses

Parent Company	2017	2016
Capital loss	21	23
Exchange-rate effect	102	0
Total	123	23

Note 8 | Depreciation, amortisation and impairment of assets

Group	2017			2016		
	Deprecia- tion and amortisa- tion	Impair- ment ¹⁾	Total	Deprecia- tion and amortisa- tion	Impair- ment ¹⁾	Total
Goodwill	—	29	29	—	—	—
Other intangible assets	6	—	6	2	—	2
Buildings	157	—	157	104	23	127
Land	—	—	—	—	4	4
Land improve- ments	49	—	49	37	9	46
Machinery	697	4	701	544	43	587
Equipment	150	—	150	140	1	141
Leasing	0	—	0	1	—	1
Total	1,059	33	1,092	828	80	908

Note 10, cont.

The following information pertains to associates in full.

Specification of associates/joint ventures

2017	Country	Revenue	Result	Assets	Liabilities	Equity	Ownership share in %
SunPine AB	Sweden	1,067	224	612	44	568	25
Södra Timber A/S	Denmark	308	7	69	47	22	50
Silva Green Fuel AS	Norway	0	-32	28	0	28	49
Prestige Exclusive Homes Ltd	UK	83	9	38	2	36	50
Other associates	Sweden	9	0	3	0	3	—

2016	Country	Revenue	Result	Assets	Liabilities	Equity	Ownership share in %
SunPine AB	Sweden	840	64	571	133	438	25
Södra Timber A/S	Denmark	241	5	55	37	18	50
Crown Timber Group (plc)	UK	338	3	—	—	—	—
Silva Green Fuel AS	Norway	0	-19	56	47	9	49
Prestige Exclusive Homes Ltd	UK	15	-7	78	51	27	50
Other associates	Sweden	9	1	4	1	3	—

The information is based on the reports available at the time of Södra's reporting.

Note 8, cont.

Parent Company	2017			2016		
	Deprecia- tion and amortisa- tion	Impair- ment ¹⁾	Total	Deprecia- tion and amortisa- tion	Impair- ment ¹⁾	Total
Other intangible assets	3	—	3	2	—	2
Buildings	153	—	153	101	23	124
Land	—	—	—	—	4	4
Land improve- ments	48	—	48	36	9	45
Machinery	682	4	686	532	43	575
Equipment	138	—	138	130	1	131
Total	1,024	4	1,028	801	80	881

¹⁾ 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 9 | Payment to auditors

	Group		Parent Company	
	2017	2016	2017	2016
PwC				
auditing assignments	4	—	3	—
auditing activities other than the audit assignment	—	—	—	—
tax consultancy services	—	—	—	—
other assignments	0	—	0	—
Other				
auditing assignments	1	7	0	4
tax consultancy services	0	1	—	—
other assignments	0	2	—	—

Note 10 | Shares in associates

	Group		Parent Company	
	2017	2016	2017	2016
At the beginning of the year	164	210	101	172
Reclassification	-13	-77	—	-77
Share of profit of associates	49	8	—	—
Acquisitions and shareholders' contributions	25	35	25	6
Dividends	-28	-15	—	—
Reversal of impairment	25	—	40	—
Translation difference	0	3	—	—
Carrying amount at the end of the year	222	164	166	101



Note 11 | Income from financial items

Net financial items

Group	2017	2016
Finance income		
Net profit		
Assets and liabilities at fair value through profit or loss	0	12
Dividends	1	3
Other interest income	4	4
Net exchange rate fluctuations	0	3
Other finance income	0	0
	5	22
Finance expense		
Net loss		
Assets and liabilities at fair value through profit or loss	-5	0
Net exchange rate fluctuations	-6	0
Impairment of shares in external companies	-2	-13
Interest expenses on defined-benefit pension obligations	-7	-6
Other interest expenses	-56	-53
Other finance expenses	-16	-16
	-92	-88
Total	-87	-66
Of which:		
Interest income from instruments measured at amortised cost	4	5
Interest expenses from instruments measured at amortised cost	-56	-50
Profit from financial instruments recognised in operating profit/loss		
Group	2017	2016
Exchange-rate effect in trade receivables	-109	56
Net profit from currency derivatives	—	—
	-109	56

Value changes for hedging instruments pertaining to fair value hedging had a negative earnings impact of SEK 5 million (—) for derivatives, and a positive earnings impact of SEK 5 million (—) for hedged items.

Net financial items

Parent Company	2017	2016
Profit from shares in Group companies		
Dividends from Group companies	44	1
Impairment of shares in Group companies	—	-22
Profit from sale of shares in Group companies	6	133
	50	112
Profit from shares in associates		
Dividends from associates	28	15
Impairment reversals, associates	40	—
	68	15
Interest income and similar profit items		
Dividends on shares in other companies	1	0
Interest income from Group companies	7	4
Interest income from others	3	3
Exchange-rate gain	0	4
Profit on sale of current investments	12	12
Other	0	0
	23	23
Interest expenses and similar loss items		
Interest expenses from Group companies	-1	-1
Interest expenses from others	-53	-40
Impairment	0	-12
Foreign exchange rate loss	-7	—
Other	-14	-16
	-75	-69
Total	66	81

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 12 | Appropriations

Parent Company	2017	2016
Change in tax allocation reserve		
– provisions for the year	—	—
– releases for the year	—	407
Change in provisions in excess of plan		
– buildings and land	46	1
– machinery and equipment	-866	-695
Group contributions received	77	21
Group contributions paid	0	—
Total	-743	-266

Note 13 | Taxes

Recognised tax expense

	Group		Parent Company	
	2017	2016	2017	2016
Tax expense for the period	-57	-49	-33	0
Adjustment of tax pertaining to previous years	-8	-7	-5	-7
Current tax expense	-65	-66	-38	-7
Deferred tax expense pertaining to temporary differences	-194	-46	-11	34
Deferred tax expense	-194	-46	-11	34
Total	-259	-102	-49	27



> Note 13, cont.

Reconciliation of effective tax

	Group				Parent Company	
	2017	Tax rate, %	2016	Tax rate, %	2017	2016
Profit/loss before tax	1,830		913		974	520
Tax based on current tax rate for Parent Company	-403	22	-201	22	-214	-114
Effect of special tax rules for economic associations*	147	-8	110	-12	147	110
Effect of other tax rates for foreign subsidiaries	8	0	2	0	—	—
Non-deductible expenses	-10	1	-52	6	-6	-35
Non-taxable income	9	0	3	0	29	29
Revaluation of deficit deductions**/temporary differences	-4	0	30	-3	—	31
Standard interest on tax allocation reserve	0	0	-1	0	0	-1
Tax pertaining to previous years	-8	0	7	1	-5	7
Effective tax recognised	259	14	-102	12	49	27

* In accordance with the taxation rules for economic associations, dividends paid in the second year (pertaining to the previous year) are tax deductible in the first year. This means that the Board's 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.

** Deficit deductions can be used indefinitely.

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

CHANGE OF DEFERRED TAX IN TEMPORARY DIFFERENCES AND DEFICIT DEDUCTIONS

Group 2017	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	-1,075	-195	—	—	-1,272
Inventories	3	14	—	—	17
Current receivables and liabilities	5	-3	—	—	2
Current investments	0	0	—	—	0
Provisions	118	-17	—	17	118
Untaxed reserves excluding depreciation and amortisation in excess of plan	-53	0	—	—	-53
Deficit deductions	0	0	—	—	0
Other	0	7	—	—	7
Total	-1,002	-194	—	17	-1,181

Group 2016	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	-887	-163	-25	—	-1,075
Inventories	3	0	—	—	3
Current receivables and liabilities	0	5	—	—	5
Current investments	0	0	—	—	0
Provisions	92	10	—	16	118
Untaxed reserves excluding depreciation and amortisation in excess of plan	-160	107	—	—	-53
Deficit deductions	3	-3	—	—	0
Other	2	-2	—	—	0
Total	-947	-46	-25	16	-1,002

Note 14 | Other comprehensive income

Group 2017	Translation reserve	Fair value reserve	Actuarial gain/loss*
At the beginning of the year	-32	0	-317
Translation differences for the year	8	—	—
Change for the year in fair value of available-for-sale financial assets	—	0	—
Actuarial gains and losses	—	—	-78
Tax pertaining to components in other comprehensive income	—	—	17
Carrying amount at the end of the period	-24	0	-378

Group 2016	Translation reserve	Fair value reserve	Actuarial gain/loss*
At the beginning of the year	-59	0	-262
Translation differences for the year	27	—	—
Change for the year in fair value of available-for-sale financial assets	—	0	—
Actuarial gains and losses	—	—	-71
Tax pertaining to components in other comprehensive income	—	—	16
Carrying amount at the end of the period	-32	0	-317

* Actuarial gain/loss is included in retained earnings.

**Cash flow hedging – transferred to profit for the year**

	2017	2016
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 accumulated net change in fair value of available-for-sale financial assets until the asset is removed from the statement of financial position.

HEDGING RESERVE

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

Note 15 | Business combinations

DIVESTMENTS IN 2017

On 1 July 2017, the Lithuanian subsidiary UAB SI Wood was divested to Sörnsen Holzleiten GmbH. The carrying amounts of assets and liabilities on the divestment date were:

Divested company's net assets on the divestment date	UAB SI Wood
Non-current assets	6
Inventories	9
Current receivables	3
Cash and cash equivalents	6
Provisions	—
Non-interest-bearing liabilities	–4
Identifiable assets	20
Adjustment for capital gain	–1
Divestment price	19
Less:	
Cash (divested)	–6
Net cash flow	13

ACQUISITIONS IN 2016

On 31 March 2016, Södra acquired all shares outstanding, and thereby obtained control of, Crown Timber Group plc and its subsidiaries. Crown Timber is a market-leading distributor of structural timber products to the UK and Irish timber engineering sectors and to timber and builders' merchants.

Crown Timber operates four distribution terminals and timber treatment centres at Dundee in Scotland, Wicklow in Ireland, and Sheerness and New Holland in England. The company also owns a sawmill at Hamina in Finland. Information about the purchase amount, net assets acquired and goodwill are presented below.

Business area	Business	Acquisition date	Annual revenue SEK million	No. of employees
Södra Wood	Crown Timber Group (plc)	31 Mar 2016	1,625	72

The total purchase amount was SEK 255 million, while the net effect on cash and cash equivalents was SEK 258 million. Transaction costs of SEK 6 million related to the acquisition are included, and were charged to consolidated profit. The previous participation in Crown Timber plc has been remeasured at fair value due to the acquisition of all shares outstanding. The total number of shares in Crown Timber Group plc is 250,000. No contingent consideration was included in the transaction.

The acquired operations contributed revenue of SEK 1,287 million and net profit of SEK 24 million to the Group for the 1 April–31 December 2016 period.

If the acquisition had taken place on 1 January 2016, the business would have contributed revenue of SEK 1,625 million and net profit of SEK 26 million for the full-year 2016.

Crown Timber Group (plc)	Carrying amount in acquired company	Fair value adjustment	Fair value recognised in Group
Property, plant and equipment	103	124	227
Inventories	223	10	233
Current receivables	245	0	245
Cash and cash equivalents	3	0	3
Provisions	0	0	0
Interest-bearing liabilities	–133	0	–133
Non-interest-bearing liabilities	–215	–28	–243
Identifiable net assets	226	106	332
Corporate goodwill			—
Purchase price paid			255
Additional previous non-controlling interests			77
Total compensation			332
Cash and cash equivalents in acquired entities			–3
Previous non-controlling interests			–77
Transaction costs			6
Net effect on cash and cash equivalents			258

DIVESTMENTS IN 2016

On 6 January 2016, the Hauerseier sawmill in Romerike, Norway, was transferred to RingÅlm Tre AS, and on 5 October 2016, Aktiebolaget Nordingrå Trä was divested. The carrying amounts of assets and liabilities on the divestment date were:

Divested company's net assets on the divestment date	Södra Wood AS	Nordingrå
Non-current assets	6	0
Inventories	4	3
Current receivables	0	1
Cash and cash equivalents	30	3
Provisions	0	—
Non-interest-bearing liabilities	–15	–3
Identifiable assets	25	4
Adjustment for capital gain	27	–3
Divestment price	52	1
Less:		
Cash (divested)	–30	–3
Net cash flow	22	–2

Note 16 | Intangible assets

Group 2017	Brand	Development expenses, licences	Goodwill	Total
Cost				
At the beginning of the year	123	100	292	515
Investments	—	9	—	9
Reclassifications	—	10	—	10
Disposal and sales	—	—	—	—
Translation differences	—	—	-2	-2
	123	119	290	532
Amortisation				
At the beginning of the year	—	-93	—	-93
Depreciation according to plan for the year	—	-6	—	-6
	—	-99	—	-99
Impairment				
At the beginning of the year	—	—	-21	-21
Disposal and sales	—	—	-29	-29
Translation differences	—	—	1	1
	—	—	-49	-49
Carrying amount at the end of the period	123	20	241	384

Group 2016	Brand	Development expenses, licences	Goodwill	Total
Cost				
At the beginning of the year	123	92	291	506
Investments	—	9	—	9
Disposal and sales	—	—	-2	-2
Translation differences	—	-1	3	2
	123	100	292	515
Amortisation				
At the beginning of the year	—	-91	—	-91
Depreciation according to plan for the year	—	-2	—	-2
	—	-93	—	-93
Impairment				
At the beginning of the year	—	—	-23	-23
Disposal and sales	—	—	2	2
	—	—	-21	-21
Carrying amount at the end of the period	123	7	271	401

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 year-end closing on 31 December 2017. In the consolidated statement of financial position, the carrying amount of goodwill is SEK 241 million (271). 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.

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 change after tax would amount to +/- SEK 132 million. The carrying amounts for goodwill pertaining to Södra Wood are in line with the calculated value in use after impairment of SEK 29 million for the year. Therefore, even minor changes in the 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

	2017	2016
Södra Wood	62	92
Intra-Group, Södra Trivselhus Holding AB (incl. brand)	302	302
Total	364	394

Parent Company 2017	Development expenses, licences	Goodwill	Total
Cost			
At the beginning of the year	59	23	82
Investments	2	—	2
	61	23	84
Amortisation			
At the beginning of the year	-52	-17	-69
Depreciation according to plan for the year	-3	—	-3
	-55	-17	-72
Impairment			
At the beginning of the year	—	-6	-6
	—	-6	-6
Carrying amount at the end of the period	6	—	6

Parent Company 2016	Development expenses, licences	Goodwill	Total
Cost			
At the beginning of the year	50	23	73
Investments	9	—	9
	59	23	82
Amortisation			
At the beginning of the year	-50	-17	-67
Depreciation according to plan for the year	-2	—	-2
	-52	-17	-69
Impairment			
At the beginning of the year	—	-6	-6
	—	-6	-6
Carrying amount at the end of the period	7	—	7



Note 17 | Buildings and land

Group	2017				2016			
	Buildings	Land	improvements	Total Buildings and land	Buildings	Land	improvements	Total Buildings and land
Cost								
At the beginning of the year	4,305	220	1,127	5,652	2,994	191	863	4,048
Business combinations	—	60	—	60	99	13	1	113
Investments	98	11	51	160	744	11	117	872
Reclassifications	98	—10	37	125	587	—5	152	734
Disposals and sales	—36	—4	—8	—48	—138	—6	—6	—150
Translation differences	—1	13	0	12	19	16	0	35
	4,464	290	1,207	5,961	4,305	220	1,127	5,652
Amortisation								
At the beginning of the year	—1,781	—	—423	—2,204	—1,760	—	—388	—2,148
Reclassifications	—	—	—	—	—	—	—	—
Disposals and sales	22	—	4	26	92	—	2	94
Depreciation according to plan for the year	—157	—	—49	—206	—104	—	—37	—141
Translation differences	0	—	—	0	—9	—	0	—9
	—1,916	—	—468	—2,384	—1,781	—	—423	—2,204
Impairment								
At the beginning of the year	—72	—13	—17	—102	—64	—10	—8	—82
Disposals and sales	16	3	4	23	16	1	—	17
Impairment for the year	—	—	—	—	—23	—4	—9	—36
Translation differences	1	—	—	1	—1	—	—	—1
	—55	—10	—13	—78	—72	—13	—17	—102
Carrying amount at the end of the period	2,493	280	726	3,499	2,452	207	687	3,346

Parent Company	2017				2016			
	Buildings	Land	improvements	Total Buildings and land	Buildings	Land	improvements	Total Buildings and land
Cost								
At the beginning of the year	4,150	260	1,113	5,523	1,033	216	426	1,675
Merger	—	—	—	—	1,841	43	423	2,307
Investments	98	—	52	150	744	—	117	861
Reclassifications	104	—	36	140	587	3	152	742
Disposals and sales	—37	—3	—9	—49	—55	—2	—5	—62
	4,315	257	1,192	5,764	4,150	260	1,113	5,523
Amortisation								
At the beginning of the year	—1,743	—	—418	—2,161	—464	—	—144	—608
Merger	—	—	—	—	—1,220	—	—239	—1,459
Disposals and sales	21	—	5	26	42	—	1	43
Depreciation according to plan for the year	—153	—	—48	—201	—101	—	—36	—137
	—1,875	—	—461	—2,336	—1,743	—	—418	—2,161
Impairment								
At the beginning of the year	—58	—13	—17	—88	—41	—10	—8	—59
Disposals and sales	16	3	4	23	6	1	—	7
Depreciation according to plan for the year	—	—	—	—	—23	—4	—9	—36
	—42	—10	—13	—65	—58	—13	—17	—88
Carrying amount at the end of the period	2,398	247	718	3,363	2,349	247	678	3,274

Note 18 | Machinery and equipment

Group	2017				2016			
	Machinery	Equipment	Leased assets	Total Machinery and equipment	Machinery	Equipment	Leased assets	Total Machinery and equipment
Cost								
At the beginning of the year	21,560	2,215	2	23,777	18,143	1,984	2	20,129
Business combinations	—	—	—	—	109	14	—	123
Investments	858	224	0	1,082	1,584	120	—	1,704
Reclassifications	994	37	—	1,031	2,416	211	—	2,627
Disposals and sales	-275	-89	—	-364	-718	-116	—	-834
Translation differences	-2	-1	—	-3	26	2	0	28
	23,135	2,386	2	25,523	21,560	2,215	2	23,777
Amortisation								
At the beginning of the year	-13,382	-1,435	-1	-14,818	-13,194	-1,390	0	-14,584
Disposals and sales	222	87	—	309	377	96	—	473
Depreciation according to plan for the year	-697	-150	0	-847	-544	-140	-1	-685
Translation differences	2	1	0	3	-21	-1	0	-22
	-13,855	-1,497	-1	-15,353	-13,382	-1,435	-1	-14,818
Impairment								
At the beginning of the year	-226	-63	—	-289	-194	-64	—	-258
Disposals and sales	24	1	—	25	11	2	—	13
Impairment for the year	-4	0	—	-4	-43	-1	—	-44
Translation differences	0	0	—	0	0	0	—	0
	-206	-62	—	-268	-226	-63	—	-289
Carrying amount at the end of the period	9,074	827	1	9,902	7,952	717	1	8,670

Parent Company	2017				2016			
	Machinery	Equipment	Leased assets	Total Machinery and Equipment	Machinery	Equipment	Leased assets	Total Machinery and Equipment
Cost								
At the beginning of the year	21,383	1,970	—	23,353	3,362	742	—	4,104
Merger	—	—	—	—	14,633	1,006	—	15,639
Investments	856	220	—	1,076	1,442	113	—	1,555
Reclassifications	988	33	—	1,021	2,408	216	—	2,624
Disposals and sales	-265	-83	—	-348	-462	-107	—	-569
	22,962	2,140	—	25,102	21,383	1,970	—	23,353
Amortisation								
At the beginning of the year	-13,318	-1,342	—	-14,660	-2,162	-523	—	-2,685
Merger	—	—	—	—	-10,910	-787	—	-11,697
Disposals and sales	223	77	—	300	286	98	—	384
Depreciation according to plan for the year	-682	-138	—	-820	-532	-130	—	-662
	-13,777	-1,403	—	-15,180	-13,318	-1,342	—	-14,660
Impairment								
At the beginning of the year	-225	-3	—	-228	-184	-2	—	-186
Disposals and sales	24	1	—	25	2	—	—	2
Impairment for the year	-4	0	—	-4	-43	-1	—	-44
	-205	-2	—	-207	-225	-3	—	-228
Carrying amount at the end of the period	8,980	735	—	9,715	7,840	625	—	8,465



Note 19 | Construction in progress

Group	2017	2016
Cost		
At the beginning of the year	1,224	3,444
Investments	285	1,149
Reclassifications	-1,190	-3,369
Carrying amount at the end of the period	319	1,224
Parent Company	2017	2016
Cost		
At the beginning of the year	1,161	84
Merger	—	3,334
Investments	242	1,109
Reclassifications	-1,161	-3,366
Carrying amount at the end of the period	242	1,161

Note 20 | Biological assets

Södra's forest assets are divided into biological assets and land assets in the consolidated financial statements. Standing timber is recognised as a biological asset at fair value discounted to the present value of future expected cash flow from the standing timber. The land that the forest is growing on is measured at cost.

At 31 December 2017, Södra's forest holding amounted to 36,900 hectares (36,200) of productive forest land. The volume of standing timber was 4.3 million m³fo (4.4). The total value of the forest holding was SEK 611 million (608). Of this amount, SEK 87 million (84) pertained to forest land. The change in value of standing timber amounted to SEK 6 million (0) during the year, which is recognised in profit or loss. Of this amount, change in fair value accounts for a negative SEK 5 million (neg: 10), and translation differences for SEK 11 million (10).

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 development are estimated at 2 percent (2) per year. Costs for replanting have been considered along with provisions for environmental conservation.

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 (6.7) after tax, and in Latvia using an interest rate of 7.0 percent (7.2) 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	2017	2016
At the beginning of the year	524	516
Purchases of growing forest	10	11
Sales of growing forest	0	-3
Change in fair value less selling costs	-5	-10
Translation differences	11	10
Carrying amount at the end of the period	540	524

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%	-/+ 32
Wood price	+/- 1% in real terms	-/+ 12
Harvesting costs	+/- 1% in real terms	-/+ 6
Harvesting volumes	+/- 1%	-/+ 4

Note 21 | Financial investments

Group	2017	2016
Non-current assets		
Valued at fair value through profit or loss		
Financial investments	20	17
	20	17
Current assets		
Bonds	10	10
Other current investments	269	489
	279	499

Non-current financial assets comprise unlisted shares and participations measured at cost since a reliable market value could not be determined. Impairment has been applied where indicators have arisen. At 31 December 2017, impairment losses totalled SEK 15 million (15). Södra does not intend to divest any of its financial investments in 2018.

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 management evaluates these instruments on the basis of their fair value. Fair value for these assets is based on quoted market prices through trade on an active market.

Interest-bearing securities measured as available-for-sale financial assets have a fixed interest rate of between -0.25 percent (-0.42) and 0.08 percent (0.63). The receivables have maturities of up to five years.

Parent Company	2017	2016
Current financial investments		
Bonds	10	10
Other current investments	269	489
	279	499

Note 22 | Financial risk management

The international and capital-intensive nature of its operations means Södra is constantly exposed to financial risks, such as market risk, credit risk and liquidity and financing risk. 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 functional currency of the Group (translation exposure). The Group is also exposed to foreign exchange risk attributable to investments in foreign currency (financial exposure).

Consolidated profit includes exchange-rate differences of a negative SEK 109 million (56) in operating profit, and an expense of SEK 6 million (income: 3) 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 preceding 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 reporting is used when the demands for this are met.

Transaction exposures at 31 Dec 2017 (per major currency)

Currency	2018				2019			
	Forecast net influx	Hedges	%	Average rate	Forecast net influx	Hedges	%	Average rate
USD*	804	—	—	—	828	—	—	—
EUR	230	42	18	9.72	237	—	—	—
GBP	120	—	—	—	124	—	—	—
Total			4				—	
Hedging interval			0–70				0–50	

* The currency hedging component of pulp price hedges is included in forecast net influxes; there are no pulp price hedges for 2018–2019.

Transaction exposures at 31 Dec 2016 (per major currency)

Currency	2017				2018			
	Forecast net influx	Hedges	%	Average rate	Forecast net influx	Hedges	%	Average rate
USD*	719	—	—	—	749	—	—	—
EUR	354	—	—	—	339	—	—	—
GBP	91	—	—	—	95	—	—	—
Total			—				—	
Hedging interval			0–70				0–50	

* The currency hedging component of pulp price hedges is included in forecast net influxes; there are no pulp price hedges for 2017–2018.

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 exposure pertains to equity in the following local currencies: NOK 191 million (177), EUR 59 million (56), GBP 22 million (22) and DKK 22 million (20). As in the previous year, none of these translation exposures were hedged at year-end.

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 2017, the fixed-rate term of the financial liabilities was 4 months (4).

Trading with fixed-rate instruments is permitted under the financial policy. At 31 December 2017, 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 39 million.

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 2017, the fixed-rate term of interest-bearing investments was 2 months (5).

**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 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

	2018		2019	
	ktonne	%	ktonne	%
31 Dec 2017				
Fair value hedges	2	0	—	—

	2017		2018	
	ktonne	%	ktonne	%
31 Dec 2016				
Fair value hedges	6	0	—	—

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 2018 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 2018 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 holdings of shares, share index certificates, share index bonds and share funds (see Note 21 Financial investments).

CREDIT RISK**Financial credit risk**

Södra's financial transactions create exposure to credit risk relative to financial counterparties. The financial policy specifies that transactions may only be undertaken with parties that have good credit ratings, defined as category 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 2017, the Södra Group's total counterparty exposure amounted to SEK 1,321 million (1,034). 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. Security is required for customers with an inadequate credit rating or weak credit history. Credit risks involving customers are described in more detail in Note 29 Operating receivables.

Maximum credit risk

Södra's financial assets with credit risk exposure are grouped as follows:

Financial assets by category

	2017	2016
Trade receivables that are not due	2,405	1,982
Trade receivables that are due	444	249
Trade receivables gross	2,849	2,231
Current investments	199	276
Cash and cash equivalents	1,122	758
Total financial investments	1,321	1,034
Derivative instruments with positive values	1	3
Customer contracts	0	—
Earned but not invoiced revenue	15	14
Other operating receivables	798	740
Total other receivables	814	757
Maximum credit risk exposure	4,984	4,022

At 31 December 2017, trade receivables totalling SEK 437 million (231) were overdue, but not yet impaired. See Note 29 Current operating receivables for information about an impairment loss of SEK 7 million (loss: 18) on trade receivables.

> Note 22, cont.

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.

Cash and cash equivalents are primarily invested in current interest-bearing securities. Investments can also be made in highly liquid assets that are negotiable within three days.

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, forest loans and payment plans. Södra has two credit agreements in the form of club agreements, enabling Södra to borrow up to EUR 210 million, and SEK 1,000 million, respectively, for slightly more than two years. The loan agreements have two covenants – Södra's equity ratio and Södra's 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 1,000 million from 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 a forecast rolling 12-month revenue. On the balance-sheet date, the liquidity reserve totalled SEK 4,388 million (4,040), representing 21 percent (22) 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							
	Within 1 year		1–5 years		More than 5 years		Total	
Financial investments	2017	2016	2017	2016	2017	2016	2017	2016
Certificates	269	266	—	—	—	—	269	266
Bonds	—	—	10	10	—	—	10	10
Total	269	266	10	10	—	—	279	276

Interest-bearing investments amounted to SEK 279 million (276), of which 96 percent (96) have a duration of up to one year, 4 percent (4) from one-five years and 0 percent (0) of longer than five years.

Maturity structure financial liabilities – undiscounted cash flows

Maturity structure financial liabilities – undiscounted cash flows			Maturity							
			Within 1 year		1–5 years		More than 5 years		Total	
Financial liabilities	Interest rate, %	Currency	2017	2016	2017	2016	2017	2016	2017	2016
Subordinated debentures	— (5.7)	SEK	—	137	—	—	—	—	—	137
Borrowings		SEK	28	25	1,743	1,488	329	629	2,100	2,142
Loans from members										
Liquidity accounts	0.0 (0.0)	SEK	9	8	—	—	—	—	9	8
Payment plans	1.0 (1.0) variable	SEK	467	348	335	251	53	39	855	638
Forest loans*	1.0 (1.0) variable six months	SEK	55	44	—	—	—	—	55	44
Member accounts*	0.8 (0.8) variable six months	SEK	2,214	2,120	—	—	—	—	2,214	2,120
Trade creditors			2,333	2,535	—	—	—	—	2,333	2,535
Negative derivatives			5	—	—	—	—	—	5	—
Other liabilities			19	—	—	—	102	—	121	—
Total			5,130	5,217	2,078	1,739	484	668	7,692	7,624

* 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, saw log 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	330
Pulp price	+/- SEK 300/tonne	370
Fibre cost for the pulp mills	+/- SEK 25/m ³ sub	200
Pulp production	+/- 50,000 tonnes	130
Sawn timber price	+/- SEK 50/m ³	90
Saw log cost for sawmills	+/- SEK 25/m ³ sub	80
Sawn timber production	+/- 50,000 m ³	30
Oil price	+/- USD 10/barrel	10
Total salary cost	+/- 3%	80

Profit effect of change in closing rate

Variable	Change	Profit effect, SEK million
Trade receivables	USD +/- SEK 0.5	49
	EUR +/- SEK 0.5	30
	GBP +/- SEK 0.5	2
Trade creditors	USD +/- SEK 0.5	0
	EUR +/- SEK 0.5	17
	GBP +/- SEK 0.5	0

The effect on equity corresponds to the effect on profit.



Note 23 | Other non-current investments

Parent Company	2017	2016
Cost		
At the beginning of the year	57	57
Merger	—	0
Investment	3	—
	60	57
Impairment		
At the beginning of the year	-40	-40
Merger	—	—
Impairment for the year	—	—
	-40	-40
Carrying amount at the end of the year	20	17

Note 24 | Non-current financial receivables

Group	2017	2016
Other non-current financial receivables	—	—
Total	—	—

Note 25 | Non-current operating receivables

	Group		Parent Company	
	2017	2016	2017	2016
Other non-current receivables	39	54	39	15
Total	39	54	39	15

Parent Company	2017	2016
At the beginning of the year	15	17
Additional	26	—
Utilised	-2	-2
Carrying amount at the end of the year	39	15

Receivables mainly relate to promissory notes of SEK 20 million (—), deposits of SEK 7 million (7) to Swedish Customs and SEK 6 million (—) to Innventia, and an amount of SEK 5 million (5) for involvement in VMF.

Note 26 | Deferred tax assets/liabilities

	Deferred tax assets		Deferred tax liabilities		Net	
Group	2017	2016	2017	2016	2017	2016
Intangible assets	—	—	-44	-39	-44	-39
Property, plant and equipment	0	2	-1,230	-1,040	-1,230	-1,038
Biological assets	0	2	-1	0	-1	2
Inventories	0	3	11	0	11	3
Operating receivables	0	0	0	0	0	0
Current investments	—	—	1	—	1	—
Tax allocation reserves	—	—	-53	-53	-53	-53
Provisions for pensions	0	0	93	82	93	82
Non-current provisions	0	0	34	36	34	36
Operating liabilities	0	6	1	-1	1	5
Other	7	0	0	0	7	0
Deferred tax asset/liability	7	13	-1,188	-1,015	-1,181	-1,002

	Deferred tax assets		Deferred tax liabilities		Net	
Parent Company	2017	2016	2017	2016	2017	2016
Property, plant and equipment	14	20	—	—	14	20
Operating receivables	—	1	—	—	—	1
Provisions for pensions	9	9	—	—	9	9
Non-current provisions	34	38	—	—	34	38
Deferred tax asset/liability	57	68	—	—	57	68

Of the Group's deferred tax liabilities, SEK 1,220 million (1,040) is attributable to depreciation and amortisation in excess of plan.

Note 27 | Inventories

	Group		Parent Company	
	2017	2016	2017	2016
Raw materials and consumables	998	1,008	429	424
Goods under production	494	398	141	147
Finished goods and goods for resale	1,544	1,691	1,505	1,654
Total	3,036	3,097	2,075	2,225

ELECTRICITY CERTIFICATES

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, the residual stock of allocated electricity certificates had a market value of SEK 100 million (2016: 202, 2015: 254)

EMISSION PERMITS

The value of permits not expected to be needed to cover actual emissions is recognised at zero value and, at the balance-sheet date, had a market value of SEK 68 million (2016: 60, 2015: 55). No permits were sold on contract for future deliveries.

Note 28 | Receivables from Group companies

Interest-bearing receivables from Group companies

Parent Company	2017	2016
Cost		
At the beginning of the year	786	1,118
Additional items	190	—
Deductible items	–104	–332
Carrying amount at the end of the period	872	786

Operating receivables from Group companies

Parent Company	2017	2016
Cost		
At the beginning of the year	73	1,829
Additional items	116	—
Deductible items	–9	–1,756
Carrying amount at the end of the period	180	73

Note 29 | Current operating receivables

	Group		Parent Company	
	2017	2016	2017	2016
Current receivables from Group companies	—	—	180	73
Trade receivables	2,842	2,213	2,352	1,772
Derivatives	1	3	—	—
Customer contracts	0	—	—	—
Earned but not invoiced income	15	14	11	14
Other receivables	800	740	749	687
Prepaid expenses and accrued income	91	109	58	68
Total	3,749	3,079	3,350	2,614

Trade receivables are recognised after deduction of anticipated 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.

Prepaid expenses and accrued income for the Parent Company includes prepaid rental charges of SEK 5 million (6), prepaid insurance premiums of SEK 7 million (7), accrued interest income of SEK 2 million (2), accrued income of SEK 16 million (28) and other prepaid expenses of SEK 28 million (25).

CUSTOMER CREDIT RISK

The Group's credit management aims to limit the risk of customers not meeting their commitments. The credit risk exposure is continuously monitored and reported through age analyses and individual analyses of customers. Where it is deemed necessary and practicable, credit loss risk is limited using credit insurance and using different forms of security otherwise for customers with a low credit rating. At the balance-sheet date, there was no significant concentration of credit exposure.

Trade receivables	Group		Parent Company	
	2017	2016	2017	2016
Trade receivables gross	2,849	2,231	2,357	1,783
Provision for uncertain receivables	–7	–18	–5	–11
Total	2,842	2,213	2,352	1,772

Analysis of the credit risk exposure in trade receivables	Group		Parent Company	
	2017	2016	2017	2016
Trade receivables that are neither due nor impaired	2,405	1,982	2,028	1,586
Trade receivables that are due				
<30 days	413	218	309	181
30–90 days	23	16	17	11
90–180 days	4	4	2	2
>180 days	4	11	1	3
Total exposure to credit risk	2,849	2,231	2,357	1,783
Trade receivables that are impaired	–7	–18	–5	–11
Trade receivables	2,842	2,213	2,352	1,772

Provision for uncertain receivables	Group		Parent Company	
	2017	2016	2017	2016
At the beginning of the year	–18	–12	–11	–7
Realised losses	6	1	1	0
Reservation for anticipated losses	–2	–13	0	–10
Reversal of provision for losses	7	6	5	6
Carrying amount at the end of the year	–7	–18	–5	–11



Note 30 | Cash and cash equivalents

	Group		Parent Company	
	2017	2016	2017	2016
Current investments, equivalent to cash	1,042	535	866	291
Current investments, equivalent to cash	80	223	80	223
Total according to cash flow statement	1,122	758	946	514

Note 31 | Equity

	Group		Parent Company	
	2017	2016	2017	2016
Paid-up contributed capital	1,439	1,347	1,439	1,347
Issued contributed capital	1,871	1,761	1,871	1,761
Subordinated debentures	—	—	—	130
Other equity	9,574	8,658	4,844	4,528
Total	12,884	11,766	8,154	7,766

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 two credit agreements in the form of club agreements, enabling Södra to borrow up to EUR 210 million, and SEK 1,000 million, respectively, for slightly more than two 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 2018, contribution repayments to members who had left the association by 31 December 2017 will amount to SEK 40 million (40).

SUBORDINATED DEBENTURES

	2017	2016
Subordinated debentures		
2004: To the Södra Pension Foundation of 2003	—	100
2004: To the Södra Foundation for Research, Development and Education	—	30
Total	—	130

See also Statement of changes in equity.

Note 32 | Untaxed reserves

Parent Company	2017	2016
Accumulated depreciation and amortisation in excess of plan		
– buildings	0	47
– machinery and equipment	5,447	4,580
Tax allocation reserve fiscal year 2014	36	36
Tax allocation reserve fiscal year 2015	195	195
Total	5,678	4,858

Deferred tax in the above untaxed provisions amounted to SEK 1,249 million (1,069), which has not been recognised in the Parent Company balance sheet.

Note 33 | Interest-bearing liabilities from Group companies

	Maturity							
	Within 1 year		1–5 years		More than 5 years		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Parent Company								
Group account – liabilities	132	64	—	—	—	—	132	64
Liabilities to Group companies	—	—	—	—	8	8	8	8
Total	132	64	—	—	8	8	140	72

Note 34 | Interest-bearing liabilities

Group	Maturity							
	Within 1 year		1–5 years		More than 5 years		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Subordinated debentures	—	130	—	—	—	—	—	130
Bond loans	—	—	1,000	998	—	—	1,000	998
Liabilities to credit institutions	—	—	536	393	464	605	1,000	998
Loans from members*	2,721	2,499	332	245	53	37	3,106	2,781
Other liabilities	19	7	97	—	—	—	116	7
Total	2,740	2,636	1,965	1,636	517	642	5,222	4,914

Parent Company	Maturity							
	Within 1 year		1–5 years		More than 5 years		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Bond loans	—	—	1,000	998	—	—	1,000	998
Liabilities to credit institutions	—	—	536	393	464	605	1,000	998
Loans from members*	2,721	2,499	332	245	53	37	3,106	2,781
Other liabilities	4	4	97	—	—	—	101	4
Total	2,725	2,503	1,965	1,636	517	642	5,207	4,781

* Historical statistics indicate that they are non-current over a business cycle.

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	2017	2016
Defined-benefit plans		
Pension expenses accrued during the year	27	23
Net interest	7	6
Settlements		0
Cost of defined-benefit plans in profit for the year	34	29
Cost of defined-contribution plans	132	137
Special employer's contribution	43	43
Pension cost in profit for the year	209	209
Remeasurement recognised in other comprehensive income	78	71
Pension cost in comprehensive income for the year	287	280
Costs in the following line items are included in profit for the year:		
Employee expenses	202	203
Net financial items	7	6
Costs recognised in profit for the year	209	209
Other comprehensive income	78	71
Pension cost recognised in comprehensive income for the year	287	280

Return on plan assets

Group	2017	2016
Actual return on plan assets	64	56
Interest income on plan assets	-27	-30
Actuarial result for plan assets during the period	37	26

Obligations and plan assets for the defined-benefit plans

Group	2017	2016
Defined-benefit plans and value of plan assets		
Fully or partially funded obligations		
Present value of defined-benefit obligations	1,423	1,303
Fair value of plan assets	-1,125	-1,061
Fully or partially funded obligations, net	298	242
Present value of unfunded defined-benefit obligations	26	26
Net obligations before adjustments	324	268
Net amount is recognised in consolidated statement of financial position under the heading:		
Provisions for pensions	324	268
Net amount in consolidated statement of financial position (obligation +, asset -)	324	268
Net amount is allocated between plans in the following countries:		
Sweden	298	242
Germany	26	26
Net amount in consolidated statement of financial position	324	268

Net amount in consolidated statement of financial position

	2017	2016
Net liability in consolidated statement of financial position at the beginning of the period	268	225
Cost of defined-benefit plans		
Net expense recognised in profit for the year	34	29
Payment of benefits	-56	-56
Actuarial gains and losses recognised in other comprehensive income	78	71
Curtailments and settlements	—	—
Exchange-rate difference	0	-1
Net liability in consolidated statement of financial position at the end of the period	324	268

Present value of defined-benefit obligations

Group	2017	2016
At the beginning of the year	1,329	1,230
Service expenses	27	23
Payment of benefits	-56	-56
Interest expense	32	36
Actuarial gains and losses*	116	97
Settlements	—	0
Exchange rate differences	1	-1
Carrying amount at the end of the period	1,449	1,329

* of which change in demographic assumptions amounted to a loss of SEK 45 million (0), financial to SEK 86 million (98), experience-based to SEK 58 million (loss: 15) and special employer's contribution to SEK 15 million (14)

**Fair value of plan assets**

Group	2017	2016
At the beginning of the year	1,061	1,005
Expected return on plan assets	27	30
Difference between expected and actual return	37	26
Settlements	—	—
Carrying amount at the end of the period	1,125	1,061

Fair value of plan assets

Group	2017	2016
Equity instruments	528	474
Hedge funds and bonds	26	16
Other interest-bearing securities*	571	569
Other assets	0	2
Carrying amount at the end of the period	1,125	1,061

* Of which subordinated debentures issued by Södra Skogsägarna ekonomisk förening amounted to SEK — million (100).

Debentures issued by Södra Skogsägarna ekonomisk förening SEK 100 million (—).

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	2017	2016
Discount rate, %	2.5	2.5
Expected return on plan assets, %	2.5	2.5
Future salary increases, %	2.5	2.5
Future pension increases, %	2.0	1.5
Employee turnover, %	5.0	5.0

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

	2017		2016	
	Women	Men	Women	Men
Active	178	481	190	500
Disability pensioners	7	3	4	2
Leavers	297	540	297	526
Retirees	295	1,051	293	1,130
Total	777	2,075	784	2,158

Total commitments comprised by the obligation

2,852 2,942

The above table per category of person comprises the Swedish liability, which accounts for 92 percent of recognised pension liabilities.

Sensitivity analysis of the pension obligation

Assumption	Change	Change in liabilities, SEK million
Discount rate	+/- 0.5%	+135/-155
Inflation	+/- 0.25%	-52/+55
Life expectancy	-/+ 1 year	-67/+68

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 18 years (18). The anticipated pension payments in the forthcoming year amount to SEK 54 million (54).

Expense pertaining to pensions

Parent Company	2017	2016
Pension system run by Södra		
Cost for pensions accrued	16	5
Payment of benefits	54	55
Actual return on specific separate assets	-17	-2
Cost for pensions run by Södra excluding taxes	53	58
Pensions through insurance		
Insurance premiums or equivalent	111	120
Special employer's contribution	39	41
Recognised net cost pertaining to pensions	203	219

Provisions for pensions

Parent Company	2017	2016
Net present value of pension obligations*	942	927
Less plan assets in Pension Foundation	-902	-886
Total	40	41
Pension obligations secured through endowment insurance recognised under financial assets	-40	-38
Net	—	3
* Of which PRI pensions ITP2	747	728
* Credit insured via PRI Pensionsgaranti	902	886

Where plan assets exceed pension liabilities, the excess amount is not recognised. In 2017, the unrecognised surplus in the Pension Foundation was SEK 223 million (175).

Changes in net liability

Parent Company	2017	2016
At the beginning of the year	41	35
Expense recognised in profit or loss for pensions run by Södra excluding taxes	53	61
Pension payments	-54	-55
Carrying amount at the end of the period	40	41

Anticipated pension payments in 2018 amount to SEK 54 million (54).

Fair value of plan assets

Parent Company	2017	2016
Equity instruments	528	474
Hedge funds and bonds	26	16
Other interest-bearing securities*	571	569
Other assets	0	2
Value of plan assets	1,125	1,061
Surplus value	-223	-175
Carrying amount at the end of the period	902	886

* Of which subordinated debentures issued by Södra Skogsägarna ekonomisk förening amounted to SEK — million (100).
Debentures issued by Södra Skogsägarna ekonomisk förening SEK 100 million (—).

Assumptions for defined-benefit obligations

Parent Company	2017	2016
ITP plan according to PRI grounds		
Discount rate, %	3.8	3.8

Note 36 | Provisions

Group 2017	Restructuring reserve	Other provisions	Total
At the beginning of the year	—	180	180
Provisions made during the period	16	4	20
Utilised amount during the year	–1	–24	–25
Carrying amount at the end of the year	15	160	175
of which non-current provisions	—	160	160

Group 2016	Restructuring reserve	Other provisions	Total
At the beginning of the year	57	114	171
Provisions made during the period	—	92	92
Utilised amount during the year	–27	–9	–36
Releases	–25	–14	–39
Reclassification	–5	–4	–9
Translation difference	—	1	1
Carrying amount at the end of the year	—	180	180
of which non-current provisions	—	180	180

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.

Parent Company 2017	Restructuring reserve	Other provisions	Total
At the beginning of the year	—	175	175
Provisions made during the period	16	3	19
Utilised amount during the year	–1	–24	–25
Carrying amount at the end of the year	15	154	169
of which non-current provisions	—	154	154

Parent Company 2016	Restructuring reserve	Other provisions	Total
At the beginning of the year	—	110	110
Provisions made during the period	—	92	92
Utilised amount during the year	—	–9	–9
Releases	—	–14	–14
Reclassification	—	–5	–5
Translation difference	—	1	1
Carrying amount at the end of the year	—	175	175
of which non-current provisions	—	175	175

OTHER PROVISIONS

Other provisions described above also pertain to the Parent Company.

Note 37 | Non-current operating liabilities

Group	2017	2016
Non-interest-bearing non-current liabilities	—	—
Total	—	—

Note 38 | Current operating liabilities and provisions

	Group		Parent Company	
	2017	2016	2017	2016
Current liabilities from Group companies	—	—	58	29
Trade creditors	2,333	2,535	2,166	2,378
Derivatives	5	—	—	—
Customer contracts	1	3	—	—
Advances from customers	0	0	—	—
Value-added tax liability	27	13	—	—
Other operating liabilities	219	224	162	168
Provision for restructuring	15	—	15	—
Accrued expenses and prepaid income	713	730	610	585
Total	3,313	3,505	3,011	3,160

Customer contracts relate to fixed-price customer contracts linked to financial instruments.



Note 39 | Group companies

Specification of Parent Company's holdings of shares and participations in Group companies

Specification of Parent Company's holdings of shares and participations in Group companies	Corp. ID no.	Reg. office	No. of	Share, %	Carrying amount	
					2017	2016
Operational						
Södra Tofte AS	914 134 994	Norway	100	100	17	17
Södra Cell GmbH	164312351	Germany	50	100	0	0
Södra Wood AS (formerly Södra Interiör AS)	971 646 799	Norway	20,000	100	112	112
Crown Timber Group (plc)	1284502	UK	250,000	100	338	338
Södra Wood Limited	1789912	UK	1	100		
Södra Wood AB	2571610–1	Finland	100	100		
Södra International Trading (Shanghai) Co Ltd		China		100	0	0
Södra Interiör A/S	73496314	Denmark	2	100	0	0
UAB SIWood	302603523	Lithuania	50,362	100	—	13
Södra Trivselhus Holding AB	556552–6810	Korsberga	5,000	100	318	318
Trivselhus AB	556402–2977	Korsberga	12,000	100		
Trivselhus Norge AS	995 326 485	Norway	5,000	100		
Trivselhus Mark Holding AB	559098–6377	Korsberga	500	100		
Trivselhus Mark AB	556536–7520	Korsberga	5,000	100		
Trivselhus UK Ltd	9829008	UK	1	100		
Södra Metsad OÜ	10944021	Estonia	400	100	231	231
Södra Mezs SIA	50003871841	Latvia	310,000	100	181	181
Södra Medlemsel AB	556070–5724	Växjö	50,000	100	6	6
Södra Vind AB	556765–5716	Växjö	1,000	100	25	25
Non-operational					10	10
Total					1,238	1,251

During the year, the Södra Skogsägarna economic association sold all of its shares in UAB SIWood. A minor acquisition was implemented in the Trivselhus Group within the framework of land acquisition.

Shares and participations in Group companies

Parent Company	2017	2016
Cost		
At the beginning of the year	1,251	2,075
Merger	—	-1,034
Liquidation	—	-106
Acquisitions	—	339
Divestments	-13	-2
Impairment	—	-21
Carrying amount at the end of the period	1,238	1,251

Note 40 | Pledged assets

	Group		Parent Company	
	2017	2016	2017	2016
Pledged assets for own liabilities and provisions				
Property mortgages	—	—	—	—
Chattel mortgages	—	—	—	—
Other pledged collateral and securities				
Pulp price derivatives	12	42	12	42
Chattel mortgages	8	8	—	—
Financial assets*	43	46	40	42
Total	63	96	52	84

* Endowment policies, see Note 35.

Note 41 | Contingent liabilities

	Group		Parent Company	
	2017	2016	2017	2016
Other contingent liabilities	67	56	67	56
Total	67	56	67	56

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.

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.

Note 42 | Statement of cash flows

	Group		Parent Company	
	2017	2016	2017	2016
Financial items				
Interest received during the year	4	5	10	7
Interest paid during the year	-62	-49	-54	-37
	-58	-44	-44	-30
Dividends received during the year	28	3	73	16
Capital gains	56	73	25	21
Capital losses	-22	-24	-21	-23
Parent Company				
Unsettled Group contributions	—	—	77	18

	At the beginning of the year	Other changes	Carrying amount at the end of the year
Cash flow from financing activities			
Non-current interest-bearing liabilities	2,278	204	2,482
Current interest-bearing liabilities	2,636	104	2,740
Total liabilities attributable to financing activities	4,914	308	5,222

Note 43 | Critical accounting estimates and judgements

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

MEASUREMENT OF BIOLOGICAL ASSETS

Södra has measured the biological assets, which consist essentially of standing timber, at present value of the expected future cash flows. The cash flows were estimated for an assessed harvesting cycle of 75 years for forest assets in Sweden, 70 years for Latvia and 70 years for Estonia. The cash flows are based on Södra's harvesting volumes according to current harvesting plans and relevant assumptions of future growth. Future price and cost developments have been assessed. Costs for replanting have been considered along with provisions for environmental considerations. Estimated cash flows have been discounted at present value. Note 20 Biological assets presents the sensitivity in valuation of changes in these estimates as well as in the assumptions that have been applied.

PENSIONS

The value of pension obligations for defined-benefit pension plans is based on actuarial calculations based on assumptions of discount interest, 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, see Note 35 Pensions.

IMPAIRMENT TESTING OF PROPERTY, PLANT AND EQUIPMENT

At least once annually, management tests the carrying amount of assets with indefinite useful lives. In Södra's balance sheet for the year, this pertains to goodwill and brands. These impairment tests for each asset are carried out by comparing the estimated recoverable amount of the cash-generating unit to which the asset belongs with the carrying amount. In the identification of cash-generating unit and the calculation of their recoverable amount, a number of assumptions about future conditions and estimates of parameters have been made. Changes to these assumptions and estimates could have an effect on the carrying amounts of the assets. For more information, see Note 16 Intangible assets.

DEPRECIATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

Depreciation of the costs of the Group's assets is based on estimates of their economic lives. Management tests the determined useful lives of the Group's assets regularly and adjusts them if and when previous conditions have changed.

PROVISIONS

Provisions are inherently dependent on estimates and judgements of whether the recognition criteria for reporting have been met, as well as estimates of the outcome and size of the potential cost. Provisions are recognised when the Group has a legal or constructive obligation due to past events, and the amount can be reliably measured. If revisions are required because the actual outcome differs from the estimates and assumptions, this could affect the Group's financial position and results.



Note 44 | Investment commitments

GROUP

In 2017, the Group entered into agreements for SEK 247 million (1,769) pertaining to future acquisitions of property, plant and equipment.

PARENT COMPANY

In 2017, the Parent Company entered into agreements for SEK 247 million (1,769) pertaining to future acquisitions of property, plant and equipment.

Note 45 | Financial instruments

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

Group 2017	Financial assets at fair value through profit or loss	Derivatives used for hedging purposes	Loan and trade receivables	Financial liabilities measured at amortised cost	Total carrying amount	Fair value
Financial investments						
Other shares and participations	20	—	—	—	20	20
	20	—	—	—	20	20
Operating receivables						
Trade receivables	—	—	2,842	—	2,842	2,842
Derivatives, current	—	1	—	—	1	1
	—	1	2,842	—	2,843	2,843
Current investments	199	—	—	—	199	199
Cash and cash equivalents	80	—	1,042	—	1,122	1,122
Total assets, financial instruments	299	1	3,884	—	4,184	4,184
Other assets, non-financial instruments					18,920	
Total assets					23,104	
Non-current liabilities						
Bond loans	—	—	—	998	998	1,058
Loans from banks and other credit institutions	—	—	—	1,099	1,099	1,144
Payment plans	—	—	—	385	385	388
	—	—	—	2,482	2,482	2,590
Current liabilities						
Subordinated debentures	—	—	—	—	—	—
Payment plans	—	—	—	462	462	467
Forest loans	—	—	—	54	54	55
Member accounts	—	—	—	2,196	2,196	2,214
Liquidity accounts	—	—	—	9	9	9
Other liabilities, current	—	—	—	19	19	19
	—	—	—	2,740	2,740	2,764
Current operating liabilities						
Trade creditors	—	—	—	2,333	2,333	2,333
Derivatives, current	—	5	—	—	5	5
LTFP*, current	—	1	—	—	1	1
	—	6	—	2,333	2,339	2,339
Total liabilities, financial instruments	—	6	—	7,555	7,561	7,693
Other liabilities, non-financial instruments					2,659	
Total liabilities					10,220	

* Customer contracts tied to financial instruments.

> Note 45, cont.

Group 2016	Financial assets at fair value through profit or loss	Derivatives used for hedging purposes	Loan and trade receivables	Financial liabilities measured at amortised cost	Total carrying amount	Fair value
Financial investments						
Other shares and participations	17	—	—	—	17	17
	17	—	—	—	17	17
Operating receivables						
Trade receivables	—	—	2,213	—	2,213	2,213
Derivatives, current	—	3	—	—	3	3
	—	3	2,213	—	2,216	2,216
Current investments	276	—	—	—	276	276
Cash and cash equivalents	223	—	535	—	758	758
Total assets, financial instruments	516	3	2,748	—	3,267	3,267
Other assets, non-financial instruments					18,384	
Total assets					21,671	
Non-current liabilities						
Bond loans	—	—	—	998	998	1,058
Loans from banks and other credit institutions	—	—	—	998	998	1,084
Payment plans	—	—	—	282	282	290
	—	—	—	2,278	2,278	2,432
Current liabilities						
Subordinated debentures	—	—	—	130	130	137
Payment plans	—	—	—	345	345	348
Forest loans	—	—	—	43	43	44
Member accounts	—	—	—	2,103	2,103	2,120
Liquidity accounts	—	—	—	8	8	8
Other liabilities, current	—	—	—	7	7	7
	—	—	—	2,636	2,636	2,664
Current operating liabilities						
Trade creditors	—	—	—	2,535	2,535	2,535
LTFP*, current	—	3	—	—	3	3
	—	3	—	2,535	2,538	2,538
Total liabilities, financial instruments	—	3	—	7,449	7,452	7,634
Other liabilities, non-financial instruments					2,453	
Total liabilities					9,905	

* Customer contracts tied to financial instruments.

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.

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 disposal 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.

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 capital amounts and interest, discounted at 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.



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.

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 2017	Level 1	Level 2	Level 3	Total
Other shares and participations	—	—	20	20
Derivatives, current	—	—	1	1
Current investments	—	199	—	199
Cash and cash equivalents	1,042	80	—	1,122
Total assets	1,042	279	21	1,342
LTFP*, current	—	—	1	1
Derivatives, current	—	—	5	5
Total liabilities	—	—	6	6

* Customer contracts tied to financial instruments.

Group 2016	Level 1	Level 2	Level 3	Total
Other shares and participations	—	—	17	17
Derivatives, current	—	—	3	3
Current investments	—	276	—	276
Cash and cash equivalents	535	223	—	758
Total assets	535	499	20	1,054
LTFP*, current	—	—	3	3
Total liabilities	—	—	3	3

* 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 2017	Assets			Liabilities	
	Other shares and participations	Derivatives	LTFP*	Derivatives	LTFP*
At the beginning of the year	17	3	0	0	3
Total recognised gains and losses:					
– recognised in profit for the year	—	1	—	5	1
Sold and terminated	3	–3	0	—	–3
Carrying amount at the end of the period	20	1	0	5	1

* Customer contracts tied to financial instruments.

Group 2016	Assets			Liabilities	
	Other shares and participations	Derivatives	LTFP*	Derivatives	LTFP*
At the beginning of the year	17	0	3	3	0
Total recognised gains and losses:					
– recognised in profit for the year	0	3	0	0	3
Sold and terminated	0	—	–3	–3	—
Carrying amount at the end of the period	17	3	0	0	3

* Customer contracts tied to financial instruments.

Note 46 | Events after the balance-sheet date

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. No other significant events occurred after the close of the reporting period.

Note 47 | Related parties

The Parent Company is deemed a related party in relation to its subsidiaries and associates, as presented in Note 39 Group companies and Note 10 Shares in associates.

Of the Parent Company's total purchases and sales measured in SEK million, 1 percent (1) 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.

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.

Group	Sale of goods/services to related parties	Purchase of goods/services from related parties	Other (interest, dividends)	Receivables from related parties 31 December	Liabilities to related parties 31 December
Associates					
2017	45	36	—	39	—
2016	178	—	—	44	—
Parent Company					
Subsidiaries					
2017	870	141	51	872	138
2016	683	115	6	866	100
Associates					
2017	45	36	27	—	—
2016	178	—	15	—	—

Information about salaries, agreements for redundancy payments, etc. for management and other personnel has been provided in Note 6 Employee expenses. Other information relating to transactions between Group companies is presented in Note 41 Contingent liabilities.

Note 48 | Parent Company 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 2017 consist of the Parent Company and its subsidiaries, jointly named the Group. The Group also includes shares owned in associates.

	2017	2016
Merged subsidiaries	—	Södra Cell AB
Corp. ID no.	—	556072–7348
Date of merger	—	2 May 2016
Merged net sales	—	2,748
Merged operating profit	—	461
Assets		
Non-current assets	—	8,884
Current assets	—	6
Assets	—	8,890
Liabilities, provisions and equity		
Equity	—	3,630
Untaxed reserves	—	3,647
Provisions	—	0
Non-current liabilities	—	32
Current liabilities	—	1,581
Liabilities, provisions and equity	—	8,890



Note 49 | Changed accounting policies

In 2017, the Group adopted a new cost accounting policy for planned maintenance shutdowns. Södra believes this will lead to more relevant information in the financial statements, while also complying with industry standards. Under the previous policy, the costs associated with planned maintenance shutdowns at Södra Cell's pulp mill were recognised as a non-current asset and therefore allocated over the useful life of the asset. Under the new policy, the costs are expensed in the period in which the maintenance shutdowns occur, which means that the costs are recognised in profit or loss in an earlier period. The comparative figures for the 2016 income statement and balance sheet have therefore been revised. The following table also includes the revised comparative figures for 2015. The table shows the effect at aggregate level.

SEK million	2015			2016		
	Reported operating profit/loss	Adjustment	Revised operating profit/loss	Reported operating profit/loss	Adjustment	Revised operating profit/loss
Net sales	18,267	—	18,267	18,482	—	18,482
Other expenses	-1,680	-158	-1,838	-1,723	-214	-1,937
Depreciation, amortisation and impairment of assets	-984	170	814	-1,096	188	-908
Operating profit/loss	2,162	12	2,174	1,005	-26	979
Profit/loss before tax	2,072	12	2,084	939	-26	913
Income tax	-201	-3	-204	-112	10	-102
Profit/loss for the year	1,871	9	1,880	827	-16	811
Total comprehensive income for the year	1,865	9	1,874	799	-16	783

SEK million	31 Dec 2015			31 Dec 2016		
	Reported balance sheet	Adjustment	Revised balance sheet	Reported balance sheet	Adjustment	Revised balance sheet
Property, plant and equipment	10,722	-172	10,550	13,439	-199	13,240
Total assets	19,248	-172	19,076	21,870	-199	21,671
Equity	11,945	-139	11,806	11,921	-155	11,766
Deferred tax liabilities	1,065	-33	1,032	1,059	-44	1,015
Total equity and liabilities	19,248	-172	19,076	21,870	-199	21,671

The new cost accounting policy for planned maintenance shutdowns became effective on 1 January 2017. The impact on the consolidated statement of comprehensive income is that operating profit is SEK 26 million lower than if the previous policy been applied in the current year.



Proposed appropriation of profits

The Board proposes that the profits at the disposal of the Södra AGM, an amount of SEK 3,430,687,244 be appropriated as follows:

Dividend to members of 6 percent of contributed capital, totalling	SEK 198,605,634
Dividend to members of 10 percent on wood deliveries, totalling	SEK 453,858,474
The dividend is calculated on members' wood deliveries from 1 January 2017 to 31 December 2017 and on all ranges, excluding sold standing forest	
To members' contribution capital accounts through a bonus issue	SEK 215,904,902
The bonus issue represents 15 percent of available paid-up contributed capital at 31 December 2017	
Amount carried forward	2,562,318,234
	SEK 3,430,687,244

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 2018

Lena Ek
Chairman

Paul Christensson
Vice Chairman

Dan Andersson
employee representative

Karin Andersson
Board member

Kjell Andersson
Board member

Nils-Erik Andersson
employee representative

Hans Berggren
Board member

Pål Börjesson
Board member

Ylva op den Velde
Hammargren
Board member

Ola Hildingsson
Board member

Ulf Johansson
Board member

Pontus Johansson
employee representative

Anders Roman
Board member

Lars Idermark
President

Our audit report was submitted on 12 February 2018

Martin Johansson Madeleine Larsson
Authorised Public Accountants

Mats Löfgren 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 2017, except for the statutory sustainability report on pages 110–111 and 113. The annual accounts and consolidated accounts of the association are included on pages 8–29 and 48–97 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 2017 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 2017 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 110–111 and 113. 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 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.

OTHER MATTER

The audit of the annual accounts and consolidated accounts for 2017 was, in regards of the authorised public accountants, performed by another auditor who submitted an auditor's report dated 16 February 2017, with unmodified opinions in the Report on the annual accounts.

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
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Valuation and reporting of intangible assets and property, plant and equipment (refer to the group's accounting principles in Note 1, Significant assumptions in Note 16 and in Notes 17–18)

In the consolidated statement of financial position as at 31 December 2017, intangible assets and property, plant and equipment total MSEK 14,104 and MSEK 13,326 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 and property, plant and equipment during the financial year amounted to MSEK 1,596, respective MSEK 1,470. 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 reparation 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 16 in the annual financial statements, during 2017 the association executing write-down tests regarding Södra Wood and Trivselhus. These write-down tests evidenced no existence of a write-down requirement.

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.

Transactions with the association's members (refer to the group's accounting principles in Note 1 and Note 30)

During financial year 2017, 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.

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.



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 1–7, 30–47 and 102–130. 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 2017 and the proposed appropriations of the association's profit or loss.

We recommend to the general meeting of shareholders 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 Larsson c/o PwC 113 97 Stockholm, was appointed auditors of Södra Skogsägarna Ekonomisk Förening by the general meeting on the 18 May 2017 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 18 May 2017 and has been the association's auditor since the 17 May 2016. Mats Löfgren was appointed auditor of Södra Skogsägarna Ekonomisk Förening by the general meeting on the 18 May 2017 and has been the association's auditor since the 15 May 2013.

Växjö, 12 February 2018

Martin Johansson
Authorised Public Accountant

Mats Löfgren
Member Representative Auditor

Madeleine Larsson
Authorised Public Accountant

Dick Stagmo
Member Representative Auditor



About Södra's Sustainability Report

This is Södra's second Sustainability Report in accordance with the Global Reporting Initiative's (GRI) G4 Sustainability Reporting Guidelines. The report is in accordance with the 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 Report and Sustainability Report. Södra's uses the calendar year as its financial year. The last Annual Report and Sustainability Report was published in March 2017 for the 2016 financial year.

MATERIALITY ANALYSIS

Södra's most recent materiality analysis was conducted in 2015. The aim was to identify Södra's most material sustainability issues and lay the foundation for Södra's sustainability strategy. The materiality analysis will be updated at regular intervals and whenever required, for example, in the event of relevant changes in the operations, the business environment or the focus and expectations of stakeholders.

Stakeholder engagement

In 2015, a structured analysis and prioritisation of Södra's stakeholders was carried out. The Group's key stakehold-

ers, listed in descending order of priority, are customers, owners/members, employees, society at large and business partners.

High-priority stakeholders were more frequently represented in the questionnaires and in-depth interviews underlying the materiality analysis. The goal of the stakeholder dialogue was to understand expectations on Södra and the Group's sustainability agenda, and to define Södra's most material sustainability issues.

Material sustainability issues

Alongside of the stakeholder dialogues, Södra's impact on and from the business environment in relation to sustainability issues was evaluated. Both of these analyses were used to define Södra's most material sustainability issues: sustainable forestry, energy use, biodiversity, legal and regulatory compliance in the value chain, and use of materials.

Sustainability strategy

The results of the stakeholder dialogues, the analysis of material sustainability issues and a strategy seminar with internal and external experts, provided the basis for Södra's sustainability strategy.

Determination of materiality for sustainability reporting

The content of Södra's Sustainability Report is based on the Group's material sustainability issues and strategy. The most material sustainability issues are considered Södra's material aspects for the Sustainability Report. The GRI Reporting Principles of materiality, stakeholder inclusiveness, sustainability context, and completeness determined the scope and contents of the Sustainability Report.

Boundaries for the material aspects were determined by an internal team of experts. Material aspects, selected indicators and boundaries, and the

MATERIAL ASPECTS ACCORDING TO THE GRI G4 SUSTAINABILITY REPORTING GUIDELINES	INDICATORS	STRATEGIC FOCUS AREAS FOR SUSTAINABILITY	BOUNDARIES
Economic performance	G4-EC2	Climate-positive operations	Within Södra
Materials	G4-EN1	Sustainable innovation Resource efficiency	Within Södra
Energy	G4-EN3 G4-EN4	Climate-positive operations Sustainable innovation Resource efficiency	Within Södra Outside Södra • external harvesting contractors • transportation of raw materials, products, by-products and waste
Biodiversity	G4-EN13	Sustainable forestry	Within Södra Outside Södra • Södra's members • Södra's wood raw material suppliers
Emissions	G4-EN15 G4-EN17 G4-EN21	Climate-positive operations Resource efficiency	Within Södra Outside Södra • external harvesting contractors • transportation of raw materials, products, by-products and waste
Effluents and waste	G4-EN22 G4-EN23	Resource efficiency	Within Södra
Supplier environmental assessment	G4-EN33	Responsible business	Within Södra Outside Södra for Södra's suppliers
Occupational health and safety	G4-LA6	Responsible employer and committed employees	Within Södra
Diversity and equal opportunity	G4-LA12	Responsible employer and committed employees	Within Södra
Supplier assessment for labor practices	G4-LA15	Responsible business	Within Södra Outside Södra for Södra's suppliers
Product and service labelling	G4-PR3	Responsible business	Within Södra Outside Södra for Södra's customers

All aspects are deemed material within Södra. The boundary within Södra is presented in the section "Scope and content of the Sustainability Report" on page 103.



connection to Södra's strategic focus areas for sustainability, are presented in the table on page 102.

As of 2017, changes in the Swedish Annual Accounts Act have increased the disclosure requirements for sustainability reporting. Södra has therefore chosen to clarify its sustainability reporting in relation to human rights and anti-corruption, refer to page 113.

SCOPE AND CONTENT OF THE SUSTAINABILITY REPORT

The Sustainability Report covers Södra Skogsägarna ekonomisk förening and its subsidiaries, but not its associates, see Note 10. Labour practices and decent work (except for G4-LA15) are reported for the Parent Company and its subsidiaries, with employees. Information related to economic, environmental and product responsibility aspects is reported for operations with 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). 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 2017.

Changes compared with previous reports

- Crown Timber Group (plc) was acquired in 2016. In the 2016 Sustainability Report, Crown was only included in the Sustainability Report in relation to labour practices and decent work (except for G4-LA15). As of 2017, Crown as well as Södra Wood Ltd and Södra Wood AB have been included in the entire Sustainability Report, but not in the comparative figures for earlier years.
- The reporting of the sustainability targets for forest growth, sustainable harvesting and CO₂ uptake in forests is based on data from land owned by Södra's members. The reporting was previously based on an average for Götaland. Comparative figures for earlier years have been restated.
- The rate of forest growth for 2017 refers to the most recently available data from the Swedish University of Agricultural Sciences (SLU). The field work was carried out in 2016 and growth is defined as the average growth rate during the period 2011–2015. Previously, the mean for a longer period of time was reported.
- In 2016, only passenger transport by car was included. As of 2017, passenger transport by rail and air has been included, but not in the comparative figures for earlier years.

- As of 2017, the ash returned to forest land has been reported as "Waste to materials recycling" instead of "By-products." Comparative figures for earlier years have been restated.

Adjustments compared with previous reports

Adjustments have been made for data from earlier years. The adjustments have been made for several reasons, including errors in both the reported data and the calculations.

- Heating consumption for pulp production was adjusted for 2015 and 2016, as well as the 2025 target level.
- Use of chemicals was adjusted for 2015 and 2016.
- Fuel consumption was adjusted for 2015 and 2016 in relation to renewable and fossil fuels.
- Electricity consumption was adjusted for 2016.
- Litter and horticultural peat production was adjusted for 2016.
- Harvesting was adjusted for 2015 and 2016.
- Air emissions were adjusted for 2016.
- Emissions into air of fossil CO₂ from transportation were adjusted for the 2013–2016 period.

CALCULATION PRINCIPLES

Information about raw materials, energy, products, waste, air and water emissions is gathered in Södra's annual environmental inventory. The Sustainability Department compiles the data.

Energy

Information about energy used 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 transport factors from the Network for Transport Measures (NTM) and the Swedish Environmental Protection Agency. Internally generated heating and cooling are only reported as fuel consumption. Energy for passenger transport is reported as fuel consumption for other transportation, and energy use outside Södra, respectively.

Biodiversity

Information about protected areas is produced by Södra Skog based on official statistics, forest management plans, member statistics and the Green Balance Sheet.

Air 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. 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 emissions" (scope 3), respectively. Other air emissions (nitrogen oxides, sulphur dioxide, dust and volatile organic compounds) are based on measured values, and calculations based on fuel consumption and transport 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 own landfill. Waste volumes temporarily stored internally are not monitored at Group level. Waste to materials recycling includes waste for re-use, recycling and composting. It is assumed that energy is recovered from all incineration of waste.

Employees

Information about employees is gathered by the central HR system, which covers all of Södra's units in Sweden. Foreign units report via questionnaires. In Sweden, occupational health and safety statistics are reported in the IA system (AFA Försäkring) and compiled. Occupational health and safety and sickness absence reporting applies to Södra's employees. Subcontracted employees and contractors are managed by each employer. However, occupational injuries and incidents affecting subcontracted employees and contractors are reported in Södra's incident reporting system to improve health and safety at Södra's workplaces. Södra has chosen to report LTAR (lost-time-accident rate) – the number of occupational injuries with absence per million hours worked – instead of the IR (incident rate). Absenteeism due to occupational diseases is included in sickness absence. The occupational disease rate (ODC) is not measured.

Boards and management teams

Information about the gender and age spread on Boards and management teams is gathered by the Treasury unit from the registration certificate of each company, see Note 39, and from surveys of the business areas.



Stakeholder dialogue

Södra's stakeholders contribute to the Group's development. Courses, member meetings and other gatherings in the forestry districts make Södra a meeting place in many local communities. Issues are presented by and to Södra's elected representatives through dialogue and cooperation.

Critical issues are raised and members nurture their relationships with stakeholders – customers, suppliers, organisations, authorities, decision-makers and local residents. Ongoing stakeholder dialogue takes place in different forms, and with varying frequency, during the year, refer to the table on page 105.

COOPERATION FOR SUSTAINABLE DEVELOPMENT

To promote sustainable development, Södra is represented in organisations that conduct research and development in the fields of forestry, the environment and energy. These include the Federation of Swedish Farmers (LRF), the Forestry Research Institute of Swe-

den, the Swedish Forest Industries Federation's committee work, the Swedish Forest Industries Water and Air Pollution Research Foundation (SSVL), the Energy Research Institute of Sweden, the Bio-based Industries Consortium, the Swedish Standards Institute, Fossil Free Sweden and the 2030 Secretariat (a national coalition to reach a fossil-independent transport sector by 2030).

During the year, the SSVL formed a team for further studies of environmental impacts on the forest industry's recipients. Södra participated in the Swedish Forest Agency's cooperative processes on key habitats and forest production. Södra is playing an active role in efforts to develop a forestry and

forest-industry centre of excellence for southern Sweden, in partnership with the academic community, business sector, public sector and interest groups. The aim is to contribute to the region's competency provision and development in this area moving forward. Södra participated in two projects led by the Energy Research Institute of Sweden: "Biogas in the forest industry," aimed at studying the technical and financial conditions for biogas production at pulp mills, and "Thermal conversion of residues" to evaluate the possibility of using the bark boilers at pulp mills to produce biogas from thermal gasification processes.

SÖDRA'S KEY STAKEHOLDERS

Södra's key stakeholders are customers, owners/members, employees, business partners and a number of community stakeholders.





STAKEHOLDER GROUP	SIGNIFICANT ISSUES	ACTIVITIES, DIALOGUE AND CONTACT 2017
Customers	Business ethics Product performance (such as quality, safety, price, development) Traceability Legal and regulatory compliance in the supply chain Environmental impact (emissions, resource use) Working conditions and human rights	Annual Report with Sustainability Report Customer contact (meetings, surveys) Research and development projects Code of Conduct and Supplier Code Business management system Certification systems (such as FSC®, PEFC™)
Owners/members	Profitability and profit distribution Market for wood raw material Business policy lobbying Forestry services Sustainable forestry	Annual Report with Sustainability Report Member contacts (AGM, Administrative Council meetings, member meetings, service) Business policy activities Research and development Service offerings (forestry services, forest certification) Business management system
Employees	Terms of employment Health and safety Career and competency development Diversity and gender equality Business ethics	Training in the Södra Code of Conduct Performance appraisals Training programmes Employee surveys Unionisation Business management system Incident reporting system
Business partners	Sustainability requirements in the Supplier Code Contract terms Assessment and monitoring	Code of Conduct and Supplier Code Assessment and monitoring based on the Supplier Code Forest contractor certification
Society at large (capital market, local residents, political decision-makers and salaried employees, public organisations, media, interest groups, companies in the same industry)	Sustainable business (economic, environmental and social responsibility) Community engagement Transparency Industry-specific issues	Policies, targets, business management systems, risk management Dialogue and cooperation Employer Research and development External communication about Södra's development Representation on Boards, committees, certification bodies, trade associations



Södra's timber house safari is aimed at informing various community stakeholders about the benefits of timber frame construction.



The members' activity "From tree to thread" shows examples of the raw material's multiple uses.



Sustainability data

Raw materials and energy

		Södra Group, total		
		2017	2016	2015
Raw material use¹⁾				
Wood raw material ²⁾	mill. m ³ sub	11.6	10.0	10.8
Sawn timber ³⁾	1,000 m ³	106	113	136
Chemicals ⁴⁾	1,000 tonnes	291	263	259
Packaging materials	1,000 tonnes	5.8	5.0	5.4
Water	mill. m ³	85	79	88
Other raw materials ⁵⁾	1,000 tonnes	14	12	7.2
Fuel consumption⁶⁾				
Renewable fuels, total	GWh	13,457	11,875	12,045
Internal black liquor	GWh	10,856	9,367	9,689
Internal solid and liquid biofuels	GWh	1,782	1,772	1,721
Purchased solid and liquid biofuels	GWh	819	736	635
– for production	GWh	501	552	461
– for working machinery and internal transportation	GWh	44	29	23
– for other transportation	GWh	274	155	151
Fossil fuels, total	GWh	933	969	914
Fuel oil	GWh	78	138	138
Fossil vehicle fuels	GWh	834	815	764
– for working machinery and internal transportation	GWh	175	186	150
– for other transportation	GWh	659	629	614
Other fossil fuels	GWh	21	16	12
Electricity				
Electricity consumption	GWh	1,410	1,298	1,307
– for production, working machinery and internal transportation	GWh	1,384	1,274	1,282
– for other transportation	GWh	26	24	25
Purchased electricity	GWh	359	339	264
– for production, working machinery and internal transportation	GWh	333	315	239
– for other transportation	GWh	26	24	25
Electricity generation	GWh	1,719	1,326	1,379
Electricity sales	GWh	668	367	336
District heating⁷⁾				
Purchased district heating, total	GWh	7	7	5
– from steam	GWh	7	7	5
– from excess heat ⁸⁾	GWh	0	0	0
Sold district heating, total	GWh	414	368	383
– from steam	GWh	158	162	167
– from excess heat	GWh	256	206	216

¹⁾ 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.

²⁾ Wood raw material includes the sawlogs, pulpwood, fuel wood and forest residues used in Södra's industries.

³⁾ Sawn timber relates to external purchasing.

⁴⁾ Chemicals relates to purchased chemicals. Consumption mainly takes place in the pulp mills, in digesters and bleachers. The hazard category of chemicals varies, but is most commonly corrosive, oxidising and toxic.

⁵⁾ Other raw materials mainly comprise insulation and gypsum in Trivselhus.

⁶⁾ Energy for passenger transport by rail and air is included for 2017 (not 2015 or 2016).

⁷⁾ District heating relates to external purchasing and external sales.

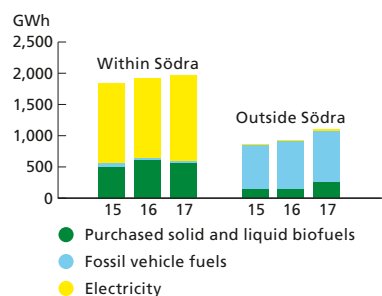
⁸⁾ Excess heat refers to surplus heat from the process. No additional fuel is required.

COMMENTS ON THE TABLE

- Raw material use was higher compared with preceding years due to higher production in the pulp mills.
- The use of renewable fuels was higher compared with preceding years due to higher production in the pulp mills and increased use by working

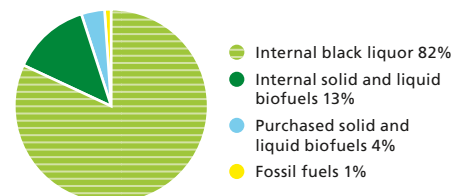
machinery as well as internal and other transportation. The use of fossil fuels was lower, mainly in pulp mill production but also by working machinery and internal transportation.

ENERGY USE WITHIN AND OUTSIDE SÖDRA



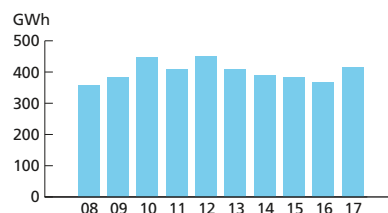
Internal black liquor, internal solid and liquid biofuels, fuel oil, other fossil fuels and purchased district heating comprises energy use within Södra. Purchased solid and liquid biofuels, fossil fuel and electricity are used both within and outside Södra. Energy for production, working machinery and internal transportation is used within Södra, excluding external harvesting contractors. Energy for other transportation is used outside Södra, excluding own haulage operations.

FUEL CONSUMPTION FOR PRODUCTION 2017



Södra consumes fuel equivalent to 13.2 TWh for production purposes. 0.7 percent of this fuel was fossil, mainly fuel oil. Otherwise, biofuels were used, most of which comprised the lignin released in the production process at the pulp mills.

EXTERNAL DISTRICT HEATING DELIVERIES



Södra delivers district heating from the pulp mills in Mönsterås, Mörrum and Värö, and the sawmills in Kinda and Torsås, to neighbouring communities. External district heating deliveries increased in 2017, mainly from the pulp mill at Värö due to increased pulp production.

Products and waste

		Södra Group, total		
		2017	2016	2015
Products from Södra				
Wood raw material ¹⁾	mill. m ³ sub	1.7	1.5	1.0
Cellulose pulp	1,000 tonnes	1,712	1,429	1,512
Sawn timber ²⁾	1,000 m ³	1,787	1,747	1,998
Interior wood products	1,000 m ³	53	71	73
Biofuel	GWh	3,641	3,613	4,264
Houses	no.	581	468	384
Seedlings (own production)	million	30	25	27
By-products from Södra				
By-products of wood (cellulose chips, shavings) ³⁾	1,000 tonnes	480	210	206
Litter and horticultural peat	1,000 m ³	75	166	121
Tall oil	1,000 tonnes	34	24	31
Turpentine	1,000 tonnes	1.2	0.8	1.1
Lime sludge	1,000 tonnes	21	25	28
Forestry services from Södra				
Harvesting ⁴⁾	mill. m ³ sub	8.2	7.5	7.6
Forest management	1,000 hectares	115	110	121
Waste				
Waste to materials recycling	1,000 tonnes	18	8.9	6.7
Waste to energy recovery ⁵⁾	1,000 tonnes	3.6	3.4	2.8
Landfill waste, wet	1,000 tonnes	55	58	52
Hazardous waste	1,000 tonnes	1.0	1.0	1.1

¹⁾ Wood raw material relates to external deliveries.

²⁾ Sawn timber relates to external deliveries, excluding subcontracting.

³⁾ By-products of wood relates to external deliveries.

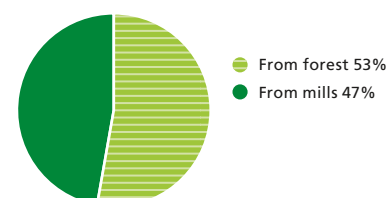
⁴⁾ Harvesting volume relates to harvested round timber from the field organisation in Sweden and the Baltic countries.

⁵⁾ It is assumed that energy is recovered from all incineration of waste.

COMMENTS ON THE TABLE

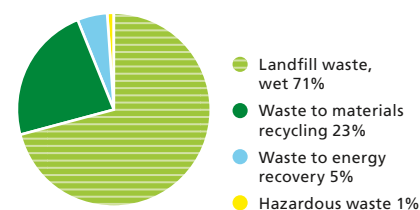
- Production volumes in pulp mills, nurseries and houses, as well as external deliveries of wood raw material, were higher compared with preceding years, while the production of interior wood products was lower. Sawn timber production remained unchanged.
- Biofuel deliveries remained unchanged compared with 2016, while peat production was lower compared with preceding years.
- Tall oil and turpentine are by-products from the pulp mills and this trend was in line with the higher production volumes in pulp mills.
- Harvesting showed an upward trend, while forest management remained unchanged.
- Waste volumes were higher compared with preceding years. Waste to materials recycling includes ash, which is returned to forest land. A pilot project was conducted with nutrient recycling of bio-ash from the pulp mill at Mönsterås during the year, read more on page 41. Since bio-ash was previously sent to landfill, the total volume of Södra's landfill waste declined, despite higher production in the pulp mills.

BIOFUEL 2017



Södra delivers solid biofuels, such as forest fuel, bark, pellets, residual products and energy peat. The diagram shows the division between biofuels from the forest (including energy peat) and biofuels from pulp mills, sawmills and interior wood facilities, a total of about 3,600 GWh.

WASTE MANAGEMENT 2017



Landfill waste comprises inorganic material, primarily green liquor sludge, ash, and lime sludge from the pulp mills, which is deposited in Södra's own landfills. In 2017, the total weight of Södra's waste was 77,452 tonnes.



Air and water emissions

		Södra Group, total		
		2017	2016	2015
Air emissions¹⁾				
NO _x (nitrogen oxides as NO ₂)	tonne	5,486	4,481	4,735
S (gaseous sulphur as SO ₂)	tonne	1,369	1,329	1,315
Dust	tonne	437	402	494
CO ₂ eq (CO ₂ equivalents) ²⁾	1,000 tonnes	4,904	4,190	4,573
Fossil CO ₂	1,000 tonnes	271	298	280
– for production	1,000 tonnes	34	51	48
– for working machinery and internal transportation	1,000 tonnes	46	48	39
– for other transportation	1,000 tonnes	191	199	193
Biogenic CO ₂	1,000 tonnes	4,603	3,863	4,264
– for production	1,000 tonnes	4,519	3,815	4,218
– for working machinery and internal transportation	1,000 tonnes	12	7	6
– for other transportation	1,000 tonnes	72	41	40
Other greenhouse gases	1,000 tonnes	30	29	29
– for production	1,000 tonnes	25	25	24
– for working machinery and internal transportation	1,000 tonnes	1	1	1
– for other transportation	1,000 tonnes	4	3	4
VOCs (volatile organic compounds)	tonne	2,084	1,966	1,923
Effluents³⁾				
Wastewater	1,000 m ³	69,900	67,500	80,100
AOX (halogenated organic compounds)	tonne	52	31	30
TOC (total organic carbon)	tonne	8,224	7,061	6,725
COD (chemical oxygen demand)	tonne	21,806	18,820	19,007
BOD ₇ (biochemical oxygen demand)	tonne	2,194	1,478	1,061
TSS (total suspended solids)	tonne	2,503	2,028	1,635
Total N (nitrogen)	tonne	211	246	271
Total P (phosphorus)	tonne	23	26	21

¹⁾ Emissions from passenger transport by rail and air are included for 2017 (not 2015 and 2016).

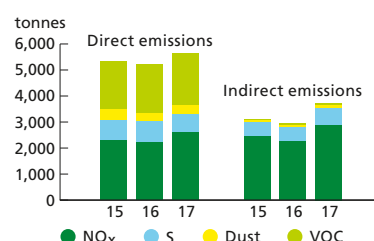
²⁾ CO₂eq includes CO₂ and CH₄ (methane) and N₂O (nitrous oxide) (other greenhouse gases).

³⁾ Effluents from the pulp mills are reported.

COMMENTS ON THE TABLE

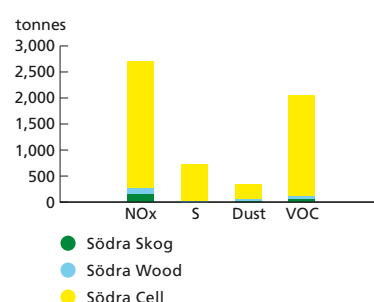
- Nitrogen oxide emissions into air were higher compared with preceding years, due to higher production in the pulp mills but also to higher volumes of other transportation.
- Dust emissions into air were higher compared with preceding years due to higher volumes of other transportation.
- Biogenic CO₂ emissions were higher compared with preceding years mainly due to higher production in the pulp mills, but also to increased use of liquid biofuels for working machinery and internal transportation, as well as other transportation. Fossil CO₂ emissions declined compared with preceding years, despite increased production in the pulp mills and higher volumes of other transportation.
- The amount of wastewater was slightly higher year-on-year due to higher production in the pulp mills. However, both the use of water and amount of wastewater were lower per tonne of produced pulp in 2017 compared with preceding years, entailing more effective water use.
- Organic emissions into water were higher compared with preceding years due to higher production in the pulp mills. In 2016, the pulp mill at Mörrum had major problems with its treatment facility. Measures introduced in 2017 generated results by reducing nitrogen and phosphorus emissions into water. Halogenated organic compound emissions to water were higher compared with preceding years partly because, after the expansion, the pulp mill at Värö is using chlorine dioxide to bleach pulp.

DIRECT AND INDIRECT AIR EMISSIONS



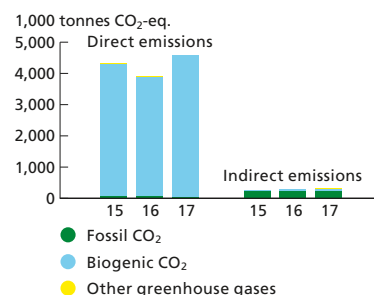
Emissions from production, working machinery and internal transportation are direct emissions, excluding external harvesting contractors. Emissions from other transportation are indirect, excluding own haulage operations.

AIR EMISSIONS 2017 FROM PRODUCTION, WORKING MACHINERY AND INTERNAL TRANSPORTATION



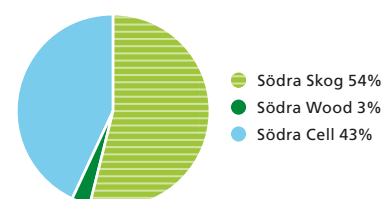
The pulp mills account for the largest proportion of air emissions, comprising nitrogen oxides, sulphur, dust and volatile organic compounds. Nitrogen oxides are also released by forestry machinery.

DIRECT AND INDIRECT GREENHOUSE GAS EMISSIONS



Emissions from production, working machinery and internal transportation are direct emissions (scope 1), excluding external harvesting contractors. Emissions from other transportation are indirect (scope 3), excluding own haulage operations.

EMISSIONS OF FOSSIL CO₂ 2017 FROM PRODUCTION, WORKING MACHINERY AND INTERNAL TRANSPORTATION



Fossil CO₂ emissions from production, working machinery and internal transportation were mainly derived from the use of fuel oil in the pulp mills, and the use of diesel in forestry. Total emissions were 80 ktonnes.



Employees

	Södra Group, total		
	2017	2016	2015
No. of employees			
Men	2,686	2,871	2,893
Women	716	723	706
Occupational health and safety, number			
Incidents, including risk observations	4,840	5,292	4,495
Occupational injuries without absence ¹⁾	446	428	424
Occupational injuries with absence (LTA) ¹⁻²⁾	96	94	75
Fatal accidents	1	0	0
Lost days per injury	3.9	8.5	10.3
Lost-time-accident rate (LTAR) ³⁾	17	16	13
Sickness absence⁴⁾, %			
Men	3.3	3.4	3.4
Women	4.6	4.7	5.0
Total	3.6	3.7	3.7
Level of education, %			
Basic education	8.5	13.4	14.2
– men	7.4	11.2	12.6
– women	1.1	2.2	1.6
Upper-secondary school	58.2	55.1	56.5
– men	48.2	46.1	46.9
– women	10.0	9.0	9.6
University studies, less than 120 credits	15.2	14.3	15.3
– men	12.3	11.7	12.4
– women	2.9	2.6	2.9
University studies, more than 120 credits	17.3	16.2	13.2
– men	10.3	10.0	8.5
– women	7.0	6.2	4.7
Postgraduates/Licentiatees	0.8	1.0	0.8
– men	0.5	0.5	0.4
– women	0.3	0.5	0.4

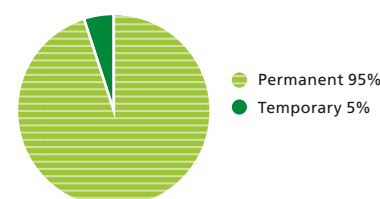
¹⁾ Some of the most common causes of occupational injuries (with and without absence) are contact with a sharp object, getting caught or stuck between objects, getting struck by flying or falling objects or falls from the same level (tripping or slipping).

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

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

⁴⁾ Including occupational diseases.

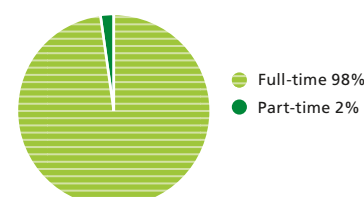
FORM OF EMPLOYMENT



Permanent: 3,224 employees (3,377), of whom 79 percent (80) were men and 21 percent (20) women

Temporary: 178 employees (217), of whom 70 percent (78) were men and 30 percent (22) women

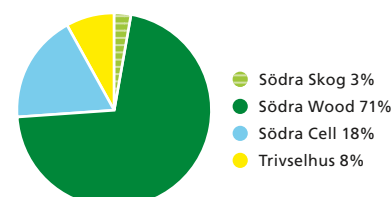
FULL-TIME/PART-TIME EMPLOYEES



Full-time: 3,324 employees (3,461), of whom 80 percent (81) were men and 20 percent (19) women

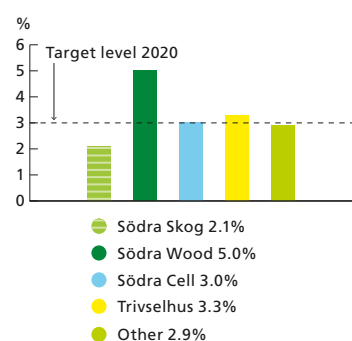
Part-time: 78 employees (133), of whom 40 percent (59) were men and 60 percent (41) women

OCCUPATIONAL INJURIES WITH ABSENCE 2017



Initiatives during the year were mainly focused on a safety culture and safe behaviours.

SICKNESS ABSENCE 2017, %



Sickness absence remains high, especially for Södra Wood. Repeated short-term absences declined. Initiatives during the year generated results and this work will continue in 2018.

AGE SPREAD, %

Age category	2017			2016			2015		
	Total	Managers	Employees	Total	Managers	Employees	Total	Managers	Employees
<30	15	0	15	14	0	14	14	0	14
– men	11	0	11	11	0	11	11	0	11
– women	4	0	4	3	0	3	3	0	3
30–50	51	6	45	52	6	46	52	6	46
– men	39	4	35	41	5	36	41	5	36
– women	12	2	10	11	1	10	11	1	10
>50	34	3	31	34	3	31	34	3	31
– men	28	3	25	29	3	26	29	3	26
– women	6	0	6	5	0	5	5	0	5



GRI Content Index

INDEX	DESCRIPTION	REFERENCE	COMMENTS
GENERAL STANDARD DISCLOSURES			
Strategy and analysis			
G4-1	Comments from the President	6-7	
Organisational profile			
G4-3	Name of organisation	3	
G4-4	Brands, products and services	2-3	
G4-5	Location of the organisation's headquarters	128	
G4-6	Number of countries where the organisation operates	70-71, 110	Södra mainly conducts operations in Sweden. From a sustainability perspective, the Swedish operations are most relevant due to both their scope and nature.
G4-7	Nature of ownership and legal form	116-121	
G4-8	Markets served	12-13, 70	
G4-9	Scale of organisation	2, 49	
G4-10	Total workforce of employees	43, 71, 110	Temporary employees are used during peak periods, for example. At year-end, a total of 85 (66) people were temporary employees, of whom 44 (18) were contractors for whom Södra is responsible for their occupational health and safety. Contractors are also engaged for forestry measures and large industrial projects, such as investments.
G4-11	Percentage of total employees covered by collective bargaining agreements	110	96.8 percent (96.6) of Södra employees are covered by collective bargaining agreements. For Södra employees in Sweden, the rate was 100 percent (100 percent).
G4-12	The organisation's supply chain	44-45	
G4-13	Significant changes during the reporting period in terms of size, structure, ownership, supply chain	14-15	
G4-14	Application of the precautionary approach	26, 110	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.
G4-15	External charters, principles and initiatives	46, 110	Södra intends to endorse these external charters, principles and initiatives but has not yet signed them.
G4-16	Memberships of associations/organisations	104	
Identified material aspects and boundaries			
G4-17	Entities included in the consolidated financial statements	103	
G4-18	Process for defining the report content	102-103	
G4-19	Material aspects	102-103	
G4-20	Material aspect boundaries within the organisation	102	
G4-21	Material aspect boundaries outside the organisation	102	
G4-22	Restatements of information in previous reports	103	
G4-23	Significant changes from previous reports	103	
Stakeholder engagement			
G4-24	Stakeholder groups	102, 104	
G4-25	Identification and selection of stakeholders	102	
G4-26	Approach to stakeholder engagement	104-105	
G4-27	Key topics and concerns raised through stakeholder engagement	104-105	
Report profile			
G4-28	Reporting period	3	
G4-29	Date of most recent previous report	102	
G4-30	Reporting cycle	102	
G4-31	Contact point for questions regarding the report	128	
G4-32	GRI Content Index	102, 110-111	
G4-33	Policy for external assurance for the report	102, 112	
Governance			
G4-34	Governance structure	46-47, 116-121	
Ethics and integrity			
G4-56	Values, principles, standards, norms	42, 44, 46	



INDEX	DESCRIPTION	REFERENCE	COMMENTS
SPECIFIC STANDARD DISCLOSURES			
Economic			
Economic performance, DMA (Disclosures on Management Approach)		10–11, 26–28, 116–121	
G4-EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	26–29, 32, 38, 86, 111	Omissions are made in regard to possible future revenue and costs due to the risks and opportunities facing Södra due to climate change
Environment			
Materials, DMA		24–27, 40	
G4-EN1	Materials used	106	
Energy, DMA		24–26, 32–33, 38–39	
G4-EN3	Energy consumption within the organisation	38–39, 103, 106	
G4-EN4	Energy consumption outside of the organisation	103, 106	
Biodiversity, DMA		26–27, 34–37, 41	
G4-EN13	Habitats protected or restored	37, 41, 103, 111	Nature reserves, habitat protection areas or nature conservation agreements on land owned by Södra members are covered by agreements between the individual member and either the Swedish Forest Agency or the county administrative board.
Emissions, DMA		26, 32–33, 40, 47	
G4-EN15	Direct greenhouse gas emissions	32–33, 103, 108	
G4-EN17	Other indirect greenhouse gas emissions	32–33, 103, 108	
G4-EN21	NO _x , SO _x and other significant air emissions	40, 103, 108	
Effluents and waste, DMA		26, 40, 47	
G4-EN22	Effluents	40, 103, 108	
G4-EN23	Waste	41, 103, 107, 111	Waste management by incineration (without energy recovery) and deep well injection is not applied. Omission on the reporting of waste volumes stored on site since this is not monitored at Group level.
Supplier environmental assessment, DMA		28, 44–45	
G4-EN33	Environmental impacts in the supply chain	44–45	
Social			
<i>Labour practices and decent work</i>			
Occupational health and safety, DMA		26, 42–43, 47	
G4-LA6	Injury, occupational diseases, lost days, absenteeism and work-related fatalities	42–43, 103, 109, 111	Omission on the division per region since most of Södra's employees are based in Sweden. Only sickness absence is reported by gender. Other information is not significant to report by gender. Omission on reporting of IR (incident rate). Södra has chosen to report LTAR (lost-time-accident rate) instead. Omission on reporting of ODC (occupational disease rate). Absence from work due to occupational diseases is included in sickness absences.
Diversity and equal opportunity, DMA		26, 42–43, 47	
G4-LA12	Diversity on Board, management and total employees	42–43, 71, 103, 109, 111	Omission on information about minority groups in accordance with Swedish legislation; registering information about the minority status of employees is not permitted.
Supplier assessment for labour practices, DMA		28, 44–45	
G4-LA15	Impacts for labour practices in the supply chain	44–45	
<i>Product responsibility</i>			
Product and service labelling, DMA		26–27, 36, 45	
G4-PR3	Product specifications	36, 45	



Assurance Report

Auditor's Limited Assurance Report on Södra Skogsägarna ekonomisk förening's Sustainability Report

To Södra Skogsägarna ekonomisk förening

INTRODUCTION

We have been engaged by the Board of Directors of Södra Skogsägarna ekonomisk förening to undertake a limited assurance engagement of Södra Skogsägarna ekonomisk förening's Sustainability Report for the year 2017. Södra Skogsägarna ekonomisk förening has defined the scope of the Sustainability Report to be the areas referred to in the GRI Content Index on pages 110–111.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE EXECUTIVE MANAGEMENT FOR THE SUSTAINABILITY REPORT

The Board of Directors and the Executive Management are responsible for the preparation of the Sustainability Report in accordance with the applicable criteria, as explained on pages 102–103, and are the parts of the Sustainability Reporting Guidelines (published by The Global Reporting Initiative, GRI) which are applicable to the Sustainability Report, as well as the accounting and calculation principles that the Company has developed. This responsibility also includes the internal control relevant to the preparation of a Sustainability Report that is free from material misstatements, 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 the International Standard on Assurance Engagements (ISAE) 3000, "Assurance Engagements Other

than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board (IAASB). 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. The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement conducted in accordance with IAASB's Standards on Auditing and other generally accepted auditing standards in Sweden. The procedures performed consequently do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Therefore, the conclusion expressed on the basis of a review does not provide the same level of assurance as a conclusion expressed on the basis of an audit.

Our review is based on the criteria selected by the Board of Directors and the Executive Management, as defined above. We consider these criteria suitable for preparation of the Sustainability Report.

We believe that the review evidence we obtained is sufficient and appropriate to provide a basis for our opinion 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 2018



Martin Johansson
Authorised Public Accountant

Madeleine Larsson
Authorised Public Accountant

Karin Juslin
Special member of FAR



Sustainability Report according to 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.

The statutory Sustainability Report comprises the following pages and areas:

- Business model: pages 8–9
- Risks and risk management: pages 26–29

- Sustainability issues: pages 30–47
 - Policies and governance: pages 46–47
 - Results: see the table below
- Other sustainability data (including a materiality analysis): pages 102–113

For more information about where the various sustainability-related data can be found, refer to the GRI Content Index on pages 110–111.

Sustainability issues	Results reported by Södra
Environment	Climate-positive operations (pages 32–33), Sustainable forestry (pages 34–37), Resource efficiency (pages 38–41), Responsible business (pages 44–45), Sustainability data (pages 106–108)
Social conditions and employment	Responsible employer and committed employees (pages 42–43), Responsible business (pages 44–45), Sustainability data (page 109)
Human rights	Responsible employer and committed employees (pages 42–43), Responsible business (pages 44–45)
Anti-corruption	Responsible business (pages 44–45), Governance and organisation for sustainability (pages 46–47)

Auditor's report on the statutory sustainability report

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 2017 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 2018

Martin Johansson
Authorised Public Accountant

Mats Löfgren
Member Representative Auditor

Madeleine Larsson
Authorised Public Accountant

Dick Stagmo
Member Representative Auditor



Making Södra strong by working together

80 years of teamwork and cooperation has secured markets for the forest products delivered by family forest owners, and generated high returns for Södra's owners and members. We also work hard to protect the rights of individual forest owners to benefit from all of the values associated with their forests, under the banner of freedom with responsibilities.

AN 80-YEAR HISTORY AND A BRIGHT FUTURE

We should be proud of Södra's development. Our joint efforts have turned Södra into a successful global company, characterised by active membership and a strong local connection. Our assignment, according to our Article's of Association, of securing markets for forest estates under an obligation to receive deliveries, to process the raw material in mills, and to promote the rights of individual and family forest owners, is equally important today as when Södra was founded in 1938. Being a member of Södra also creates security in times of adversity and success. Based on 80 years' experience of development, innovation and successful cooperation, we can say with pride that Södra is also a forest company of the future.

Full-year operating profit of SEK 1,917 million, up SEK 938 million compared with 2016, and the proposed distribution of profit totalling SEK 868 million, is evidence of this fact.

FAMILY FORESTRY IN COOPERATION

Family forestry involves more than securing sales of forest products and forest management. It also involves making decisions with long-term implications for the family's economy, ownership and future. Södra provides joint forums where we members can meet and discuss important issues, no matter how big or small, in the form of local member meetings, excursions and social gatherings. Looking back over the years, Cyclone Gudrun was a crucial test. And Södra's strength – cooperation and teamwork – came to the fore. Nobody needs to feel alone.

Södra is also an outstanding knowledge bank and a major learning organi-



Did you know that ...

- Södra's members own 2,500,000 hectares of forest land.
- The total value of Södra members' estates is between SEK 200–250 billion.
- On average, a Södra member delivers timber valued at SEK 90,000 per year to Södra.
- On average, a Södra member has contributed capital of SEK 65,000.
- The Board's proposed profit distribution means that a Södra member, on average, will receive SEK 17,024 for the 2017 financial year.

sation. We convey knowledge about all forest-associated values and the innovation taking place in such areas as seedlings and management methods, and provide advisory services for financial issues specifically related to forest estates. This takes place through the Södra School and Pulp Academy for customers, members, suppliers and

employees, but also through excursions and seminars for politicians and decision-makers, both Swedish and international, particularly at EU level.

WE PROMOTE THE RIGHTS OF INDIVIDUAL FOREST OWNERS

The future looks bright for the forest industry. The climate-positive proper-

ties of forests in the necessary transition to a fossil-free society are increasingly evident. We see a positive trend, where raw material from the forest is being used for new products, and new markets are opening. Unfortunately, concerns have arisen regarding private family forestry and the forest industry, especially from a legal perspective. For individual forest owners, clear regulatory and legal frameworks are absolutely essential. Regrettably, we have seen several examples of disrespect for the legal right of individuals.

While the business policy assignment from our members has always been a priority at Södra, we have now increased our resources in this area because the number of issues of vital significance for our members, and for the forest industry, require far-reaching initiatives. We are fighting for the rights of our members and the forest industry together with the Federation of Swedish Farmers (LRF) and other forest-owner associations both in Sweden and across the EU.

We challenged the Swedish Forest Agency's requirement that harvesting notifications be published online, and won on two points in the administrative court. We have also been heavily involved in issues related to the Species Protection Ordinance, including the unreasonable implications that such cases as the Witches Cauldron fungus and a capercaillie lekking site have for individual members and forest owners. The differing interpretations of the Species Protection Ordinance by individual Land and Environmental Courts across the country is little short of a scandal.

IS THERE ENOUGH FOREST?

Forests have a key role to play in the transition to a more sustainable society. Forests absorb CO₂, forest-based products can replace fuel-based products and forests create jobs, especially in rural areas. Forests can deliver a triple win. But despite all of these benefits, I am often asked: Is there enough forest?

For more than 100 years, replanting after harvesting has been mandatory in Sweden and we have been able to refor-

est the country – something we should be very proud of, and tell our friends in other countries who haven't been equally as successful or far-sighted. Due to the responsible forestry now practiced, Swedish forests can meet the needs of today as well as tomorrow's more fossil-free society. The annual growth rate in Sweden is about 120 million m³fo, of which about 75 percent is harvested. This means that the area of Sweden already covered by forest, about 70 percent, will continue to grow. Because of sustainable forest management, for which Södra has developed Green Forest Management Plans that have also included blue environmental classification of aquatic environments in forests since 2017, due conservation considerations are made. This has led to an increase in the proportion of old-growth forest. Biodiversity is also promoted by voluntary and compulsory conservation considerations. To further increase our knowledge, we granted funding to three different research projects on biodiversity during the year, through the Södra Research Foundation.

WE PROTECT WATER

Water is central to global sustainable development and we borrow water from our planet. Water is a serious issue for Södra. Our pulp mill and saw-mill investments in recent years have created resource efficiency at all levels, especially for water. We now produce significantly higher volumes of pulp with less water. Moreover, the water undergoes advanced treatment processes in several stages before being released from the pulp mill. But the focus on water has also increased for individual forest owners. In 2017, we added blue environmental classification to our Green Forest Management Plans. We want to further stress the importance of protecting our water – from ditches, smaller watercourses, streams and swamps to larger bodies of water.

INNOVATION AT ALL STAGES

Södra's new innovation strategy is now highly systematic and target-oriented.

The sustainable innovation target means that Södra will have commercialised at least three products with better sustainability performance than today's alternatives by 2020. We have already demonstrated our ability to achieve this target in 2017. Our focus on processing sawn timber was confirmed by investing in a CLT facility at Värö – an initiative in line with the growing realisation that multi-storey wood-frame construction is climate-smart. We have also decided to invest heavily in liquid biofuels from forest biomass. We are using the same raw material to make more products, thereby creating new business opportunities. These new initiatives will also help us to achieve both our own, and the Swedish government's, fossil-free targets.

But innovation is more than basic research, and the development of industrial processes and products. I usually say we are engaged in innovation at all stages. It includes selective breeding in our nurseries, where we, among other things, use somatic embryogenesis to take advantage of the best seedlings' traits, we conduct tests with birch plantations based on the best individual birch trees, we develop management methods to optimise the benefits from all forest-associated values.

Since Södra was founded some 80 years ago, we have always put our members' interests first. By focusing on future-oriented and bold processing initiatives, Södra has created a world-class industry for market pulp and a strong position in sawn timber. We are now moving forward and processing the green gold in our forests, in the transition to a fossil-free society. We are making Södra strong by working together.

Lena Ek

Chairman of the Board



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 products, mainly from the association's members, and conducting industrial and/or financing activities. The association also aims to achieve secure and effective sales of its members' forest products at market prices, to promote high-quality and valuable forest production with respect for conservation and cultural values, to support and develop individual forestry and to protect property ownership rights.

STRUCTURE AND ORGANISATION

Södra Skogsägarna ekonomisk förening is a forest industry Group that offers forestry services, sawn timber, interior wood and pulp for the pulp market. In 2017, the operations were conducted in three business areas, Södra Skog, Södra Wood and Södra Cell. There are also a number of subsidiaries, refer to the list on page 90.

BOTH OWNER AND MEMBER

Södra is owned by about 50,000 forest owners in southern Sweden. The owners are members of the co-operative 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.

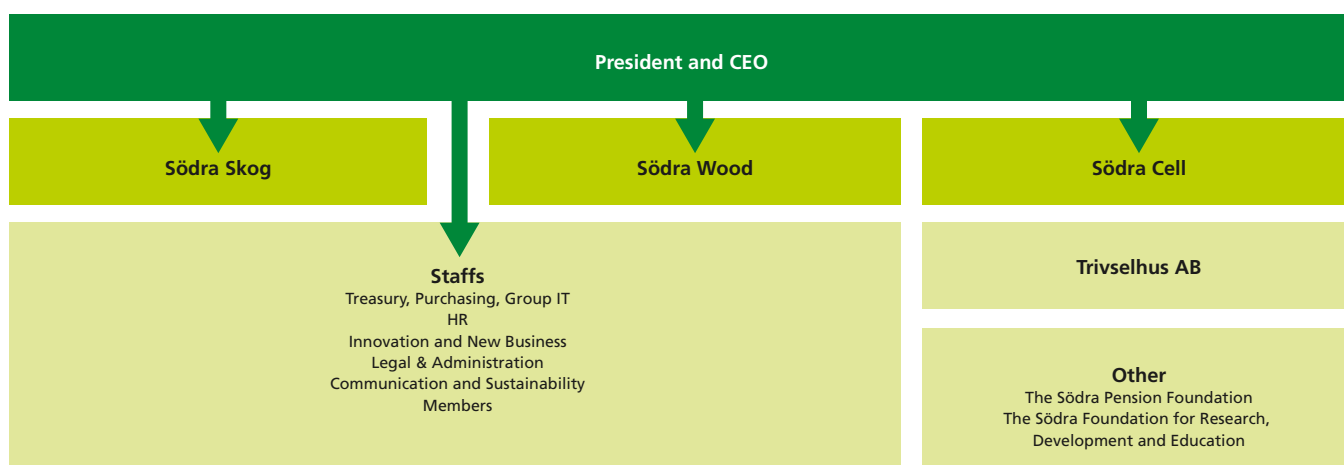
A member must own, or lease, at least five hectares of forest land in the association's membership area, which mainly comprises Götaland.

Every member is entitled to one vote, regardless of contributed capital or the size of their forest estate. In 2017, the number of members grew by 238 (411 to 51,009 (50,771).

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 sub-





mitted 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 owner-

ship 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 ordinary meetings in 2017. The agendas have 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. At the first Council meeting held in the autumn, the main focus is on issues related to the wood market.

ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) is Södra's supreme decision-making body. The AGM is Södra's highest decision-making body and consists of the 200 delegates elected at the local

annual meetings. Members of the Administrative Council are also included in the 200 delegates. The AGM adopts the annual financial statements and profit dividends, and appoints members to the Board, the 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 2017 AGM was held on 17 May in Ronneby. The Meeting resolved on a profit dividend and addressed 18 motions, including Södra's continued efforts with wildlife management, various ways to reward wood deliveries and a review of the possibilities for Södra to produce structural components of solid wood. Lena Ek was re-elected as Chairman. Kjell Andersson, Pål Börjesson and Ylva op den Velde Hammargren were elected to the Board. The number of elected Board members increased from nine to ten.

NOMINATION COMMITTEE

The AGM's Nomination Committee submits proposals regarding Board





Member activities, such as "Framtidsdagen" (Future Day), provide opportunities for sharing experience, creating new contacts and networking between members.

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 changes that are required 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 2017 Annual General Meeting, Tomas Andersson, Roger Johansson, Jan-Ove Johansson, Ann-Charlotte Larsson and Ann Marke were re-elected, and Ingemar Thorstensson was newly elected, to the Nomination Committee. At the Nomination Committee's first meeting, Tomas Andersson 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 ongoing 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 a maximum of 13 ordinary members and three alternates for the employee representatives. Up to ten members are elected by the AGM and three members are employee representatives. The President is not a member of the Board.

THE BOARD'S WORK

The Board manages the company's affairs in the interest of the company and its owners and is responsible for ensuring that the company 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

BOARD MEMBERS AS OF THE ANNUAL GENERAL MEETING IN MAY 2017

Board members	Function	Elected	Attendance	Fees paid (SEK 000s)	Contributed capital At 31 Dec 2017	Committees
Lena Ek	Chairman	2015	10/10	1,300	82,612	Finance, Fees and Benefits
Paul Christensson	Vice Chairman	2010	10/10	642	233,655	Audit
Karin Andersson	Board member	2014	9/10	369	328,723	Audit
Kjell Andersson	Board member	2017	6/6	222	33,600	
Hans Berggren	Board member	2015	10/10	280	262,752	Audit
Pål Börjesson	Board member	2017	6/6	201	843,523	
Ola Hildingsson	Board member	2013	9/10	338	—	Finance, Fees and Benefits
Ulf Johansson	Board member	2014	10/10	423	628,990	Fees and Benefits
Ylva op den Velde Hammargren	Board member	2017	6/6	206	—	
Anders Roman	Board member	2014	10/10	452	1,289,116	
Employee representatives						
Dan Andersson	Employee representative (PTK)	2014	10/10	—	652,670	—
Nils-Erik Andersson	Employee representative (LO)	2007	7/10	—	—	—
Pontus Johansson	Employee representative (LO)	2017	8/10	—	—	—

December

- Business situation
- Determination of the business plan and financial plan
- Determination of: Financial Policy, Investment Policy, Sustainability Policy, Supplier Code and Code of Conduct
- Update on expansion of the Värö pulp mill

October

- Business situation
- Determination of supplier policy and the Group's risk management
- Investment monitoring process
- Detailed review of the wood market
- Interim report

August

- Business situation
- Focus area: Board members from an international cooperative company
- Study tour of Södra Cell Mörrum

July

- Interim report (teleconference)

January

- Discussion of the proposed dividend (teleconference)

February

- Procurement of auditing services (teleconference)

February

- Business situation
- Procurement
- Annual Report, annual accounts and dividend proposal
- Focus area: Macroeconomy, CLT.
- Detailed information about Mörrum

April

- Decision regarding Södra Vindkraft AB (Decision per capsulam)
- Business situation
- Focus area: Equality and diversity
- Liquid biofuels
- Interim report

May

- Statutory meeting (after the AGM)

June

- Strategy meeting
- Business situation
- Combined facilities at Värö and Mönsterås
- The Methanol project, the Silva project
- Focus area: Certification issues, the Swedish Forestry Act/litigation rights, Innovation and New Business, Strategies for processing/structural components, capital and dividend payment issues



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.

In addition to the statutory meeting, the Board is to hold at least six meetings during the year. In 2017, the Board

held ten meetings, including one statutory meeting, one decision “per capsulam” and two 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 preceding year. The June meeting addresses strategy, capital and innovation-related issues. 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: 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. In 2017, the Committee con-



sisted of Paul Christensson, Karin Andersson and Marie Halldén until the AGM. After the AGM, Maria Halldén was replaced by Hans Berggren. The Committee held eight meetings.

The Finance Committee represents the Board in respect of financial risk exposure and financial policy compliance. In 2017, the Committee consisted of Lars Idermark (President), Lena Ek and Ola Hildingsson. The Committee held four meetings.

The Fees and Benefits Committee prepares matters related to principles and guidelines for remuneration and other terms of employment for management. The Committee has also been assigned to monitor and evaluate application of the principles and guidelines for remuneration and other terms of employment determined by the Board, and the remuneration structures and levels of the company. In 2017, the Committee consisted of Lena Ek, Ola Hildingsson and Ulf Johansson. The Committee held four 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 2017 AGM, Martin Johansson and Madeleine Larson from PricewaterhouseCoopers AB were elected auditors, and Mats Löfgren 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 audit 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

To the Annual General Meeting of Södra Skogsägarna ekonomisk förening, Corp. ID. No. 729500-3789

ENGAGEMENT AND RESPONSIBILITY

The Board is responsible for the 2017 Corporate Governance Report on pages 116–120.

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 2017.

Växjö, 12 February 2018



Martin Johansson
Authorised Public Accountant

Madeleine Larsson
Authorised Public Accountant

Board of Directors



Lena Ek

Chairman. Born 1958.

Board member and Chairman since 2015. Term of office expires in 2019. Master of Laws with a specialisation in international law. Honorary doctorate at the Faculty of Engineering at Lund University, government offices-appointed coordinator of negotiations related to the European Spallation Source (ESS) in Lund, Board member of Sparbankernas Riksförbund, the Royal Swedish Academy of Sciences and the Royal Swedish Academy of Agriculture and Forestry.

Previous experience includes Deputy Mayor, Chairman of several national research projects, Board member of the Royal Institute of Technology, member of the Riksdag's Committee on Finance, member of the European Parliament's Industry, Research and Energy Committee, Swedish Minister for the Environment. Board member of Södra 2000–2010.

Forest holding: 171 hectares of productive forest land (jointly owned 50 percent). Total contributed capital in Södra: SEK 82,612.



Paul Christensson

Vice Chairman. Born 1959.

Board member since 2010. Term of office expires in 2018. Chairman of Agroväst.

Forest holding: 215 hectares of productive forest land (jointly owned 50 percent). Total contributed capital in Södra: SEK 233,655.



Karin Andersson

Born 1957.

Board member since 2014. Term of office expires in 2018. Agronomist, SLU Uppsala, 1986. Master of Science in Humans Services, Springfield College, US, 2000. Board member of Humanus Utbildning Syd AB and Enetjärn natur AB.

Forest holding: 124 hectares of productive forest land. Total contributed capital in Södra: SEK 328,723.



Kjell Andersson

Born 1950.

Board member since 2017. Term of office expires in 2018.

Master of Science Industrial Economics LiU, 1975, Master of Business Administration IMD Lausanne, Switzerland. Management consultant.

Forest holding: 97 hectares (50 percent jointly owned). Total contributed capital in Södra: SEK 33,600.



Hans Berggren

Born 1956.

Board member since 2015. Term of office expires in 2019. Agronomist. President of the co-operative association Sveriges Stärkelseproducenter and its subsidiaries Lyckeby Culinar AB, Lyckeby Starch AB and Kockens AB.

Forest holding: 730 hectares of productive forest land (jointly owned 25 percent). Total contributed capital in Södra: SEK 262,752.



Pål Börjesson

Born 1962.

Board member since 2017. Term of office expires in 2019. Professor of environmental and energy systems at the Faculty of Engineering at Lund University.

Forest holding: 126 hectares of productive forestland. Total contributed capital in Södra: SEK 843,523.



Ola Hildingsson

Born 1948.

Board member since 2013. Term of office expires in 2019. Master of Science in Forestry, Skogshögskolan in Stockholm, 1974. Honorary doctor of technology, Umeå University. Chairman of the Board of SilviLao AB and Silvestica Green Forest AB. Board member of Malux AB.

Forest holding: 100 hectares of productive forest land (50 percent jointly owned, not in Södra's membership area).

Holding of total contributed capital pertains to conditions on 31 December 2017.



Ylva op den Velde Hammargren

Born 1966.

Board member since 2017. Term of office expires in 2019. Mining engineer. Business Transformation and CRM Manager at AB SKF. Board member of Nederman.

Forest holding: 0 ha.

Ulf Johansson

Born 1971.

Board member since 2014. Term of office expires in 2018. Chairman of Falkenbergs Sparbank. Board member of Harplinge inköpsförening and the forest-owner delegation of the Federation of Swedish Farmers (LRF).

Forest holding: 107 hectares of productive forestland. Total contributed capital in Södra: SEK 628,990.

Anders Roman

Born 1961.

Board member since 2014. Term of office expires in 2018. MBA, University of Linköping 1988. Chairman of Romans Fastigheter AB and Swedbank Jönköping. Board member and executive member of Stiftelsen Fria Media. Board member of Blixt & Co, US, and Säker Skog.

Forest holding: 833 hectares of productive forestland. Total contributed capital in Södra: SEK 1,289,116.

Changes during the year

At the 2017 Annual General Meeting, Kjell Andersson, Pål Börjesson, and Ylva op den Velde Hammargren were elected new members. At the AGM, Marie Hallén and Stefan Olsson resigned from the Board.

The number of elected Board members thereby increased from nine to ten.

Pontus Johansson replaced Kent Almqvist as employee representative on the Board.

Dan Andersson

Born 1961.

Alternate since 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 the Södra Group Council.

Total contributed capital in Södra: SEK 652,670.

Nils-Erik Andersson

Born 1955.

Alternate since 2007. Board member since 2008. Employee representative of the Swedish Trade Union Confederation (LO). Board member of the Swedish Paper Workers' Union since 2006. Chairman of division 9 of the Swedish Pulp and Paper Workers' Union at Södra Cell Värö.

Total contributed capital in Södra: 0.

Pontus Johansson

Born 1980.

Alternate since 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 the Södra Group Council.

Total contributed capital in Södra: 0.

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 the Board of Unionen trade union at Södra Cell Mörrum. Member of the Södra 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 the Södra Group Council.

Lars Nilsson

Born 1961.

Alternate since 2017. Employee representative of the Swedish Trade Union Confederation (LO). Chairman of the Swedish Pulp and Paper Workers' Union at Södra Cell Mönsterås. Member of the Södra Group Council.



Group Senior Management



Lars Idermark

President and CEO. Born 1957.

Agronomist and MBA. Employed 2013. Group management since 2013.

Previous experience: President and CEO of PostNord AB and Kooperativa Förbundet. President of Second AP Fund. Deputy President and CEO of Capio AB. Vice President and Deputy President and CEO, FöreningsSparbanken AB (Swedbank). CFO and Vice President, Föreningsbanken AB. President and CEO, the Federation of Swedish Farmers (LRF) Holding AB.

Other assignments: Chairman of the Board of Swedbank.

Total contributed capital in Södra: SEK 441,150.



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.

Total contributed capital in Södra: 0



Anna Belfrage

CFO. Born 1962.

MBA. Employed 2017. Group management since 2017.

Previous experience: CFO and Interim CEO of Beijer Electronics. CFO at ABS Group, part of the Cardo Group, various positions in such industrial companies as Dresser Wayne Fueling Systems, Obducat, Lund Eastern Energy and Åkerlund & Rausing, plus several years as an auditor at PwC.

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.

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.

Total contributed capital in Södra: SEK 272,112.



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, company lawyer at Södra and ABB Financial Services AB, law clerk at Västerås District Court.

Other assignments: Chairman of Trivselhus AB.

Total contributed capital in Södra: 0



Anica Kabbenäs

Secretary and Executive Assistant. Born 1956.

Employed 1972.



Håkan Larsson

Director of Strategy. Born 1967.

Master of Science in Forestry. Employed 1994. Group management since 2013.

Previous experience: Various positions at Södra, including Director of Forestry, Head of Production, regional manager and IT Project Director.

Total contributed capital in Södra: SEK 711,018.



Jörgen Lindquist

President of the 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 chemistry and packaging sectors.

Other assignments: Board member of Ting i Trä AB.

Total contributed capital in Södra: 0



Gunilla Saltin

President of Södra Cell business area. Born 1965.

Master of Science, Chemical Engineering and MBA. PhD Chemical Engineering University of Idaho, USA. Employed 2000. Group management since 2008.

Previous experience: Site manager at Södra Cell Värö, process engineering manager at Södra Cell Värö, process engineer at MoDo Paper AB.

Other assignments: Board member of LKAB and Holtab AB.

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 and PartnerTech.

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 and Statkraft Södra Vindkraft AB.

Total contributed capital in Södra: 0

Changes during the year

Håkan Larsson was appointed new Director of Strategy in May 2017. Olof Hansson was then appointed Interim President of Södra Skog until December, when he became President of the Södra Skog business area.

Gustav Tibblin replaced Magnus Berg in July 2017 as Director of Members.

Catrin Gustavsson replaced Laila Rogestedt in August 2017 as Head of Innovation and New Business.

In December 2017, Maria Baldin was appointed to the new position of Director of Communications and Sustainability. Annica Gerentz stepped down from her position as Director of Communications in September 2017.



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 watercourses are valuable, 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 sink

Uptake of CO₂ – in a growing forest, for example.

Chemicals

A general term for the chemical products used in Södra's operations.

CO₂ equivalent

A standard unit for measuring greenhouse gas emissions. Each type of greenhouse gas has a different effect on the climate. When emissions are indicated in CO₂ equivalents, all greenhouse gases are included as if they were CO₂.

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.

Degraded forest

Unproductive forest land.

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.

Energy units

1 Terawatt hour (TWh) = 1,000 Gigawatt hours (GWh) = 1,000,000 Megawatt hours (MWh) = 1,000,000,000 kilowatt hours (kWh).

Excess heat

Excess heat is surplus heat from the process.

Forest residues

Branches, treetops, twigs and foliage – harvest 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" enabling transparency about 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 final harvesting operations and thinning operations, respectively, have complied with FSC® and PEFC™ forest certification system requirements for the application of general environmental considerations in final 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 electricity

In everyday language, electricity produced from renewable sources such as biomass, wind and hydro.

Green Forest Management Plan

The Green Forest Management Plan is an important tool, and provides support for economical 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 CO₂, 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 used to certify environmental management systems.

ISO 50001

An international standard used to certify energy management systems.

Lignin

Lignin is the substance that acts as a binding agent, and binds the cellulose fibres in wood. Value by-product from 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 produced from renewable biomass, such as HVO biodiesel.

LTA

Lost-time-accident. Occupational injury with absence.

LTAR

Lost-time-accident rate. Number of occupational injuries with absence per million hours worked.

m³f

Cubic metres of felled volume. Refers to the outer dimensions of the material and used for woodchips, for example.

m³fo

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.

m³sub

Cubic metres solid volume underbark. The volume of the 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.

OHSAS 18001

An international standard used to certify occupational health and safety management systems.

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 over the past year, and the capital they have contributed. The concept therefore includes dividends on wood deliveries and contributed capital, but also a bonus issue. The bonus issue increases the members' contributed capital and is a special form of value transfer that converts collectively owned equity to individually owned capital.

Site directive

Written instructions for harvesting operations stipulating, for example, the amount of wood to be harvested and the nature conservation measures required.

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 substances. Uses include the production of crude tall diesel and chemicals.

Financial information

REPORTING CALENDAR

Quarterly reports will be published on the following dates:

Q1	19 April 2018
Q2	16 July 2018
Q3	24 October 2018
Q4/Year-end Report	February 2019

The Annual General Meeting for the 2017 financial year will be held on 23 May 2018, and in May 2019 for the 2018 financial year.

The reports, as well as other information about Södra, are available at sodra.com





Contacts and addresses

High availability and good service are important in Södra's daily procedures. Here you can find the telephone numbers to Södra Skogsägarna ekonomisk förening and its various business areas. More information is available at sodra.com.

Södra Skogsägarna ekonomisk förening

Skogsudden
SE-351 89 Växjö, Sweden
+46 (0)470 890 00

Södra's member support
+46 (0)470 89 100
medlemsservice@sodra.com

Södra Skog

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Region Syd
Södra Skog
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

Södra Skog
Box 509
SE-383 25 Mönsterås, Sweden
+46 (0)499 159 80

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 00
Linköping	+46 (0)10-471 63 30

Region Väst

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SE-432 86 Väröbacka, Sweden
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Forestry operations areas

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Gislaved	+46 (0)10-471 63 90
Kinna	+46 (0)10-471 64 20
Jönköping	+46 (0)10-471 64 50
Sollebrunn	+46 (0)10-471 64 80
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Other contacts, Södra Skog

Södra Skogsenergi	+46 (0)470-890 00
Södra Skogsplantor	+46 (0)346-71 43 30
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Södra Mezs, Latvia	+46 (0)470-893 89

Södra Wood

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Sawmills

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Södra Wood Långasjö	+46 (0)471-509 00
Södra Wood Mönsterås	+46 (0)499-159 00
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 Timber A/S, Denmark	+45 48 48 82 00
Södra Wood, China	+86 185 1621 2969
Södra Wood, US	+1 503 855 3032
Södra Wood, Germany	+49 171 371 1877
Södra Wood Ltd, UK	+44 786 053 4061
Södra Wood Oy, Finland	+358 40 826 7884

Interior wood

Södra Wood Kallinge	+46 (0)457-380 00
Södra Wood Ronneby	+46 (0)457-380 00
Södra Wood Umeå	+46 (0)90-253 50
Berg & Berg	+46 (0)457-792 50

Södra Cell

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Södra Cell Mönsterås	+46 (0)499-150 00
Södra Cell Mörrum	+46 (0)454-550 00
Södra Cell Värö	+46 (0)340-62 80 00
Södra Cell International	+46 (0)470 890 00
Södra Cell, Germany	+49 898 906 760 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 Södra's Annual Report with Sustainability Report, please contact:
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80 years of co-operation

In 2018, Södra will celebrate its 80th anniversary. The story of Södra tells how individual forest owners came together, with commitment and foresight, to create a successful industrial group. The focus has always been to secure markets for its members' forest products, through a long-term approach, stability, development and innovation. Follow Södra's anniversary celebrations at sodra.com/sodrahistorien.



Members

Today, Södra has more than 51,000 members as its owners. Södra's offerings for responsible and sustainable forest management range from quality-assured harvesting and effective forest management to secured markets for timber and processing in mills. Södra's successful profit distribution model is based on timber delivered, and the contributed capital of each Södra member.

Industrial development

Södra's first industrial facility was a plant for tar and turpentine production, and the first sawmill was acquired during the Second World War. Today's combined facilities comprise sawmills, pulp mills and innovative initiatives in liquid bio-fuels and sawn timber processing.



Business policy lobbying

Today, business policy lobbying is more globally focused. Södra's then President and subsequent Chairman (Gösta Edström) speaking to Prince Bertil, with the leader of the Swedish Centre Party at the time (Gunnar Hedlund). In 2017, Södra's Chairman (Lena Ek) and President (Lars Idermark) showed the European Commissioner for Agriculture and Rural Development (Phil Hogan) around the pulp mill at Värö.

This is Södra

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Founded in 1938, Södra is Sweden's largest forest-owner association, with more than 51,000 forest owners as its members. Södra is also an international forest industry group, with operations based on processing its members' forest products. Södra is one of the largest European suppliers of market pulp, and has one of the largest sawmill operations in Europe. In 2017, the wood volume was 15.9 million m³sub, sales amounted to SEK 20.5 billion and employees totalled 3,400.