

Södra shows the way



2018 | ANNUAL REPORT WITH  
SUSTAINABILITY REPORT



# Contents

2	This is Södra
3	The year in brief
4	Södra's world
6	Comment from the President and CEO
8	<b>THE OPERATIONS</b>
10	Value-creation model
12	Strategies and objectives
14	Market conditions
16	Södra Skog
20	Södra Wood
24	Södra Cell
28	Other segments
29	Research and development
30	<b>SUSTAINABILITY REPORT</b>
32	A Sustainable Södra
56	About Södra's Sustainability Report
58	Sustainability data
63	GRI Content Index
66	Assurance report
67	Sustainability Report in accordance with the Swedish Annual Accounts Act
67	Auditor's statement
68	<b>FINANCIAL STATEMENTS</b>
70	Contents
71	Multi-year summary
72	Alternative performance measures
73	Other definitions
74	Directors' Report
79	Consolidated statement of comprehensive income
80	Consolidated statement of financial position
82	Consolidated statement of changes in equity
83	Consolidated statement of cash flows
84	Parent Company income statement
85	Parent Company balance sheet
87	Parent Company statement of changes in equity
88	Parent Company statement of cash flows
89	Notes
123	Proposed appropriation of profits
124	Auditor's report
128	<b>CORPORATE GOVERNANCE</b>
130	Comment from the Chairman
132	Corporate Governance Report
137	Auditor's statement
138	Board of Directors
140	Group Senior Management
142	<b>OTHER INFORMATION</b>
142	Södra's ABC
144	Financial information
145	Contacts and addresses

The Board of Directors and President of Södra Skogsägarna ekonomisk förening (corporate identity number 729500-3789) hereby submit the 2018 Annual Report for the Group and the Parent Company. The audited annual report comprises pages 71–123. 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 2019 for adoption. The Sustainability Report comprises pages 30–65. The scope of the mandatory Sustainability Report is presented on page 67. The Corporate Governance Report comprises pages 132–136.



# Södra – where everything comes from the forest, and innovations grow on trees

Everything that Södra does is based on trees. This versatile raw material from the forest forms the basis of our daily industrial operations. We create long-term value, not only for our nearly 52,000 members but also for Sweden, by being a major exporter of high-grade pulp and sawn timber – which creates jobs and strengthens our welfare system.

As a renewable, recyclable and biodegradable raw material, trees also play a crucial role in building a green society and a sustainable future. Thanks to decades of innovation, trees can continue to live – in our homes, in the fuel we put in our vehicles and maybe even in the clothes we are wearing.

To continue pushing the boundaries of what a forest company can be, Södra practices what it preaches. Step by step, we are now achieving our ambitious sustainability targets and do everything we can to contribute to a more sustainable society.

All of this is possible thanks to responsible forest management, efficient industrial operations and major investments in research, development and digitisation – the areas that Södra will continue to prioritise to forge a leading position.

Södra shows the way how a modern forest company can act and operate.





THIS IS SÖDRA

# This is Södra

Södra is Sweden's largest forest-owner association with nearly 52,000 forest owners as its members and owners. Södra is also an international forest industry group, with operations based on processing mainly its own members' forest products.

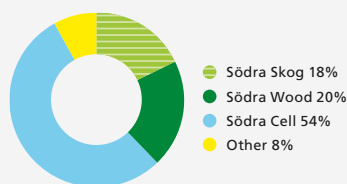
Södra's business is built on value-generating relationships and a long-term approach. The overall assignment from our owners is to secure markets for our members' forest products, to promote the profitability of their forest estates by providing advice and support for responsible and sustainable forestry,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

The wood is processed in Södra's mills and becomes sawn and planed timber, biofuel and market pulp.

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 (market pulp). Södra also produces dissolving pulp from hardwood. Södra's three pulp mills have almost fossil-free production and generate large volumes of surplus energy. This bio-based energy is sold as both green electricity and district heating. Södra also owns the house-manufacturing company, Trivselhus.

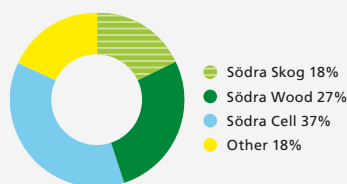
Södra purposefully focuses on innovation to develop new products based on renewable raw materials from the forest. In 2018, the wood volume was 16.5 million m<sup>3</sup>sub (cubic metres solid volume underbark). Södra's sales amounted to SEK 24 billion and the number of employees was just over 3,100.

Sales per business area



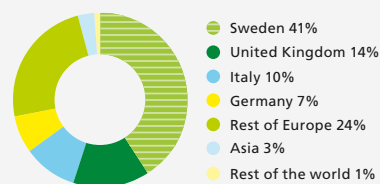
SEK 24,230 million in total, excluding internal deliveries.

Employees per business area



3,141 employees in total.

Geographic markets



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



## 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 regeneration harvesting. The business activities are locally based, in 19 forestry operations areas and 36 forestry districts.



## Södra Wood

Södra Wood's operation comprises sawn timber and building systems. High-grade sawn and planed construction materials are produced at Södra's sawmills and planing mills. 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 – the forest. Softwood sulphate pulp accounts for most of the production volume, but hardwood pulp is also produced. Dissolving pulp is also produced in the pulp mill at Mörrum. Södra Cell is a major producer and supplier of biofuel, green electricity, district heating and raw material for liquid biofuels.



# The year in brief

- Net sales rose 18 percent to SEK 24,230 million.
- Record-high operating profit of SEK 4,508 million.
- Return on capital employed was 24 percent.
- The Board proposes a dividend of SEK 1,795 million.

Key indicators	2018	2017	2016 <sup>1)</sup>	2015	2014
Net sales, SEK million	24,230	20,518	18,482	18,267	17,339
Operating profit before depreciation, amortisation and impairment, SEK million	5,654	3,009	1,887	3,146	2,552
Operating profit, SEK million	4,508	1,917	979	2,162	1,516
Profit before tax, SEK million	4,431	1,830	913	2,072	1,460
Return on capital employed, %	24	12	7	17	13
Equity ratio, %	59	56	54	62	61
Cash flow after investments, SEK million	-142	356	-1,581	218	267
Profit distribution, SEK million	1,795 <sup>2)</sup>	868	602	1,002	553
Affiliated forest area, 1,000 hectares	2,591	2,517	2,481	2,440	2,392
Wood volume, million m <sup>3</sup> sub	16.5	15.9	15.0	15.1	15.3
No. of employees	3,141	3,402	3,594	3,599	3,524
CO <sub>2</sub> fossil from production, ktonnes	103	80	99	87	131
CO <sub>2</sub> fossil from transportation, ktonnes	196	191	199	193	210
Rate of forest growth, m <sup>3</sup> fo/ha per year	6.7	6.9	6.9	6.6	6.9
Lost-time-accidents (LTA) <sup>3)</sup> , no.	77	94	94	75	104
Lost-time-accident rate (LTAR) <sup>4)</sup>	15	17	16	13	18

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

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

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

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

## SEK 4.5 billion

The positive trend continued and in 2018, Södra reported its best operating profit ever.

Read more about Södra's financial statements on pages 68–127.

## 6.7 m<sup>3</sup>fo

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

Read more about climate-positive operations on pages 38–39.

## 1.8 + 1.8

Södra's pulp mills produced 1.8 million tonnes of pulp and the sawmills produced 1.8 million m<sup>3</sup> of sawn timber.

Read more about Södra's business areas on pages 16–28.







# Focus on competitiveness and customer value

Södra's privately owned members' forests form the basis of its business operations. Södra responds to its customers' needs and creates a competitive company through local involvement and an international presence.

## STRONG LOCAL INVOLVEMENT

Södra's nearly 52,000 members own over half of all privately owned forest in southern Sweden. Overall, this is about 2.6 million hectares of forest land, or one-quarter of the entire surface 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 10 million m<sup>3</sup> 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 in Sweden is higher than the volume harvested, and the growing stock increases every year. Södra works together with its members across the entire ecosystem, from seed to harvest and new regeneration methods. For every tree harvested, three new trees are planted. This responsible forest management ensures regrowth for future generations and future needs. Environmental considerations in forest regeneration also create conditions for higher nature conservation values and biodiversity.

## INCREASED PROCESSING

Södra produces approximately 1.8 million m<sup>3</sup> of sawn timber and is developing new building materials with cross-laminated timber to meet the growing interest in timber-frame construction. Production is carried out in Sweden, Norway, Finland, Ireland and the UK. The products are mainly delivered to construction companies, and the furniture and wood-processing industries.

### Södra's production units

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

Refers to production units at 31 Dec 2018.





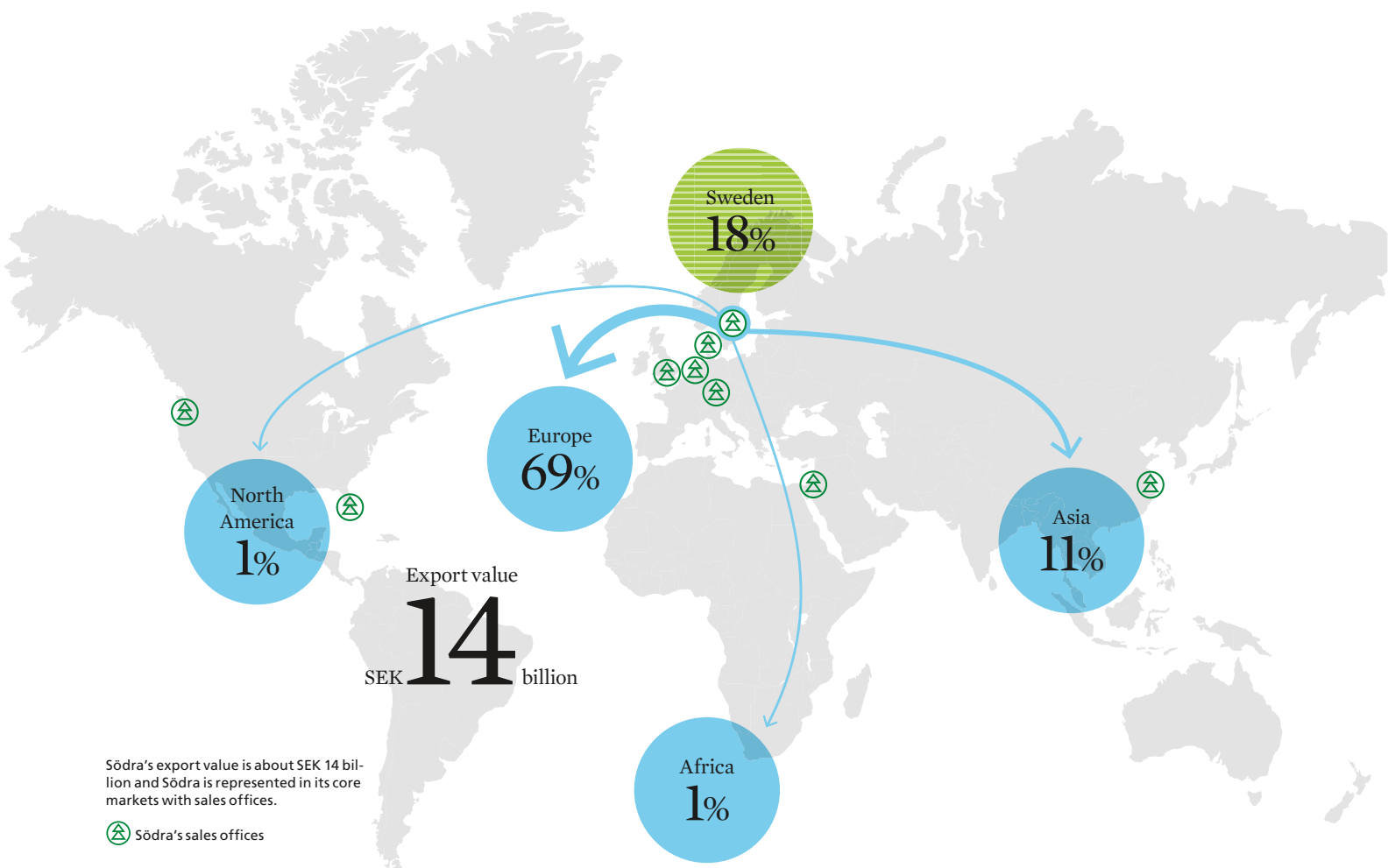
Södra is one of the largest manufacturers of bleached softwood sulphate pulp in the world and meets the growing demand for hardwood-based dissolving pulp. The pulp mills produce approximately 1.8 million tonnes per year.

#### STRONG BRAND IN AN INTERNATIONAL MARKET

Sweden is the world's third-largest exporter of sawn softwood timber and the fourth-largest exporter of softwood pulp. The Södra Group is a leading player in the European market and contributes to Sweden's strong position as a forest nation. Almost 80 percent of the products processed by Södra's pulp mills and sawn-timber

production units are exported. The total value of exports is about SEK 14 billion per year.

Södra is a strong and well-established brand among discerning customers spread across much of the world. The largest single export markets are the UK, Italy and Germany. Pulp is mainly delivered to customers in Europe that produce tissue, specialty papers, packaging and publishing paper. Growth is also strong in the Asian region, particularly in China. Sawn timber customers can be found all over the world, but most sales are conducted in northern Europe.



Södra's export value is about SEK 14 billion and Södra is represented in its core markets with sales offices.

Södra's sales offices



# Anniversary year with a historical record-high result

Södra continues to show the way forward with a record-high result for 2018, the year of its 80th anniversary. Net sales rose 18 percent to SEK 24,230 million and operating profit totalled SEK 4,508 million. The Board proposes a dividend of SEK 1,795 million. Södra is taking advantage of the opportunities offered by the transition to a more sustainable bioeconomy through continued expansion, processing and investments in innovation.

## STRATEGY FOR GROWTH, PROFITABILITY AND SUSTAINABILITY

Södra continues to create value in line with our fulfilment of the Group strategy's objectives by 2020. We are growing with our customers in selected markets, our profit margin is high and we are focused on our core business – the production of paper and dissolving pulp, and sawn and engineered timber products. This will also continue for the foreseeable future. This is where our largest revenue and cash flows are generated. At the same time, technical innovations and digitisation are continuously leading to increased processing and improvements. Paper pulp and sawn timber are no longer bulk goods; they are products adapted to high quality standards with ever-increasing high-tech content, in line with our rapidly evolving customers and markets. At the same time, we are purposefully focused on research and innovation with the aim of commercialising new and sustainable forest-based products.

*“We will continue to show the way and be a next-generation forest company, and take advantage of the ongoing transition towards a more sustainable bioeconomy.”*

From residue flows and residual products, we develop innovative solutions to meet new needs, driven by the ongoing transition towards a more sustainable bioeconomy. Södra also, therefore, invests in the production of liquid biofuels from forest biomass. We will start to produce methanol at the pulp mill in Mönsterås and, together with Norwegian Statkraft, we are investing in new technology to produce liquid biofuel from forest biomass in Silva Green Fuel. We also produce high-quality houses.

## BEST RESULT IN SÖDRA'S HISTORY

Södra's 2018 result is the best in the company's history. It is especially gratifying in this anniversary year, when Södra is celebrating 80 years. Net sales rose 18 percent to SEK 24,230 million and operating profit totalled SEK 4,508 million. The Board proposes a profit distribution of SEK 1,795 million. The excellent result was due to a favourable global economy during the year with strong demand and positive price trends for both paper pulp and sawn timber in our core markets. The strong demand was met by our extensive

expansion investments of approximately SEK 11 billion in pulp mills, sawmills and new innovations over the past four years.

In conjunction with the restructuring process, the interior wood business was discontinued during the year. The result should also be viewed against the background of weather-related challenges in 2018 – first, wet soil, followed by an extremely hot summer, which led to very high fire danger levels and temporary harvesting bans. In autumn, we could also confirm extensive spruce bark beetle damage across much of Södra's forest operations area. The past year's weather challenges lead to reflection. Global warming and climate change will probably result in more of these extreme weather changes in our country as well. We must therefore prepare ourselves for this in several ways, for example, by maintaining higher fire preparedness. We may also need to change our working methods in relation to logistics and warehousing, in order to protect our industrial supply chain.

## STRATEGIC FOREST ACQUISITION IN LATVIA

Access to wood raw material is crucial for our industry, and the strategic role of forests has increased. We also see a growing demand for forest products as the bioeconomy evolves. Södra's acquisitions of forest land in Latvia should be seen against this background. The foundation of Södra's operations is, and will continue to be, to secure markets for our members' forest products through an efficient processing industry. The acquisition in Latvia will enable us to further optimise our imports and secure future supplies of raw material for our mills. The acquisition of forest land in Latvia is also a good capital investment.

## FORESTS HAVE SUSTAINABLE SOLUTIONS

Sustainability has acquired a much greater focus in recent years, alongside of raised alarms about climate change and global warming. The world's countries need to cooperate here and take stronger action. The UN Sustainable Development Goals are a strong driving force, as well as the Paris Agreement. It is gratifying that 200 countries were able to adopt a 'rulebook' at the Climate Change Conference in Poland in December 2018, but more concrete and rapid measures are needed to reduce CO<sub>2</sub> emissions. The forest industry is in an ideal position to support the transition to a bioeconomy. Wood raw material has unique properties as a renewable resource, growing forests absorb CO<sub>2</sub> and forest-based products can replace products based on fossil fuels. Södra is working hard to seize the opportunities that forests provide. Our progressive approach is also reflected in our 15 ambitious sustainability targets, which we are gradually achieving. However, some of these targets can only be met if society and other industries also contribute to the necessary transition. To be a successful company,





### Record-high result

Södra's 2018 result is the best in the company's history.

### Access to raw material secured

Södra's forest acquisition in Latvia will help to secure the future raw material needs of our mills as demand grows.

### Focus on sustainability

Forests create unique opportunities for meeting climate-change challenges and contribute to the transition to a more sustainable bioeconomy.

### Equipped for the future

Södra has a strong position and is well-equipped to meet weaker global growth and a decline in economic activity.



we have to work pro-actively and meet customer demand. Sustainability and profitability go hand in hand and are simply good for business. The Group also has a heightened focus on occupational health and safety.

### BUSINESS MODELS CHALLENGED BY DIGITISATION

We are working hard to reap the benefits of the rapid digital transformation that is challenging and changing existing business models. The aim is that Södra will be one of the most digitised forest companies in the world and we have recently accelerated our own pace of change substantially. We are making good progress by, for example, streamlining and digitising the production environments at pulp mills and sawmills. We see more digital services and new e-commerce solutions in customer relationships. Södra is also at the forefront when it comes to developing and using new technology for the digital transformation of precision forestry, including increased use of drones and various digital services for information. In addition, artificial intelligence has made its entry via our first digital employee – a software robot.

### 80 YEARS OF TEAMWORK AND COOPERATION

Södra has been promoting the interests of forest owners since 1938. Our history shows how a member-owned company, where forest owners with a common interest join forces, can build strong values and a globally competitive industrial operation that processes the forest products of forest owners. But not only that; Södra also

develops services and products that our members need to conduct sustainable and responsible forestry. Another aspect is the unique conditions governing each individual forest estate. Strong ownership rights and freedom with responsibilities are cornerstones, and will also ensure forest growth and biodiversity in the future. Sweden's continued future as a leading forest nation must therefore be based on common sense and long-term business-policy rules for private forest owners.

### A STRONG SÖDRA

The long-term market outlook for paper pulp and sawn and processed wood is expected to remain bright. The short-term perspective is overshadowed by geopolitical concerns including threats to free trade, Brexit and the rise of populism. Uncertainty always slows global economic growth and we see some signs that global growth expectations have been revised downwards from previously high levels. Södra has the commercial and financial strength to meet a weaker economy. We will continue to show the way and be a next-generation forest company, and take advantage of the ongoing transition towards a more sustainable bioeconomy.

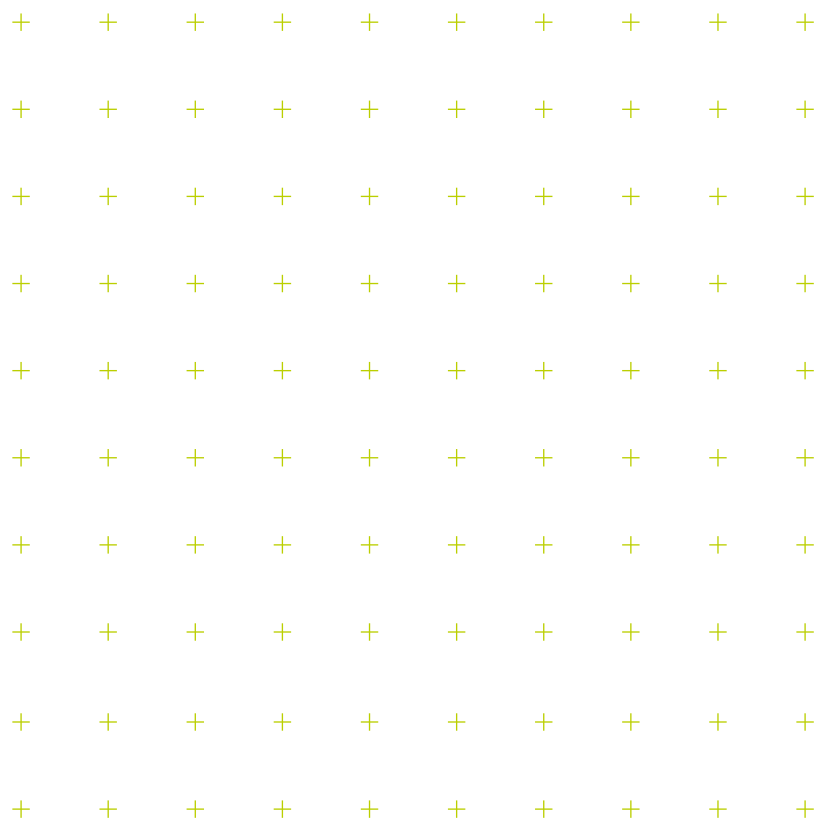
### Lars Idermark

President and CEO



THE OPERATIONS

# The operations







# Relationships and a long-term approach create value

*Through value-generating relationships and a long-term approach, Södra is building a next-generation forest company.*

## 2020

Södra's objective is to be a more profitable, more competitive, innovative and sustainable business, with a stronger global market position, by 2020.

## 1.9 million tonnes CO<sub>2</sub>

Climate benefits of growing forests. 1.9 million tonnes of CO<sub>2</sub> is absorbed annually by Södra members' forests.

## SEK 14 billion export value

Export revenues help to create value for Södra's stakeholders – owners, customers, suppliers, employees and society.





# Södra creates value

## Resources



### Natural resources

Wood raw material: 16.5 million m<sup>3</sup>sub, of which Södra's members account for 10 million m<sup>3</sup>sub.  
Water: 83 million m<sup>3</sup>.  
Fuels for production: 13.5 TWh, of which biofuels account for 99 percent.

### Financial resources

Equity: SEK 16 billion, of which SEK 4 billion is capital contributed by members.  
Borrowed capital: SEK 6 billion, of which SEK 3.5 billion from members.

### Industry

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

### Employees

Just over 3,100 employees, of whom 95 percent are based in Sweden and 5 percent in eight other countries.

### Partners

340 forestry contractors, 140 carriers, other suppliers, joint ventures (SunPine, Silva Green Fuel), trade associations.

### Innovation

SEK 170 million invested in R&D.

### Set of values

Value-generating relationships and a long-term approach

## How we create value



### Modern and digitised forestry

#### Forestry services

Forest regeneration, cleaning, thinning, regeneration harvesting.

### Processing of wood raw material

#### Industrial processes

Sawn timber 1.8 million m<sup>3</sup>, paper pulp 1.6 million tonnes, dissolving pulp 142,000 tonnes, electricity 388 GWh, district heating 430 GWh, solid biofuels 3,900 GWh.

### Customer and supplier partnerships and service

### Business policy to promote the interests of members

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

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

### Strategy

#### Growth.

Profitability and cash flow.  
Focus on core business.  
Growth in the right markets.  
New products and innovation.  
Sustainability.  
See pages 12–13.

### Governance

Corporate governance, see pages 128–136.  
Policies and guidelines, see pages 54–55.

**EXTERNAL FACTORS** – Global trends and drivers, see pages 14–15.



Everything we do is  
based on the forest

**2.6 million hectares**  
forest land in Södra's membership area



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

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

**1.8**  
million tonnes  
pulp

In our customers' production, this would equate to:  
4.3 billion books and  
480 million sweaters

**4,700** GWh  
Energy

For our customers, this would equate to:  
50,000 times around the  
world with an electric car and  
27,000 houses heated with  
district heating

Biofuel deliveries account for:  
6 percent of Sweden's total  
consumption of solid biofuels

## Value created



### Customers

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

### Members/Owners

Good conditions for conducting forestry. Profitable markets for wood raw material and more value for the forest owners.  
Profit distribution: SEK 690/hectare, and net forest income from Södra's model forest estate: SEK 1,100/hectare.

### Employees

Salaries, benefits and social security costs: SEK 2,400 million.  
Competency development.

### Partners

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

### Society

Taxes: Income tax paid: SEK 260 million, property tax: SEK 23 million.  
Research and innovation: SEK 170 million. The Södra Research Foundation has awarded funding of more than SEK 210 million since 1995.  
Community involvement, operations, employment and skills in smaller towns. The forest industry is becoming more competitive due to profitable business operations and innovation. Sponsorship.

### Environment

Climate benefits of growing forests: 1.9 million tonnes of CO<sub>2</sub> is absorbed annually by Södra members' forests. Substitution effect by using renewable wood raw material to replace fossil materials, and green energy to replace fossil energy. Voluntary allocations of forest land, and management measures to protect and strengthen biodiversity.

#### Financial targets

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

#### Prioritised sustainability targets

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

**VISION – Södra shows the way**

**Approx. 120,000 hectares**  
of own forest holdings in Sweden, Estonia and Latvia

**2/3 of forest land**  
is certified forest



# Strategy for profitability and sustainability

Södra's assignment from its owners is to secure markets for its members' forest products and to 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 goes its own way. We challenge expectations of what a forest company is. We have a strong sense of self-confidence and our actions are clear. Together with our members, Södra is showing what it means to be a next-generation forest company.

## TARGET:

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

## FINANCIAL TARGETS

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

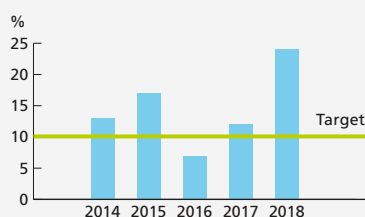
■ The financial position must be strong to provide the flexibility for making long-term business decisions. The long-term equity ratio should be at least 55 percent.

■ 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.

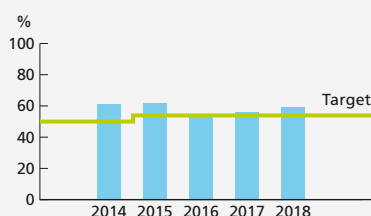


Return on capital employed was 24 percent and exceeded the long-term target of 10 percent, mainly attributable to higher volumes and an upward price trend for Södra's finished products.

### Equity ratio

# 55%

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

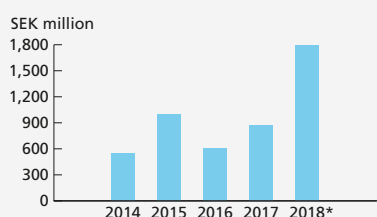


The balance sheet remains very strong. The equity ratio was 59 percent, which exceeded the financial target.

### Profit distribution

# 50%

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



The Board's proposed profit distribution for 2018 is SEK 1,795 million, corresponding to 41 percent of profit before tax. The profit distribution for the past five years is 45 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 management and a long-term approach. Södra therefore has access to large amounts of forest products that require markets. Södra has invested in higher production capacity to meet the growing needs of its owners for markets, and the rising demand from customers for products based mainly on Swedish wood 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 through increased efficiency and better utilisation of joint resources.

### Focus on core business

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

### Growth in the right markets

Södra is a highly export-dependent company, with the international market – mainly Europe – accounting for almost two-thirds of sales. The rapidly growing Asian markets, where Södra is strengthening its presence, 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 and processed wood. Innovations in existing product categories are essential for strengthening our customer offering. A greater focus is being placed on speeding up the development of new products for commercial use.

### Sustainability

Södra's operations are based on responsible forestry. Södra is focused on six strategic areas – climate-positive operations, sustainable forestry, sustainable innovation, resource efficiency, responsible employer and committed employees, and responsible business. Södra has 15 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.

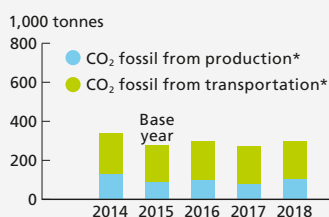
■ Growing forests have a key role to play in combatting climate change. By 2050, the annual rate of forest growth on estates owned by Södra's members will be 20 percent higher than in 2015.

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

#### Fossil-fuel free

0

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



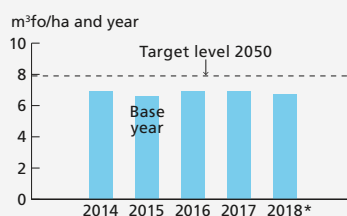
Fossil CO<sub>2</sub> emissions from production, working machinery and internal transportation were 103 ktonnes, up 17 percent compared with 2015. In 2018, the consumption of fossil fuel oil in the pulp mills was higher compared with preceding years. Fossil CO<sub>2</sub> emissions from transportation were 196 ktonnes, up 2 percent compared with 2015.

\* 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.

#### Forest growth

20%

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



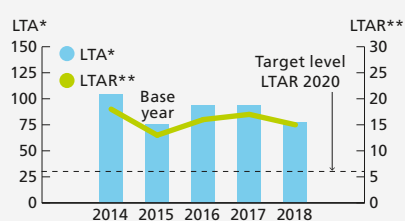
The annual rate of forest growth in Södra members' forests was 6.7 m<sup>3</sup>fo/ha, up 2 percent compared with 2015. The annual growth rate usually ranges from 0.5–1.0 percent. A longer observation series is required to read trends.

\* 2018 relates to average growth in the 2012–2016 period, the most recent value available. The rate of forest growth is based on the National Forest Inventory's data for land owned by Södra members.

#### Occupational injuries

0

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



The number of occupational injuries with absence was 77, down 18 percent, and the lost-time-accident rate was 15, down 12 percent compared with 2017. Initiatives during the year were mainly focused on a safety culture and safe behaviours.

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

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



# Driving forces and development trends

Södra operates in a global market where customer demand for market pulp and sawn timber is mainly influenced by the general global trend, especially in relation to the economic climate, prosperity, employment levels and demographics, but also by movements in some key currencies.

Several global trends contribute to the continuously growing demand for products based on renewable materials such as wood raw material. Global climate-change challenges increase the demand for a faster transition towards a more sustainable bio-economy. This development is driven by the UN's 17 Sustainable Development Goals.

## GLOBALISATION AND TRADE

The growing globalisation affects people and businesses in many ways. Sweden is a leading forest nation and the transition to a more bio-based economy creates favourable conditions for the Swedish forest industry. To be competitive, Södra must therefore continue to grow in the right markets in strong global competition.

## CLIMATE-CHANGE CHALLENGES

Forests and forest-based products are one of several solutions to global warming. Growing forests absorb CO<sub>2</sub> and timber products store carbon. Forest products are an increasingly strategic resource and processed wood can often replace fossil-based products.

## POPULATION GROWTH AND INCREASED PROSPERITY

As the global population increases, so does demand for a variety of products. Increased prosperity for a growing proportion of the world's population creates new consumption patterns with higher demand for sustainable products. These include paper pulp-based products, such as toilet and hygiene products and smart packaging, while demand for clothing made from dissolving pulp is also rising. Demand for this renewable, recyclable and biodegradable wood raw material is already growing and will continue to increase in the long term. A growing consumer trend is heightened environmental awareness and actively choosing products made from renewable raw materials.

## URBANISATION

By 2050, 70 percent of the world's population is expected to live in cities. This will lead to new demands on buildings, energy and supply solutions. Forest-based products can contribute, in a climate-friendly way, to new solutions to these challenges with climate-smart timber-frame buildings and housing with intelligent heating and energy solutions. This development will also increase demand for sustainable food packaging based on renewable raw materials.

**DIGITISATION**

The digital transformation is changing both consumption patterns and business models, which is essentially reducing the need for printed media and therefore forest products. But digitisation is also creating opportunities for higher productivity throughout the entire production chain – from seedling to finished forest product. For example, digital technology and information flows are improving the precision of forestry, and promoting the profitability of forest owners. New e-commerce is creating new business opportunities and demand for smart packaging solutions, for example, is growing.

**CURRENCY MOVEMENTS**

The exchange rates for some key currencies are central, specifically the USD, EUR and GBP. Pulp prices are denominated in USD, while many customers are located in the eurozone. The GBP rate affects the sawmill operations, because the UK is the largest export market for sawn timber.

**CUSTOMERS AND PRODUCTS**

Södra's pulp customers are primarily manufacturers of tissue, fine paper, printing paper and various specialty papers. They produce kitchen and toilet paper, soft facial tissue, coffee filters, wallpaper, printer paper, high-grade printing paper, bro-

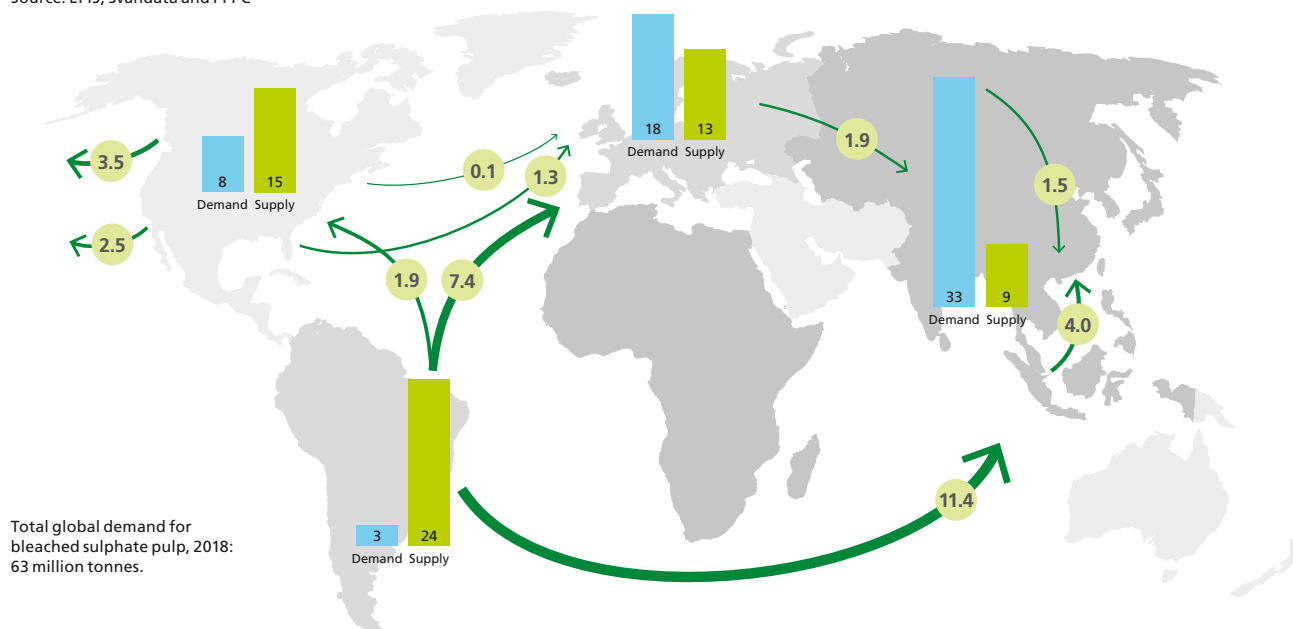
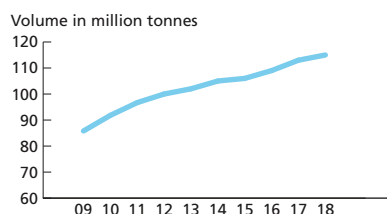
chures, catalogues and packaging. The popularity of clothing and other textiles made from wood-based fibre is growing, which is increasing demand for dissolving pulp.

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

Södra is also focused on the processing of wood raw material and its by-products to meet future demand for bio-based products, such as liquid biofuels.

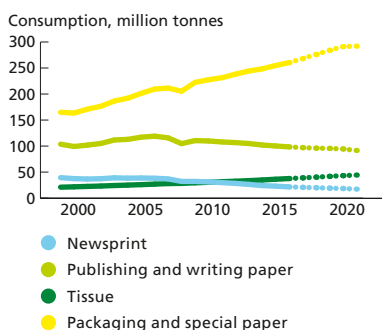
**Bleached sulphate pulp market, 2018 (in million tonnes)**

Source: EPIS, Svandata and PPPC

**Production of paper and board in China**

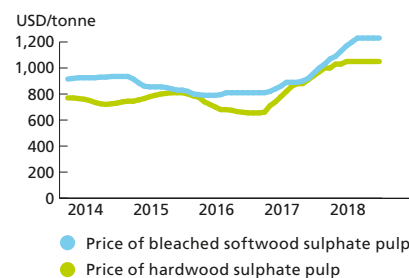
The growth rate of China's industrial production slowed to about 3 percent per year from a significantly higher level due to a general slowdown of economic growth in China.

Source: RISI

**Global trend for paper segment**

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

Source: RISI

**List price for softwood and hardwood pulp**

Prices for both softwood and hardwood pulp rose during the year due to a strong economy that basically drove the growing demand for paper and paper pulp. The diagram shows gross prices before discounts in the European market.

Source: RISI



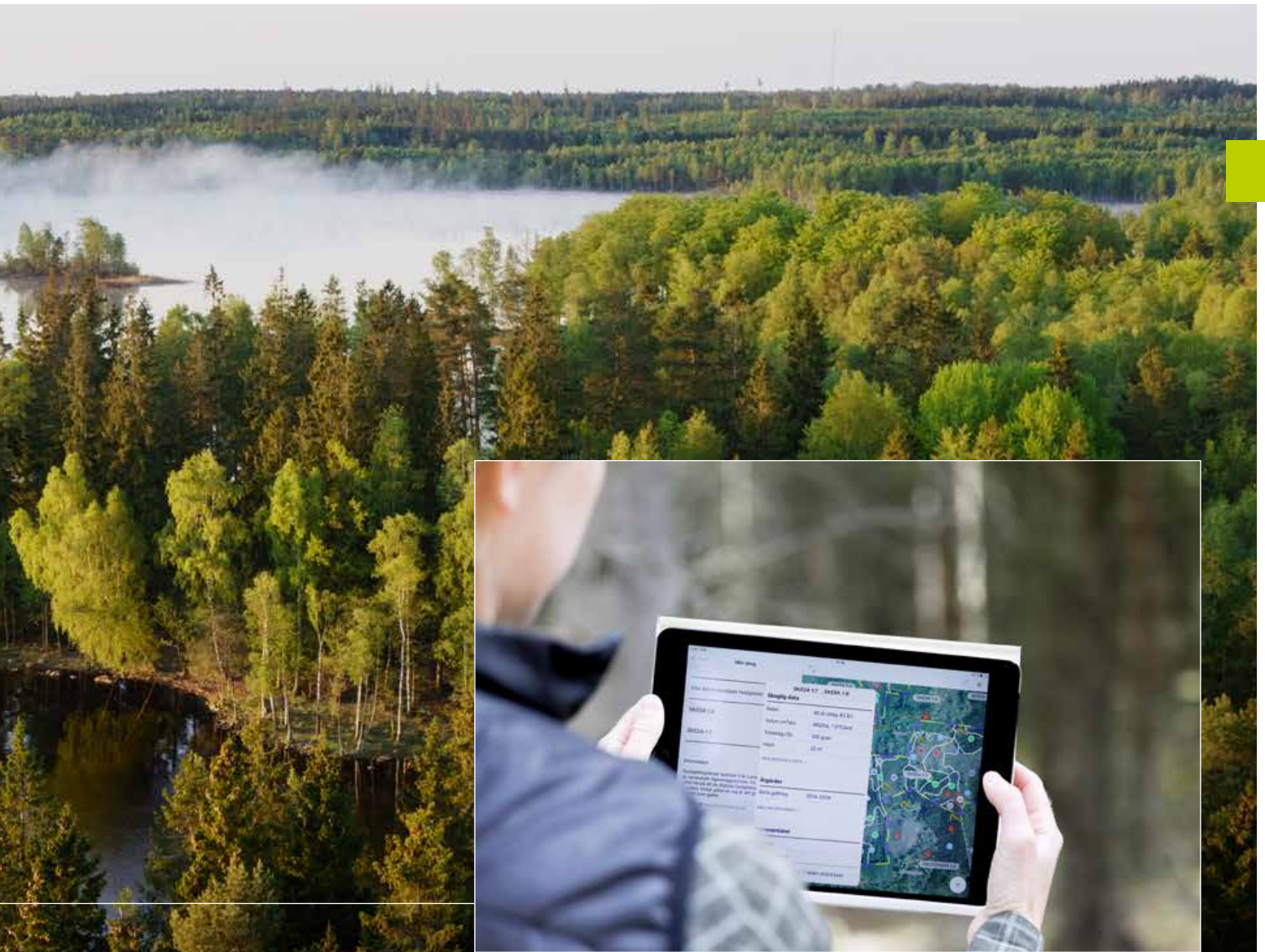


BUSINESS AREAS

# Södra Skog

*Södra Skog develops forestry for the benefit of its members. New digital solutions increase efficiency – with sustainability as the guiding principle.*





## + Cutting-edge digital forestry

**CASE** Digital forestry is evolving at a rapid pace. New apps are further enhancing precision and efficiency. The Apteringsstöd (Cross-cutting Support) app makes it easier to measure delivery volumes per range, and increases the precision of deliveries. The new image functionality of the Skogsägare (Forest Owner) app facilitates information sharing in connection with joint forest ownership. Digitisation is making it easier to be a forest owner, thereby promoting the profitability of forest estates.





# Södra Skog – Extreme weather conditions with logistical challenges

Wood supplies to Södra's mills were met despite the major logistical challenges caused by extreme weather conditions. Forest tree breeding to increase the rate of forest growth promotes the profitability of forest estates.



## Significant events in 2018

Unique investment in greenhouse spruce orchard.

New digital services for precision forestry.

Strategic acquisition of forest land in Latvia.

Södra Skog purchases timber and offers forestry services. The services range from site preparation, control-pollinated seedlings from Södra's own fossil-free nurseries, planting, cleaning, thinning, regeneration harvesting, to green forest management plans and forest-economic advisory services.

## STRATEGIC FOCUS

Södra's investments in its mill operations secure future markets for wood and growth in its members' forests. Södra's members request more digital services and forest-economic advisory services. By continuously improving the company's logistics, Södra meets 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 planning and efficient transport solutions will also ensure a level of harvesting in line with Södra's sustainability targets.

## 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. Demand was favourable for both spruce and pine logs. Wood supply was slightly higher year-on-year. In southern Sweden, prices for both saw logs and pulpwood rose during the year, in line with the growing demand. External sales of sawable ranges increased. Demand for biofuels remained stable and inventory levels were low during the year.

## OPERATIONS

The extreme weather conditions during the summer brought greater logistical challenges and required extraordinary efforts. The clearing of spruce bark beetle infested trees was a high-priority following the extensive outbreak in Södra's forest operations area. Supplies of wood raw material to the pulp mills could be met, while there were some disruptions in deliveries to the sawmills.

Södra acquired forest land in Latvia which strengthens Södra's position, secures a portion of wood imports and supplements wood deliveries from members. The total area is 111,100 hectares, of which 80,300 hectares are forest land. Södra already owned about 15,000 hectares of forest in Latvia.

The high demand for forestry services, such as harvesting, site preparation, planting, cleaning and green forest management plans, continued. Harvesting services purchased amounted to approximately SEK 1.0 billion, and transportation services to SEK 1.5 billion.

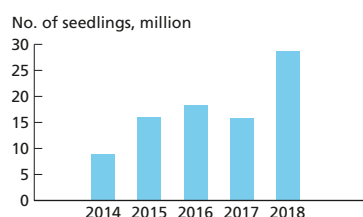
## MEASURES TO STIMULATE GROWTH

Forest regeneration and regrowth are key to sustainable forestry and to strengthening the profitability of forest estates. Södra conducts successful tree breeding in seed orchards in order to stimulate increased growth in forests of the future. In collaboration with the Forestry Research Institute of Sweden, Södra has a unique focus on greenhouse spruce orchards to provide customers with faster access to selectively bred seedlings. Both of Södra's nurseries are now fossil-free.

## MORE DIGITAL SERVICES

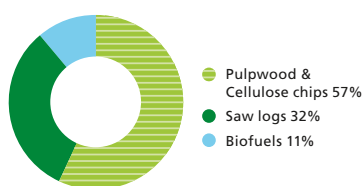
By continuing to develop digital tools, Södra is meeting its members' needs for advice to help them realise their forest-

Sales of seedlings with mechanical protection



Total sales of seedlings declined to 30 million (32). Nearly all of these were coated with mechanical plant protection.

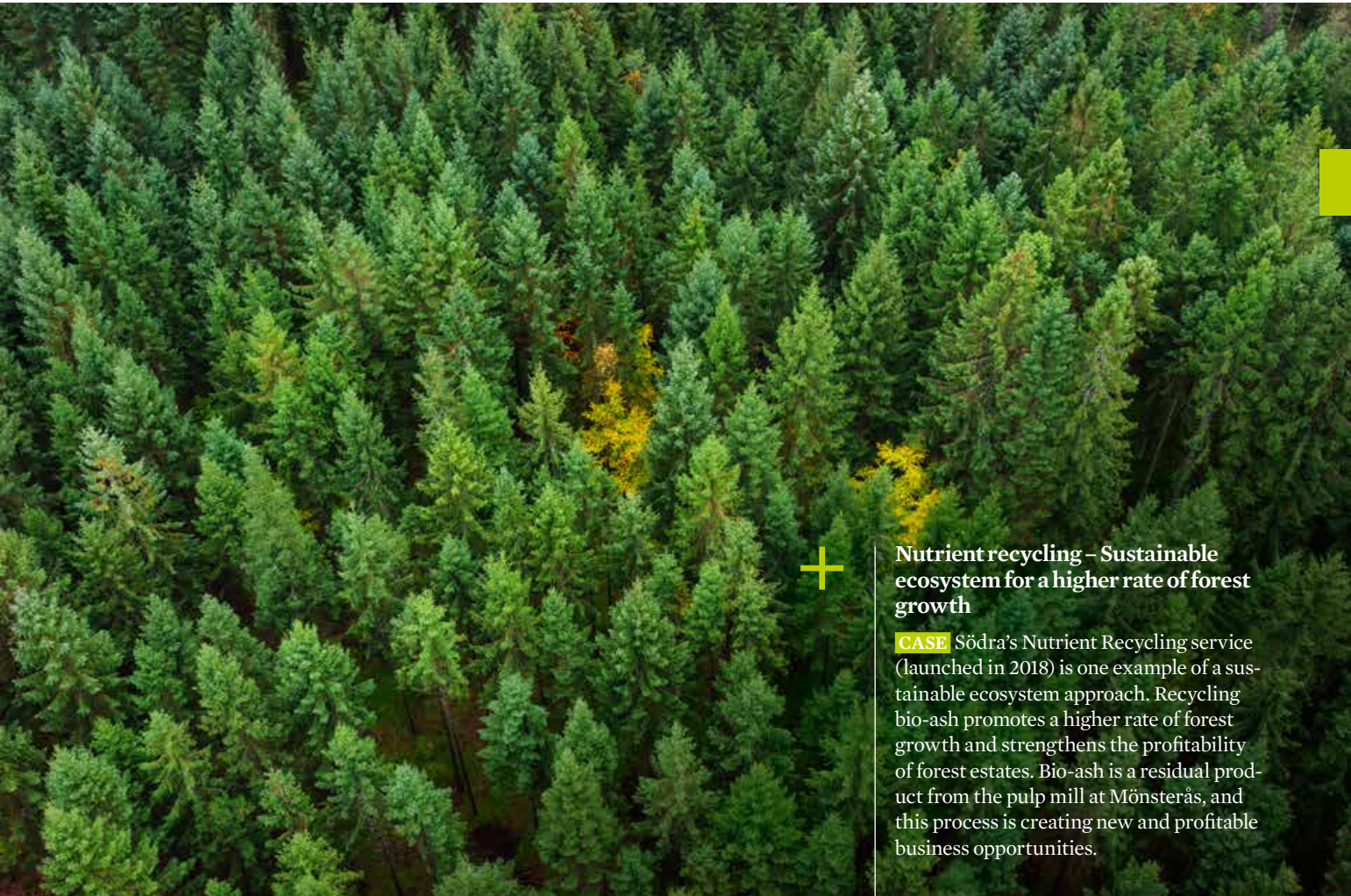
Wood sales



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

*“Södra conducts successful tree breeding to stimulate increased forest growth.”*





### Nutrient recycling – Sustainable ecosystem for a higher rate of forest growth

**CASE** Södra's Nutrient Recycling service (launched in 2018) is one example of a sustainable ecosystem approach. Recycling bio-ash promotes a higher rate of forest growth and strengthens the profitability of forest estates. Bio-ash is a residual product from the pulp mill at Mönsterås, and this process is creating new and profitable business opportunities.

estate goals. Advisory services include both forest economy and forest management. The green forest management plans provide the basis for analysis and goal formulation. A customer satisfaction survey shows that 92 percent of Södra's members are very satisfied with Södra's advisory services and expertise after completed harvesting or cleaning operations.

Digital services for precision forestry were expanded, including the addition of image functionality in the Skogsägare (Forest Owner) app. The Apteringsstöd (Cross-cutting Support) app facilitates the measurement of delivery volumes per range and increases delivery precision.

### OUTLOOK FOR 2019

The market potential for both saw logs and pulpwood is expected to be favourable also in 2019. The potential for meeting wood demand is high, due to increased thinning operations and regeneration harvesting, where specific initiatives will be carried out to address the extensive damage caused by spruce bark beetles. Harvesting volumes are expected to exceed the needs of Södra's sawmill operations, enabling Södra to maintain its external sales of sawlogs.



### Did you know that ...

... at Södra's combined plant in Mönsterås, a truck arrives with wood every sixth minute, corresponding to 240 trucks per day.

### SÖDRA SKOG

Key indicators	2018	2017
Net sales, SEK million	11,373	9,774
– of which to own industry	7,019	5,779
Operating profit, SEK million	259	76
Operating profit, excl. changes in biological assets	101	70
Return on operating capital, %	10	9
Investments, SEK million	3,348	60
No. of employees	563	539

Acquisition of wood	2018	2017
Total, million m <sup>3</sup> sub	16.7	15.5
From members, total	9.8	9.7
– as wood deliveries	1.3	1.3
– as harvesting assignments	8.5	8.4
Imports	1.6	0.5
Other (including woodchips)	5.3	5.3

Wood volumes acquired from members rose 1 percent year-on-year. The total wood volume was 16.5 million m<sup>3</sup>sub, including change in inventories of 0.2 million m<sup>3</sup>sub.

Forestry services	2018	2017
Harvesting, million m <sup>3</sup> sub	8.7	8.7
Site preparation, ha	9,150	9,600
Cleaning, ha	13,400	16,400
Forest management plans, 1,000 ha	110	104
Seedling sales, million	30	32

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

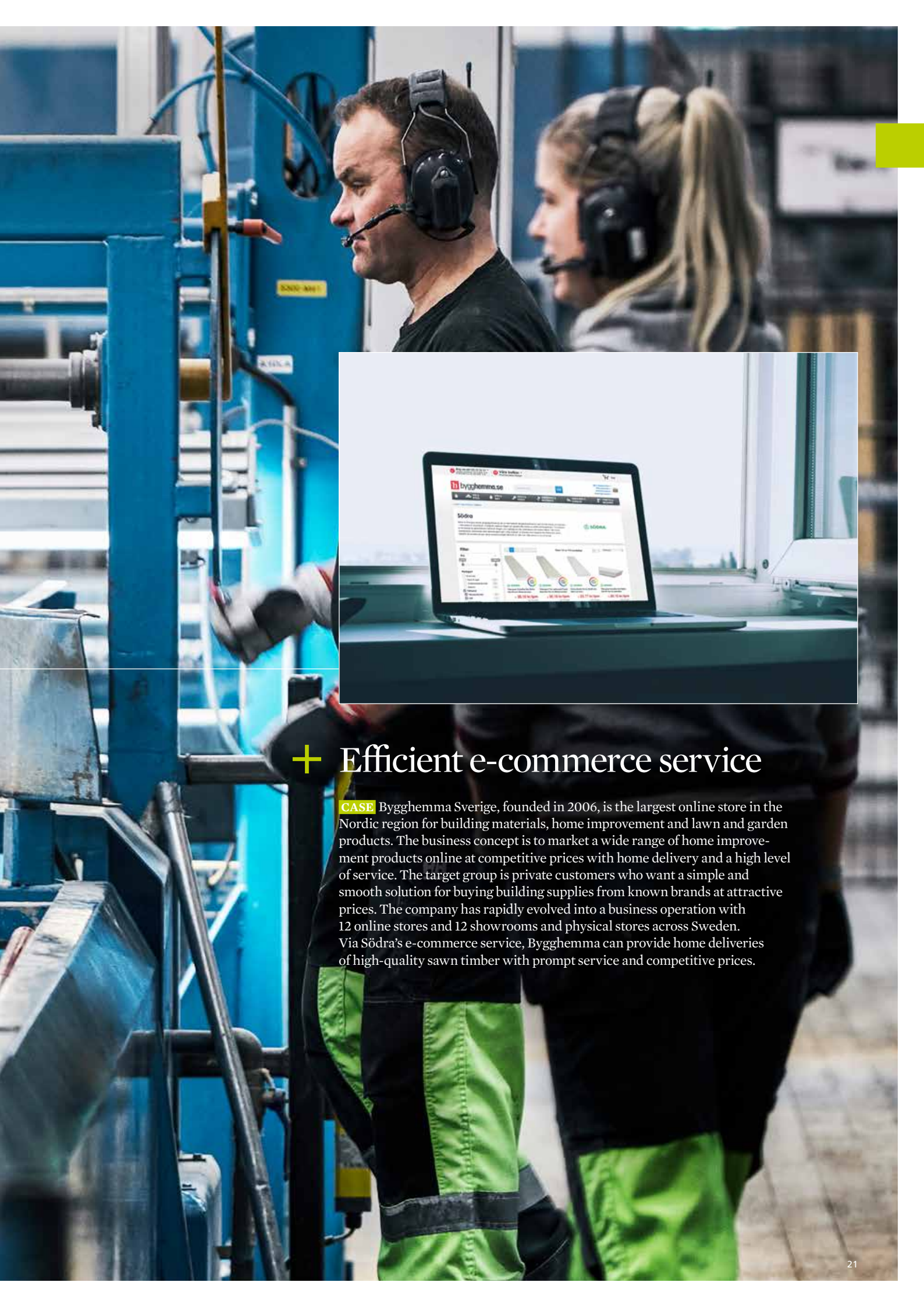




BUSINESS AREAS

# Södra Wood

*Wood is the building material of the future. Södra Wood is involved in and leading this development through increased processing and digital services with a customer focus.*



## + Efficient e-commerce service

**CASE** Bygghemma Sverige, founded in 2006, is the largest online store in the Nordic region for building materials, home improvement and lawn and garden products. The business concept is to market a wide range of home improvement products online at competitive prices with home delivery and a high level of service. The target group is private customers who want a simple and smooth solution for buying building supplies from known brands at attractive prices. The company has rapidly evolved into a business operation with 12 online stores and 12 showrooms and physical stores across Sweden. Via Södra's e-commerce service, Bygghemma can provide home deliveries of high-quality sawn timber with prompt service and competitive prices.





# Södra Wood – Strong earnings improvement and a focus on building systems

Strong demand combined with continued efficiency improvements and future initiatives contributed to a substantial earnings improvement. Increased digitisation in both customer and production chains combined with processing in timber building systems strengthened Södra's market offering.



## Significant events in 2018

- Newly opened sawmill at Långasjö has increased production volumes.
- More digital services and new e-commerce concept for the building trade.
- Interior wood business was completely discontinued.
- Preparation of cross-laminated timber (CLT) facility for production start-up in 2019.

Södra Wood offers sawn, planed and pressure-treated goods for structural engineering and the furniture and wood-processing industries. About 75 percent of this volume is spruce, the remaining 25 percent is pine. Customers are active in the construction sector, building trade and house manufacturing, packaging and wood processing industries.

## STRATEGIC FOCUS

Södra Wood aims to increase sales by meeting the needs of its customers in high-priority markets. The focus lies 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 members' forest estates in close collaboration with Södra Skog around timber harvesting and transport solutions.

Södra is working actively to promote wood as a sustainable and economically competitive building material. Sustainability aspects contribute to innovative solutions and a higher degree of off-site timber-frame construction. Research and develop-

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

## SAWN TIMBER MARKET

The sawn timber market showed a strong trend with record-high global production, a healthy balance and rising prices until the end of the year. Construction in northern Europe opened weakly in 2018, followed by favourable timber products consumption in Europe. In the UK, there were still no effects of Brexit, but continued timber-frame construction had a positive impact on timber products consumption. In Sweden, a lower level of new housing construction mainly affected the housing industry, while the building trade, which is more dependent on the repair, renovation and extension sector (ROT), performed favourably. The market trend in China was negative. More stringent environmental regulations have forced timber-consuming industries to close down or relocate their operations. Demand for furniture and interior wood products simultaneously

declined due to tariffs introduced by the US and weaker domestic demand. In the US, new construction continued to increase, but the price trend was volatile and the very high prices from the second quarter fell sharply during the latter part of the year.

## OPERATIONS

The strong improvement for Södra Wood was mainly due to favourable market conditions and the effects of planned restructuring measures that have been ongoing since 2016. The change programme in the sawmill and planing operations has led to a more efficient and rational sawmill structure with fewer, but larger, units. The focus on new products, service offerings, greater flexibility and combined facility-related issues has continued.

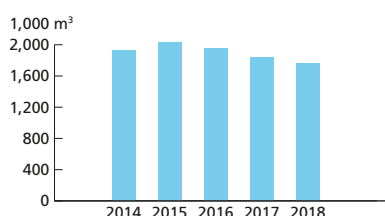
The Långasjö sawmill, with a capacity of 360,000 m<sup>3</sup>, was reopened during the year. In addition to a small log line, a stacker with automated stick laying, a completely new wood dryer and a new warehouse were built.

Capacity-expansion investments are ongoing at the sawmill in Orrefors, where a new boiler was installed and the drying capacity expanded. The interior wood business was completely discontinued during the year.

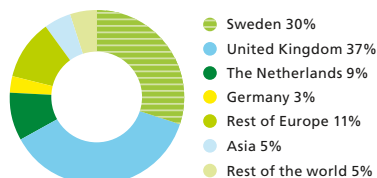
## REFINED CUSTOMER OFFERINGS

In line with Södra Wood's strategy for long-term profitability and increased processing, an investment is being made in a first small-

Sawn timber production



Sales per market



*“Sustainability aspects contribute to innovative solutions and a higher degree of off-site timber-frame construction.”*



### Increased processing for sustainable timber-frame construction

**CASE** Demand for sustainable timber building systems is growing as the construction market changes. More and more architects and construction companies are now opting for timber-frame buildings. In spring 2019, Södra Building Systems will commence deliveries of new engineered wood products in cross-laminated timber (CLT) to a growing market.

scale facility for cross-laminated timber (CLT) in Södra Building Systems. During the year, preparations were focused on competency development and development of the customer offering prior to production start-up in the second quarter of 2019. The pre-planning of a full-scale facility is underway.

### INCREASED DIGITISATION

By increasing IT support initiatives, Södra will further develop more and more customer support features and services. In 2018, the introduction of mobile devices commenced at the sawmill in Kinda, to be followed by all other sawmills in 2019. The mobile devices have several features for information dissemination, production monitoring and so forth and more functionality is currently being developed.

### STRONG INTERNATIONAL POSITION

Södra Wood's core markets are Sweden, the UK and the Netherlands. In Sweden and the UK, timber is increasingly used as a building material. Södra has a strong position in the UK and a well-integrated organisation. The UK market 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 and Finland. Customers in Sweden and the Netherlands are offered a wide range of products, with direct deliveries from the various production units. In addition, Södra has sales offices in prioritised export markets such as the US and China.

### OUTLOOK FOR 2019

Following a positive price trend and high demand throughout most of 2018, the sawmill market is expected to remain favourable in 2019. Although the price trend slowed somewhat towards the end of 2018 from an exceptionally high level, prices are expected to remain at historically high levels, combined with a healthy balance between sawn timber supply and demand in Södra's core European markets.



### Did you know that...

... Södra produces enough timber to build 100,000 Swedish single-family houses per year.

### SÖDRA WOOD

Key indicators	2018	2017
Net sales, SEK million	5,474	5,106
Operating profit, SEK million	608	157
Return on operating capital, %	21	5
Investments, SEK million	124	132
No. of employees	853	846
Production, 1,000 m <sup>3</sup>	1,761	1,841
Saw log consumption, 1,000 m <sup>3</sup> sub	3,468	3,654





BUSINESS AREAS

# Södra Cell

*Pulp is a material with huge potential and the rate of innovation is high. Södra Cell produces paper and dissolving pulp efficiently and sustainably in three state-of-the-art pulp mills.*







## + Act of a Hero – for a more sustainable society

**CASE** Being a hero doesn't have to be difficult. Actively choosing products from sustainably managed forests – that's being a hero.

Forests are part of the solution for the global transition to a sustainable bio-economy. More smart products are coming from the forest than ever before: clothing, paper products, new packaging materials, various types of filters, biofuels and liquid biofuels. As we move forward, more and more solutions and innovations will come from the forest, and aware consumers will make sustainable choices.

Södra is using the “Act of a Hero” campaign to show how forest-based products and services are environmentally sustainable. An “Act of a hero” is an everyday good deed when someone who consumes paper or textiles consciously chooses products based on sustainable forest products. This successful campaign has been running for about one year and attracted nearly 4 million views.



# Södra Cell – Record-high result despite a challenging year

Södra Cell's expansion is meeting the growing global demand for market pulp. High volumes and a positive price trend generated a record-high result for the pulp mills.



## Significant events in 2018

High production in the pulp mills.

Wood and water supply challenges were well-managed.

Act of a Hero – Customer campaign to increase the focus on sustainability.

Södra's three pulp mills produce softwood pulp of spruce and pine, and hardwood pulp of birch. Customers are predominantly European manufacturers of tissue, specialty papers, packaging and publishing paper. The quality of the various end-products is adapted to customers' high demands. The properties of each type of pulp depend on the fibre dimension and production 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. The aim of the expansion investments in the pulp mills was to achieve the strategic objectives. Strengthened competitiveness and high quality are enabling Södra to grow in the global market together with its customers.

## MARKET PULP

Underlying growth in the pulp market was strong and market prices rose. Economies in Europe, which is Södra's largest market, showed a positive trend with rising con-

sumption and increased investments.

Growth in China remained stable at a high level. China is now the world's largest producer of paper and cardboard.

Tissue and specialty papers account for most of Södra'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. The positive price trend for dissolving pulp continued, due to strong demand and a limited addition of new pulp capacity.

## OPERATIONS

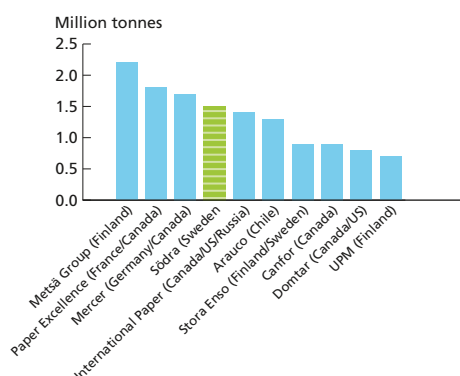
The earnings improvement during the year was mainly attributable to high prices for pulp.

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 extremely hot summer with drought and high fire danger brought major challenges in terms of both wood supplies and water use, and led to production disruptions in the third quarter. The total production volume for the three pulp mills was approximately 1.8 million tonnes (1.7).

## WORLD-CLASS PULP MILLS

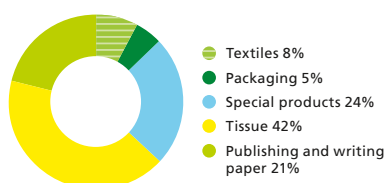
**The pulp mill at Mörrum.** At the end of 2017, investments of approximately SEK 1.7 billion in the pulp mill at Mörrum were completed. During the year, the evaporation and pulp washing facilities were tested in pilot production runs. The production capacity is approximately 470,000 tonnes per year, comprising 300,000 tonnes of paper pulp and 170,000 tonnes of dissolving pulp.

Leading global producers of bleached softwood 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.





## Clothing from trees

**CASE** More and more consumers are requesting clothing from a sustainable supply chain – from harvester to sewing machine. London Fashion Week focused on the possibilities offered by viscose. Viscose can be made from the dissolving pulp produced by Södra's pulp mill at Mörrum.

**The pulp mill at Värö.** Södra Cell Värö is now one of the largest and most modern pulp mills in the world for softwood sulphate pulp production. The pulp mill supplies high-quality market pulp according to customer specifications. A high rate of production was achieved during the year, with an annual capacity of 700,000 tonnes.

**The pulp mill at Mönsterås.** The pulp mill at Mönsterås is one of the world's largest and most high-performing producers of softwood sulphate pulp. The pulp mill is highly flexible in terms of matching the composition of the fibre's components with customers' high-quality requirements. The production capacity is 750,000 tonnes per year. One scheduled maintenance shutdown was carried out during the autumn.

### GROWING INTEREST IN DISSOLVING PULP

Dissolving pulp is becoming increasingly popular. During the year, Södra Cell participated in London Fashion Week to demonstrate the possibilities offered by viscose in sustainable clothing production, and to raise awareness of viscose as a forest-based fabric.

### OUTLOOK FOR 2019

In 2019, underlying growth in the pulp market is expected to remain favourable. Competition is expected to intensify as investments in new capacity are completed, which may lead to temporary market disequilibrium. Södra is well-positioned to meet customer needs and quality requirements in this highly competitive market.



### Did you know that ...

... Every year, Södra supplies dissolving pulp for the production of Wettex cloths that would cover an area of 1,100 hectares, or nearly 2,000 football fields.

*“Strengthened competitiveness and high quality are enabling Södra to grow in the global market together with its customers.”*

#### SÖDRA CELL

Key indicators	2018	2017
Net sales, SEK million	13,404	9,822
Operating profit, SEK million	4,032	1,924
Return on operating capital, %	31	16
Investments, SEK million	770	1,249
No. of employees	1,175	1,185
Production, 1,000 tonnes	1,786	1,712
– softwood sulphate pulp	1,469	1,408
– hardwood sulphate pulp	175	181
– dissolving pulp	142	123
Fibre consumption, million m <sup>3</sup> sub	8.5	8.1
– of which softwood fibre	7.1	6.8

Production	1,000 tonnes	2018	2017
Mörrum		407	370
of which	softwood sulphate	265	247
	dissolving pulp	142	123
Värö	softwood sulphate	694	585
Mönsterås		685	757
of which	softwood sulphate	510	576
	hardwood sulphate	175	181
<b>Total</b>		<b>1,786</b>	<b>1,712</b>





# Other segments

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



## Significant events in 2018

SunPine is investing SEK 250 million in a new industrial plant.

The liquid biofuels project conducted by Silva Green Fuel is progressing according to plan.

Growing customer base for Södra Medlemsel.

### 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 Nordic Swan Ecolabelled homes under the Movehome brand. Trivselhus delivers almost exclusively turnkey housing. Trivselhus also develops land for detached homes, and for the construction of duplex housing projects. Furthermore, Trivselhus partners with landowners to develop sites for duplex housing projects.

In 2018, Trivselhus delivered 441 homes. Operating profit totalled SEK 1 million (57). Sales in Sweden are conducted via sales offices, from Malmö in the south to Luleå in the north. The UK is a growing market, mainly for duplex housing projects. Trivselhus has approximately 230 employees.

### SÖDRA VIND AB

Södra owns six wind turbines at Mönsterås. The electricity generated by these turbines was 30 GWh (34).

### 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 6,500 and the sales volume totalled 83 GWh (82).

### SUNPINE AB

The mission of SunPine AB (about 25-percent owned by Södra) is to use the raw material from sustainably managed 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 a residual product from Södra's pulp mills, and a liquid biofuel with low CO<sub>2</sub> emissions and low energy consumption. SunPine produces approximately 110,000 m<sup>3</sup> of crude tall diesel, 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 53 million.

### SILVA GREEN FUEL AS

Silva Green Fuel AS is 49-percent owned by Södra, and 51-percent by Norwegian 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. Södra and Statkraft are investing approximately SEK 500 million in a demo facility for fossil-free liquid biofuels. All regulatory permits have now been granted, after some delay, and the project is now on track. Silva had a negative impact of SEK 8 million on Södra's result.



SunPine is a global leader in the production of second-generation renewable fuels. The raw material is a by-product of pulp production.



# From investment to business

Continued investments in basic research, and process and product development. The adopted innovation projects are moving ahead at full speed according to plan.



## Significant events in 2018

Extensive construction and project planning due to investment decisions in 2017.

New research into quality development of paper pulp in Avancell.

Funding from the Södra Research Foundation for projects to increase forest growth.

Several ongoing projects can be linked to Södra's sustainability targets for fossil-free production by 2020 and fossil-free transportation by 2030 (see page 36). In 2017, Södra made strategic investment decisions for approximately SEK 400 million in liquid biofuels and increased wood processing. Due to these decisions, 2018 was characterised by the construction and planning of facilities at Mönsterås (biomethanol) and Tofte (Silva Green Fuel), and the cross-laminated timber (CLT) facility at Värö. Product and process development for Södra's existing markets and customers remains central to innovation activities.

The Group's investments in research and development amounted to SEK 88 million (96), corresponding to 0.4 percent of sales, and include own operations as well as external research projects. During the year, the Board of Directors decided to invest SEK 100 million, including a contribution of SEK 50 million to the Södra Research Foundation, in development initiatives to increase productivity and forest growth.

## PRODUCT AND PROCESS DEVELOPMENT

Efforts within the framework of product and process development continued to focus on Södra Cell's investments in organic growth, with a particular focus on quality development and process optimisation. A key component of innovation activities takes place within existing business to

support Södra Cell's service concept through customer activities. These are implemented through joint projects focused on product development and cost savings. During the year, Södra invested in a new measuring device to provide even better support for Södra's tissue customers.

## RESEARCH AND DEVELOPMENT IN THE STRATEGIC ARENAS

Innovation activities are conducted in several strategic arenas – forest, sawn timber, paper, textiles, chemicals and energy. These efforts are mainly conducted through Södra's own innovation department, but also in collaboration with customers. Research is also conducted in external networks with universities and research institutions, together with companies often further upstream in various value chains.

External projects can usually obtain public funding from national and international research programmes. The vision of BioInnovation in Sweden, for example, is that Sweden will have a bio-based economy by 2050. The European equivalent is the Bio-Based Industries Joint Undertaking with the vision: From fossil-based to bio-based products 'Made in Europe.' Research projects usually run for several years and Södra participates in projects within its strategic arenas. These projects are mainly focused on forestry activities, and on industrial processes related to paper and textile production.

Avancell 4 is a research network in which Södra is working with Chalmers University of Technology in Gothenburg, where two PhD students are carrying out research in a project to improve quality in paper pulp production.

The project related to the Swedish strategic innovation programme, BioInnovation, is continuing. In 2018, a joint project with several operators from the textile value chain was completed. Södra is also involved in a construction and design project, related to bio-based construction and housing in the future. Efforts to manufacture carbon fibre from lignin are also taking place with a European network. The aim is to produce a more affordable carbon fibre for use in vehicles.

## THE SÖDRA RESEARCH FOUNDATION

The Södra Foundation for Research, Development and Education 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 allocations of SEK 50 million have been made. The Foundation awards grants for research projects and training programmes that promote forest management and forest industry operations in southern Sweden. The research should support forest productivity, meaning it should generate real economic value. This could include the development of low-impact methods to increase forest production. The projects should be focused on issues related to southern Sweden and family forestry. In 2018, the Foundation called for research projects linked to the sustainability target of higher forest growth. Over the years, the Research Foundation has granted total funding of SEK 213 million.

## RESEARCH IN THE STRATEGIC ARENAS

Forestry activities	Industrial processes
Gentle logging methods	Electrofuel based on CO <sub>2</sub> and excess electricity
Forest management techniques	Pulp for tissue and packaging
Plant breeding	Lignin-based products and biochemicals





# Sustainability report

This image shows a single sheet of white paper with horizontal green ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.



# Towards a more sustainable Södra

*Several of Södra's ambitious sustainability targets are within reach. Continued focus on the areas that require more effort.*

**2,100 hectares**

Nature-conservation measures increased.

**388 GWh**

Green electricity deliveries increased.

**Most attractive**

Södra ranked Sweden's most attractive employer.

**Act of a Hero**

Social initiative for a more sustainable society.





# 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.

## 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 combatting climate change and the transition to a sustainable society. Growing forests absorb carbon dioxide 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 sustainable development at all stages, from seed to customer. Södra creates value and reduces risk and negative effects by offering advisory services to forest owners, in forestry measures, industrial processes and 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 with 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 relevant sustainability topics, and partly on dialogue with the Group's key stakeholders. The analyses and stakeholder dialogues also helped to define the content of the Sustainability Report.

The targets are incorporated into business and action plans. Where needed, Group-wide projects are initiated to ensure achievement of the targets.





# Significant events in 2018

## SWEDEN'S MOST ATTRACTIVE EMPLOYER

Södra is the first forest-industry company to be named Sweden's most attractive employer in the world's largest employer branding survey, the Randstad Employer Brand Research.



## TOWARDS NEW SUSTAINABLE PRODUCTS

Cross-laminated timber for sustainable timber-frame construction, fossil-free food packaging made from DuraPulp and the development of liquid biofuels are some examples of how Södra is moving towards its target of sustainable innovation by 2020.

## EXTERNAL COLLABORATION FROM WOODCHIPS TO AIRCRAFT

Södra participates in a consortium that is conducting a feasibility study on aviation biofuel production in Småland. The study is financed by the Swedish Energy Agency, and KLM (Royal Dutch Airlines) is a partner.

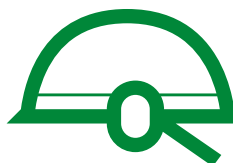
## SÖDRA PARTICIPATED IN LONDON FASHION WEEK

Södra participated in London Fashion Week where clothing based on forest biomass was demonstrated to show the potential of viscose.



## CONTINUED FOCUS ON SAFE WORKPLACES

Zero accident vision. Continued focus on safe workplaces, including "safety walks," efforts to improve the safety culture and behaviour-based safety.



## SUSTAINED INCREASE IN FOREST GROWTH

The forest growth rate declined year-on-year but the long-term trend is increased growth. Growth-stimulation measures are taking place via research funding, spruce seedlings in greenhouse orchards and nutrient recycling. The drought and extensive spruce bark beetle outbreak in 2018 may eventually impact forest growth.



## HIGH SHARE OF RENEWABLE ENERGY

Södra is largely self-sufficient in energy and mainly uses biofuels for the production of sawn timber and pulp.

# 98.6%

## HISTORICALLY HIGH NET ELECTRICITY DELIVERIES

In 2018, Södra delivered 388 GWh of electricity to the market. This is the highest-ever net delivery and equates to 50,000 times around the world with an electric car.

# 388 GWh

## APPROVED REGENERATION HARVESTS

Sustained excellent results for Södra's regeneration harvesting in the Green Balance Sheet. Particularly gratifying is the handling of sensitive biotopes in regeneration harvesting.

## SUPPLIER AUDITS IMPOSE DEMANDS IN THE VALUE CHAIN

Södra works with sustainability across the entire value chain – from seed to customer. 23 supplier audits were performed to ensure high sustainability performance, and that the suppliers comply with the Södra Supplier Code.



## SÖDRA'S NURSERIES ARE FOSSIL-FREE

Further steps toward becoming fossil-fuel free. Persistent efforts and environmental investments of SEK 10 million have generated results. Södra's nurseries use renewable fuels for heating and machinery.

## CHARGING STATIONS FOR ELECTRIC VEHICLES AT SÖDRA'S PULP MILLS AND HEAD OFFICE

As part of efforts to achieve "A Fossil-Free Södra," 31 electric vehicle charging stations, with a total of 62 charging points, were installed during the year to promote the use of electric cars.







# Södra contributes to the UN Sustainable Development Goals

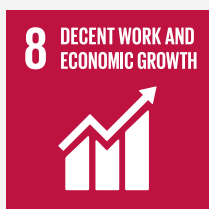
The 2030 Agenda for Sustainable Development sets out 17 Sustainable Development Goals. Seven of these goals are particularly important for Södra and relate to areas in which the Group has the greatest potential to impact the transition to a more sustainable world.

## Higher level of impact

- 7 Affordable and clean energy
- 8 Decent work and economic growth
- 9 Industry, innovation and infrastructure

- 11 Sustainable cities and communities
- 12 Responsible consumption and production

- 13 Climate action
- 15 Life on land



## Lower level of impact

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



## Indirect impact

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





## Södra and the 2030 Agenda

During the year, Södra continued to work with the Sustainable Development Goals (SDGs) by identifying the impact of its own operations and the connection with Södra's strategic sustainability efforts. The outcome was that Södra's sustainability targets are consistent with the SDGs but that some areas can be further improved, such as resource efficiency.

The UN Sustainable Development Goals	Södra's strategic focus areas	Södra's contribution
	<b>Affordable and clean energy</b> <ul style="list-style-type: none"> <li>Climate-positive operations</li> <li>Sustainable innovation</li> <li>Resource efficiency</li> <li>Responsible business</li> </ul>	<ul style="list-style-type: none"> <li>Renewable energy delivery, page 45.</li> <li>Systematic efforts to reduce electricity and heating consumption, page 44.</li> </ul>
	<b>Decent work and economic growth</b> <ul style="list-style-type: none"> <li>Sustainable innovation</li> <li>Resource efficiency</li> <li>Responsible employer and committed employees</li> <li>Responsible business</li> </ul>	<ul style="list-style-type: none"> <li>Zero accident vision – a focus on preventive measures, pages 47–48.</li> <li>Supplier risk assessment and audit, page 50.</li> <li>Södra contributes to Sweden's strong forest industry position by continued investments and focus on innovation, page 43.</li> </ul>
	<b>Industry, innovation and infrastructure</b> <ul style="list-style-type: none"> <li>Climate-positive operations</li> <li>Sustainable innovation</li> <li>Resource efficiency</li> </ul>	<ul style="list-style-type: none"> <li>Efficient use of wood raw material, page 46.</li> <li>New, sustainable products and services for a bio-based society, page 43.</li> <li>Collaborative business development and innovation, page 43.</li> </ul>
	<b>Sustainable cities and communities</b> <ul style="list-style-type: none"> <li>Climate-positive operations</li> <li>Sustainable innovation</li> <li>Resource efficiency</li> </ul>	<ul style="list-style-type: none"> <li>Development of timber building systems, page 23.</li> <li>Sustainable homes concept, page 51.</li> </ul>
	<b>Responsible consumption and production</b> <ul style="list-style-type: none"> <li>Resource efficiency</li> <li>Responsible business</li> </ul>	<ul style="list-style-type: none"> <li>Systematic efforts to reduce air and water emissions from industrial activities, page 46.</li> <li>New applications for residual and by-products, page 46.</li> </ul>
	<b>Climate action</b> <ul style="list-style-type: none"> <li>Climate-positive operations</li> <li>Sustainable forestry</li> <li>Resource efficiency</li> <li>Responsible business</li> </ul>	<ul style="list-style-type: none"> <li>Long and short-term initiatives to achieve fossil-free production and fossil-free transportation, page 38.</li> <li>A higher rate of forest growth increases carbon sequestration, page 39.</li> </ul>
	<b>Life on land</b> <ul style="list-style-type: none"> <li>Climate-positive operations</li> <li>Sustainable forestry</li> <li>Responsible business</li> </ul>	<ul style="list-style-type: none"> <li>Sustainable forestry – a balance between production and environmental considerations, pages 40–41.</li> <li>Protected areas to promote biodiversity, page 42.</li> </ul>





# Södra's sustainability targets



## Climate-positive operations

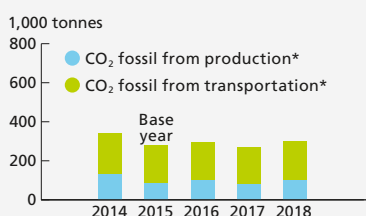
### TARGETS

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

### OUTCOMES 2018

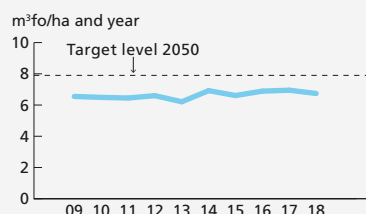
- CO<sub>2</sub> fossil from production: 103 ktonnes, up 17 percent compared with the base year of 2015.
- CO<sub>2</sub> fossil from transportation: 196 ktonnes, up 2 percent compared with the base year of 2015.
- Forest growth: 6.7 m<sup>3</sup>fo/ha per year, up 2 percent compared with 2015.

### 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



2018 relates to the average growth rate during the 2012–2016 period, the most recent value available. The rate of forest growth is based on the National Forest Inventory's data for land owned by Södra members.

Read more on pages 38–39.



## Sustainable forestry

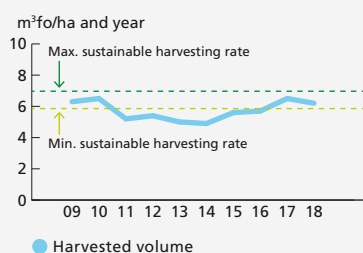
### TARGETS

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

### OUTCOMES 2018

- The harvesting rate was 6.2 m<sup>3</sup>fo/ha per year, down 6 percent compared with 2017 and within the sustainable harvesting rate interval.
- The percentage of approved regeneration harvest sites in the Green Balance Sheet was 94 percent, down 1 percent compared with 2017.
- The area in which nature-conservation measures were performed was 2,100 hectares, up 45 percent compared with 2017.

### Sustainable harvesting rate



2018 refers to the means for 2014–2016, in the same way for other years. The sustainable harvesting rate is based on the National Forest Inventory's data for land owned by Södra members.

### Considerations in regeneration harvesting



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



## Sustainable innovation

### TARGETS

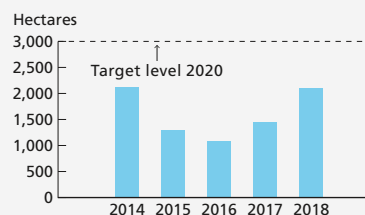
- By 2020, Södra will have commercialised at least three products with better sustainability performance than today's alternatives.

### OUTCOMES 2018

- Södra continued to work with facilities for biomethanol production at the pulp mill in Mönsterås and with liquid biofuel production from residual products from forest biomass in Tofte, Norway.
- A facility is being constructed at Värö for the production of cross-laminated timber (CLT).
- Market testing of fibre-based food packaging that can replace fossil-based plastic packaging was carried out in collaboration with partners.
- Progress during the year was in line with meeting the target.

Read more on page 43.

### Nature conservation measures



Read more on pages 40–41.



## 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 2018

- Electricity and heating consumption for pulp was 6 percent (electricity) and 12 percent (heating) lower, respectively, compared with the base year of 2015.
- Electricity and heating consumption for sawn timber was 1 percent (electricity) and 8 percent (heating) lower, respectively, compared with the base year of 2015.
- Electricity generation exceeded electricity consumption, net delivery was 388 GWh.

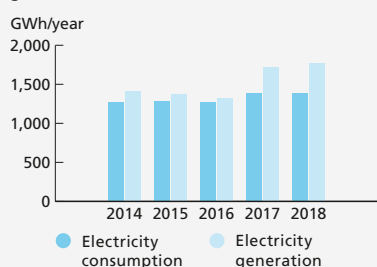
### Electricity and heating consumption – Pulp

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

### Electricity and heating consumption – Sawn timber

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

### Electricity consumption and electricity generation



Read more on page 44.



## Responsible employer and committed employees

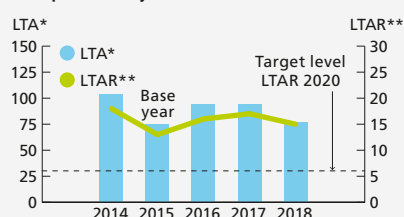
### TARGETS

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

### OUTCOMES 2018

- Sickness absence: 3.6 percent, unchanged compared with 2017.
- LTA: 77, down 18 percent compared with 2017.
- LTAR: 15, down 12 percent compared with 2017.
- Percentage of women employees: 22 percent, up 6 percent compared with 2017.
- eNPS: 14, unchanged compared with 2016.

### 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.

Read more on pages 47–48.



## Responsible business

### TARGETS

- The Supplier Code is 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 based on the requirements of Södra's Supplier Code.
- By 2020, sustainability-related criteria will be used as a basis for Södra's investments and business transactions.

### OUTCOMES 2018

- Percentage of suppliers that have signed the Södra Supplier Code: 88 percent (81) (excluding harvesting assignments and wood deliveries not covered by the Södra Supplier Code).
- Percentage of Södra's purchasing value for which suppliers had signed the Supplier Code: 98 percent (98).
- Percentage of Södra's purchasing value for which a risk assessment of suppliers was performed: 94 percent (88).
- The risk assessment led to the identification of 125 (63) prioritised suppliers.
- Percentage of prioritised suppliers that completed a supplier self-assessment: 27 percent (16).
- Percentage of prioritised suppliers that were monitored on site (sustainability audit): 18 percent (11).
- Group-wide efforts with the target of using sustainability-related criteria as a basis for investments and transactions commenced during the year.

Read more on pages 50–51.





# Climate-positive operations

Growing forests and the use of wood play a key role in combatting climate change, in combination with the phase-out of fossil fuels. Södra shows the way through initiatives regarding fossil-fuel free, forest growth and research and development.



## Significant events in 2018

- Fossil-free production of seedlings and pressure-treated timber.
- More than 60 new charging points enable commuting by electric car.
- The hot and dry summer had a negative impact on forests.
- Greater focus on reducing wildlife browsing damage.

## GROWING FORESTS AND THE USE OF WOOD ARE CONTRIBUTING TO REDUCE CLIMATE CHANGE

Climate change is one of the biggest challenges of our time. While forests and wood products can play a key role, carbon dioxide emissions from fossil fuels must also be reduced. Södra's mill operations process wood raw material. Renewable forest products can replace fossil-based materials in many applications. This substitution effect is one of the most important long-term effects of responsible forestry. Demand for sustainable products is rising as customers and consumers become more aware of how their behaviour impacts the environment and the climate. Read more about sustainable innovation on page 43.

The EU has introduced several policy instruments to combat climate change. Policy instruments in which Södra participates include the European Union Emissions Trading Scheme, electricity certificates and Guarantee of Origin certificates, read more on page 44.

Climate change also entails risks for Södra's operations and value chain, including changing vegetation boundaries, increased pest outbreaks and extreme weather conditions. Read more about risk and risk management on pages 76–77.

## FOSSIL-FREE PRODUCTION

Södra's production is almost entirely powered by biofuels. Small amounts of fossil fuel in the form of fuel oil and LPG gas are used in the pulp mills.

Södra's mills are increasingly using bio-diesel (HVO) for working machinery and internal transportation. Forest machinery still runs predominantly on fossil diesel. Södra's own forest machinery runs on HVO.

### 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. Södra's efforts are focused on the direct emissions of fossil carbon dioxide. To reduce indirect emissions, Södra engages in business policy lobbying and collaborates with external parties.

Fossil carbon dioxide emissions from production, working machinery and internal transportation were higher in 2018 compared with 2017. Consumption of fossil fuel oil in the pulp mills was higher during the year due to a lower supply of bio-oil in the market. During the year, Södra's nurseries became fossil-free by replacing natural gas with wood pellets for heating and using biodiesel in working machinery. Biogas replaced natural gas in one wood impregnation unit.

Södra's roadmap for fossil-free production and transportation contains activities that are expected to generate both long and short-term results, such as the substitution to fossil-free alternatives, continued efficiency improvements, research and development.

## FOSSIL-FREE TRANSPORTATION

The transportation of raw materials to mills, and of products to customers, is an essential part of Södra's operations. Inbound deliveries of raw materials to Södra's mills are mainly transported by truck, while outbound deliveries of products are mainly transported by boat. Transportation accounts for the largest share of Södra's greenhouse gas emissions. The aim is to increase freight transport by rail and Södra is working on more terminal solutions. However, this development is hampered by a lack of infrastructure and poor railway maintenance.

The transition to fossil-free transportation is an extensive process that requires long-term, external collaborations. Södra has been participating in the Fossil Free Sweden initiative since 2017, and is committed to the challenge of fossil-free transportation by 2030.

### 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.

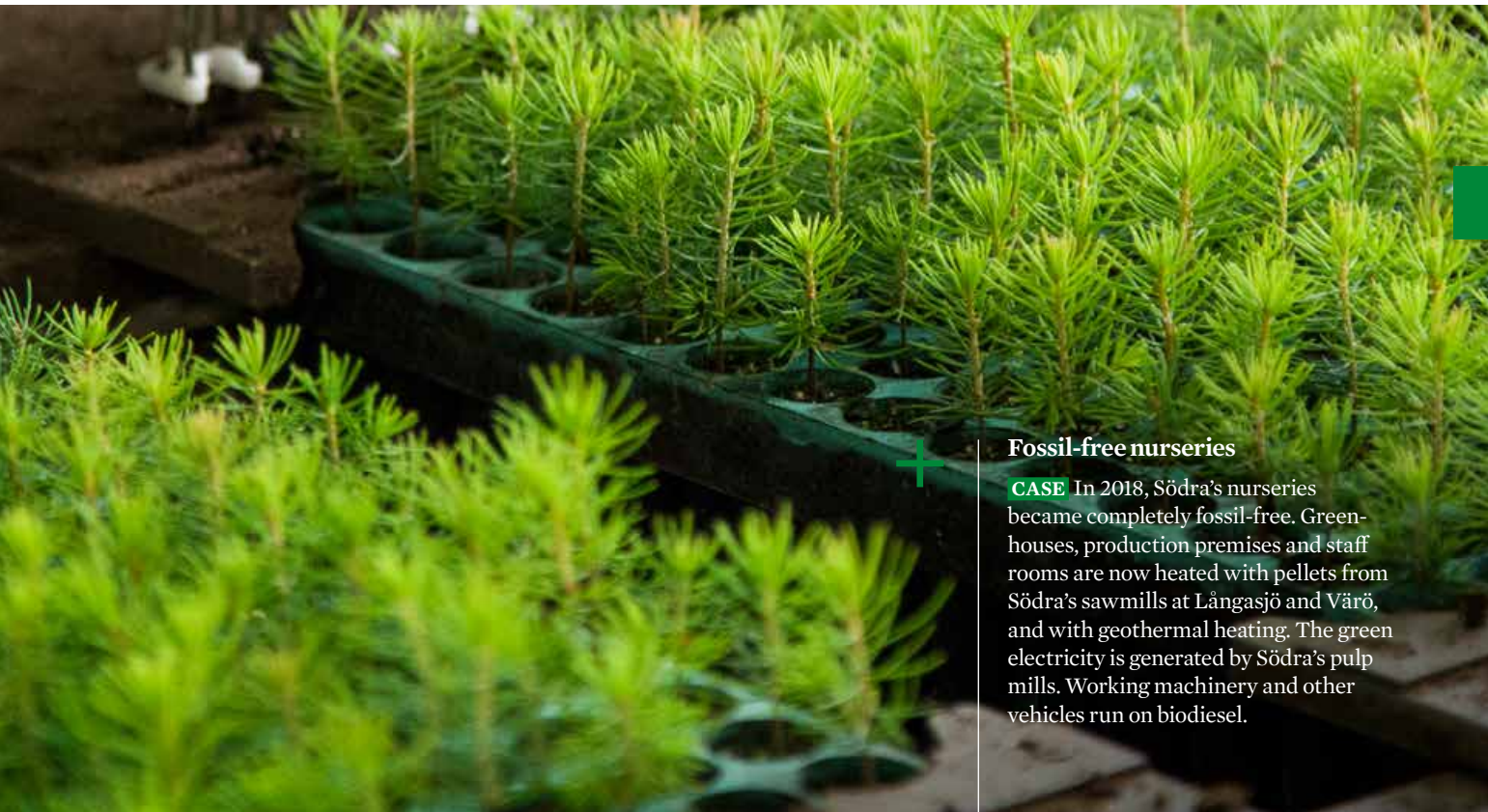
Fossil carbon dioxide emissions from transportation were slightly higher in 2018 compared with 2017. HVO is a bio-based alternative to fossil diesel and available from all filling stations at Södra's mills. HVO is also offered to external transport

# 6.7 m<sup>3</sup>fo/ha

The annual rate of forest growth in Södra members' forests is rising in the long-term, now 6.7 m<sup>3</sup>fo/ha per year.

# 1.9 million tonnes

The growing stock volume of Södra members' forests is rising and leading to carbon sequestration, with an average carbon dioxide uptake of 1.9 (1.9) million tonnes per year over the past five years.



### Fossil-free nurseries

**CASE** In 2018, Södra's nurseries became completely fossil-free. Greenhouses, production premises and staff rooms are now heated with pellets from Södra's sawmills at Långasjö and Värö, and with geothermal heating. The green electricity is generated by Södra's pulp mills. Working machinery and other vehicles run on biodiesel.

companies under contract to Södra. During the year, 196 (193) GWh of renewable fuel was dispensed at Södra's filling stations, representing 92 percent (79) of all fuel dispensed at the filling stations.

Electric vehicle charging stations were installed at the head office and one pulp mill to facilitate commuting by electric car. Södra's operations now offer a total of 66 charging points.

In 2018, Södra sold 39,319 tonnes (34,035) of crude tall oil for the production of crude tall diesel and tall oil-based chemicals.

### FOREST GROWTH

Swedish forests continue to grow faster than they are harvested. Growing forests absorb carbon dioxide through photosynthesis and, combined with the use of wood products, play a major role in combatting climate change. The effect increases if forests are managed properly and tree species are adapted to the growing conditions of each soil type.

Mature trees absorb little or no carbon dioxide, but regeneration harvesting and replanting help to restore the carbon dioxide uptake. Södra's members plant at least three seedlings for every tree that is regeneration harvested. Carbon stocks are highest when forests are 30–70 years old.

Over a rotation period, a forest in the rotation-forestry system absorbs large amounts of carbon dioxide and is a major carbon sink. The higher growing stock volumes in the forests owned by Södra's members represent a substantial carbon dioxide uptake.

### TARGETS AND OUTCOMES

The annual rate of forest growth on members' estates will be 20 percent higher by 2050 compared with 2015. The target entails that the positive trend for forest growth will continue at the same rate as in recent decades, at a minimum. One condition is that the natural functions and productive capacity of the forest land must be maintained, and biodiversity protected. Consideration must be made for nature conservation values, social values and cultural values.

In 2018, the annual rate of forest growth was slightly lower compared with 2017, but the growth trend of recent years is positive. In 2018, the summer was hot with less precipitation than normal. Many forest stands were negatively impacted and the combination of heat and drought led to widespread bark beetle damage. The dry and hot

summer of 2018 will affect forest production in the coming years, the exact scope is partly dependent on weather conditions in 2019.

Södra's analysis shows that effective advisory services in relation to forest management and damage control in forests are important measures for increasing forest production. Södra also invests in research and development, such as forest tree breeding to provide better spruce reproductive material, and the nutrient recycling of bio-ash to forest land. Efforts are ongoing to develop strategies to achieve better regeneration stands and higher intensity cleaning. At the 2018 Annual General Meeting, Södra adopted a target for wildlife browsing damage in southern Sweden – that browsing damage in at least half of the moose management areas must not exceed acceptable levels by 2021 (max. 5 percent damaged pine stems in young forest over the past 12 months).

Key indicators fossil-fuel free	2018	2017	2016
Renewable fuels for production processes, %	98.6	99.3	98.7
Renewable fuels for working machinery and transportation, %	26	20	13
Fossil carbon dioxide emissions from production, working machinery and internal transportation, ktonnes	103	80	99
– of which direct emissions, ktonnes	63	39	60
– of which indirect emissions (external harvesting contractors), ktonnes	40	41	39
Renewable fuels for transportation, %	26	29	20
Fossil carbon dioxide emissions from transportation, ktonnes	196	191	199
– of which direct emissions, ktonnes	1	1	1
– of which indirect emissions (external carriers), ktonnes	195	190	198



### For more information ...

about Södra's energy consumption and carbon dioxide emissions, refer to Sustainability data on pages 58 and 60.





# Sustainable forestry

Södra and its members strive to harmonise production with environmental, social and cultural values by integrating voluntary allocations and general considerations into all forestry operations.



## Significant events in 2018

Södra is close to the target of 95 percent approval rate for considerations in regeneration harvesting. The outcome for 2018 was 94 percent.

Regeneration methods are now monitored in the Green Balance Sheet.

The focus lies on increasing nature-conservation measures – the outcome for 2018 was 2,100 ha.

## CONDITIONS FOR SUSTAINABLE FORESTRY

Södra's members are firmly committed to responsible forest management. Because Södra's numerous small-scale forest farmers have so many different ideas and goals for their forest estates, the members are contributing to major variation and forest diversity. Södra contributes to sustainable forestry by offering a range of advisory and other services to support forest estate management and care. 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 include the Södra School – a unique training concept based on the needs of forest owners. The range of courses offered by the Södra School are designed to raise awareness of sustainable forestry and to inspire active forest management in order to combine increased growth and profitability with consideration for all of the values associated with forests.

## SUSTAINABLE HARVESTING RATE

Forests are a resource that should be used, but not overused. Harvesting shall be within the sustainable harvesting rate interval. The method for assessing a sustainable harvesting rate is based on the

approach used by the Swedish Forest Agency and Swedish University of Agricultural Sciences (SLU) to compile Environmental Impact Assessments for forestry every five years. The most recent Environmental Impact Assessment for forestry was performed in 2015. Södra conducted an environmental impact assessment for forestry in 2017, based on data from Södra members' land using this methodology.

## TARGETS AND OUTCOMES

According to the environmental impact assessment, a sustainable harvesting rate for Södra's members lies between 5.9–7.1 m<sup>3</sup>fo per hectare and year, corresponding to 11–13 million m<sup>3</sup>sub per year, based on the current affiliated forest area. The year's harvesting rate of 6.2 m<sup>3</sup>fo per hectare and year was within the sustainable harvesting rate interval.

## GREEN BALANCE SHEET EVALUATES CONSIDERATIONS

Various types of environmental considerations are taken during forestry operations.



## Soil protection

**CASE** Södra's soil protection guarantee made a strong contribution to the achievement of Södra's sustainability target for considerations in regeneration harvesting. The guarantee also covers forest residue handling and site preparation.

Completed regeneration harvests, thinning and regeneration methods are reviewed and rated in a Green Balance Sheet. In 2018, 371 sites (353) were inspected, equivalent to 2,031 hectares (1,637). The field work is performed by Södra's forest management auditors and the Green Balance Sheet is used as a basis for continuous improvements. As of 2018, considerations in forest regeneration operations will be monitored 1–2 years after regeneration harvesting. This includes an assessment of whether site preparation and planting have been carried out correctly, and whether these measures have included consideration for cultural relics, buffer strips and sensitive habitats. Forest residues (branches and treetops) are now also included in the Green Balance Sheet, since forest residues provide attractive habitats for many species, especially insects and fungi.

#### TARGETS AND OUTCOMES

The approval rate for considerations in regeneration harvesting is to be 95 percent by 2020. The approval rate for 2018 was 94 percent (95). The Green Balance Sheet report is available at [sodra.com](http://sodra.com)

#### NATURE-CONSERVATION MEASURES

Many forestry environments with high conservation value in southern Sweden have a history of traditional forest management, or of forestry that has created this value. Typical examples are older pastures with tall hardwood trees that are now being overgrown by spruce. When management ceases and forests become overgrown, many nature conservation values are lost. By setting sustainability targets, Södra is taking further steps with special management methods to protect or develop these environments.

#### TARGETS AND OUTCOMES

The area for nature-conservation measures is to be 3,000 hectares per year by 2020. Following a decline in recent years, the outcome for 2018 was 2,100 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.

#### CERTIFICATION OF MEMBERS AND CONTRACTORS

Forest certification is an important tool for responsible management of members' forests. About two-thirds of Södra's affiliated forest area is FSC® (Forest Stewardship Council) and/or PEFC™ (Programme for the Endorsement of Forest Certification) certified. 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](http://sodra.com).

Contractors who perform forestry measures on behalf of Södra must hold PEFC™ certification. The contractors employees must be aware of the considerations that apply for conservation and cultural values in forestry. For forestry operations in aquatic environments, such as ditch clearing, expertise in the management of aquatic environments in forests is required. All contractors must also commit to 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.

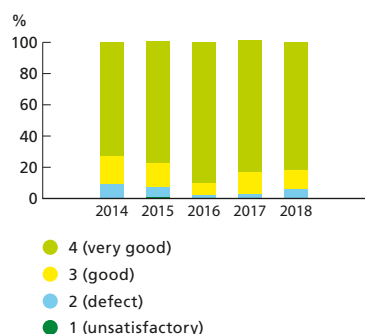
#### GREEN FOREST MANAGEMENT PLAN WITH BLUE MANAGEMENT TARGETS

Most members use Södra's green forest management plan for their forestry. The plan sets long-term management objectives for each forest stand. The objectives are divided into four classes with detailed descriptions for each stand. The green forest management plans help the forest landscape to maintain a balance between valuable wood production and the conservation or new creation of biodiversity. The plans also include consideration for the cultural heritage and social values of forests. The green forest management plans also include blue management targets in which watercourses are assessed, and the ambition for aquatic environment considerations is specified. With Södra's digital services, forest owners can continuously update their forest management plans.

#### 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.

#### Impacts on soil and water



In 2018, 94 percent of regeneration harvest sites were approved in the Green Balance Sheet in relation to impacts on soil and water.

#### Certifications

	2018		2017		2016	
	Area (mill. hectares)	Percentage, %	Area (mill. hectares)	Percentage, %	Area (mill. hectares)	Percentage, %
FSC®	1.7	66	1.7	66	1.6	64
PEFC™	1.7	68	1.7	67	1.8	72

The certified membership area is growing. Private 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



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







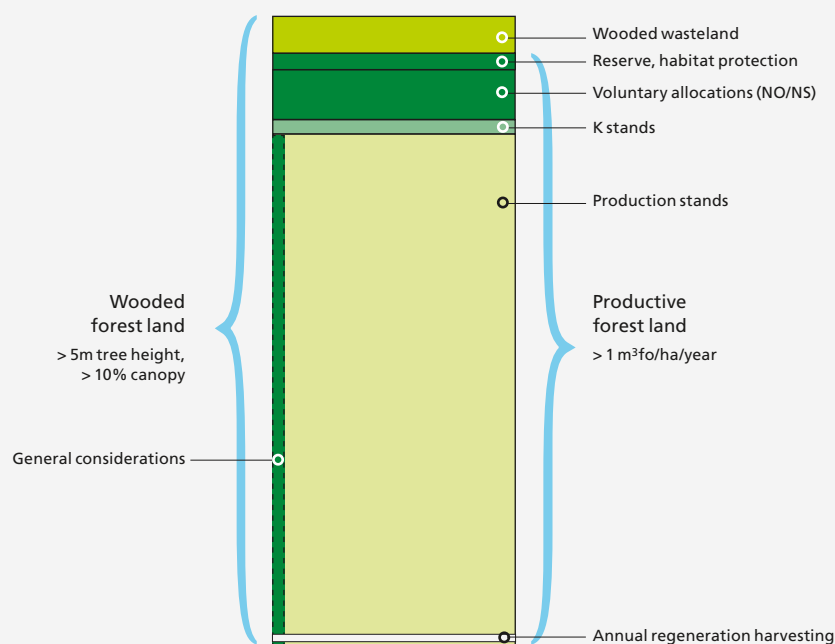
## VALUE OF FOREST LAND, VOLUNTARY ALLOCATIONS 2018

The voluntary allocated area with conservation considerations (NO/NS) on land owned by Södra's members (PEFC-

certified) is just under 142,000 hectares. The average value of this forest area was SEK 19 billion, with a variation between SEK 13–24 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.

### Sustainable forestry – consideration areas



Wooded forest land consists of productive forest land and wooded wasteland. The productive forest land grows by at least 1 m³ per hectare and year, while wooded wasteland is low-productive woodland.

Productive forest land consists of production stands – areas in which wood production is the primary objective, combined with general considerations in forestry measures – and various types of nature conservation areas.

Formal types of site protection are nature reserves, habitat protection and nature conservation agreements. Nature reserves are formed by county administrative boards or municipalities to protect a single contiguous location. Habitat protection and nature conservation agreements on forest land are formed by the Swedish Forest Agency or a county administrative board to protect smaller areas. Nature reserves, habitat protection areas or nature conservation agreements on land owned by Södra members are covered by agreements between individual members and either the Swedish Forest Agency or the county administrative board. There are regulations for formally protected areas describing why the site is protected and any management measures.

General considerations apply to all forestry operations. These may include buffer strips, sensitive habitats and groups of trees. In addition to general considerations, forest owners set aside stands voluntarily to protect and develop nature conservation values (NO/NS). These stands should amount to at least 5 percent of the estate, according to forest certification requirements. The green forest management plan contains descriptions of the NO, NS and K management targets, with objectives and measures for protecting and developing nature conservation values. NO (nature conservation, to be left untouched) designates areas where nature conservation values are best protected and developed when the forest is left untouched. NS (nature conservation, requiring management) designates the areas where special management methods are required to protect and develop nature conservation values. There are also K stands (combined targets) with targets for both wood production and nature conservation, and where nature conservation values apply to a higher percentage of the stand than for production stands. In combination, formal protection, voluntarily allocated stands and general considerations all contribute to the national environmental objective of vibrant forests.

Areas of Södra members' estates in Götaland	2018	2017	2016
<b>Wooded wasteland<sup>1)</sup></b>			
area <sup>2)</sup> (ha)	176,000	174,000	171,000
percentage of wooded forest land (%)	6.8	6.9	6.9
<b>Official site protection (reserve, habitat protection)</b>			
area (ha)	84,000	75,000	72,000
percentage of productive forest land (%)	3.3	3.0	2.9
<b>Voluntary allocations (NO/NS)</b>			
area (ha)	142,000	138,000	144,000
percentage of old-growth forest (%)	85	85	85
percentage of productive forest land (%)	8.1	8.1	8.1
<b>Management target K (combined production and nature conservation targets in addition to general considerations)</b>			
area (ha)	42,000	43,000	43,000
percentage of productive forest land (%)	2.4	2.5	2.4
<b>General considerations in regeneration harvesting</b>			
percentage of production stands (%)	4.7	5.1	5.4
<b>Annual regeneration harvesting (a rotation age of 80 years)</b>			
percentage of production stands (%)	1.25	1.25	1.25

<sup>1)</sup> Wooded wasteland is low-productive land with some degree of high conservation value.

<sup>2)</sup> The same percentage of wooded wasteland as in Götaland in its entirety has been used.

# Sustainable innovation

The aim of several development projects based on using forest products for liquid biofuels, packaging and timber structures is to replace today's fossil-based solutions.



## Significant events in 2018

Several projects for liquid biofuel production.

Market tests of fossil-free food packaging.

Feasibility study of aviation biofuel.

The sustainable innovation target is that Södra has commercialised at least three products with better sustainability performance than today's alternatives by 2020. The focus of innovation activities is therefore making an active contribution to several of Södra's sustainability targets.

Several ongoing projects can be linked to Södra's sustainability targets for fossil-free production by 2020 and fossil-free transportation by 2030. In 2017, Södra made strategic investment decisions to allocate a total of SEK 400 million to the development and production of liquid biofuel based on forest biomass, and to increased wood processing, with a focus on the growing timber-frame market. Due to these decisions, 2018 was characterised by the construction and planning of facilities at

Mönsterås (biomethanol) and Tofte (Silva Green Fuel), and the cross-laminated timber (CLT) facility at Värö.

## FORESTS PROVIDE MORE SUSTAINABLE PRODUCTS

In the EU FRESH project, Södra is working together with Huhtamäki and Saladworks to develop and commercialise fibre-based food packaging that can replace today's fossil-based plastic packaging. During the year, two marketing tests were carried out in the UK with sales in 350 department stores, and a major commercial test period is planned for 2019 in preparation for a full-scale commercial launch.

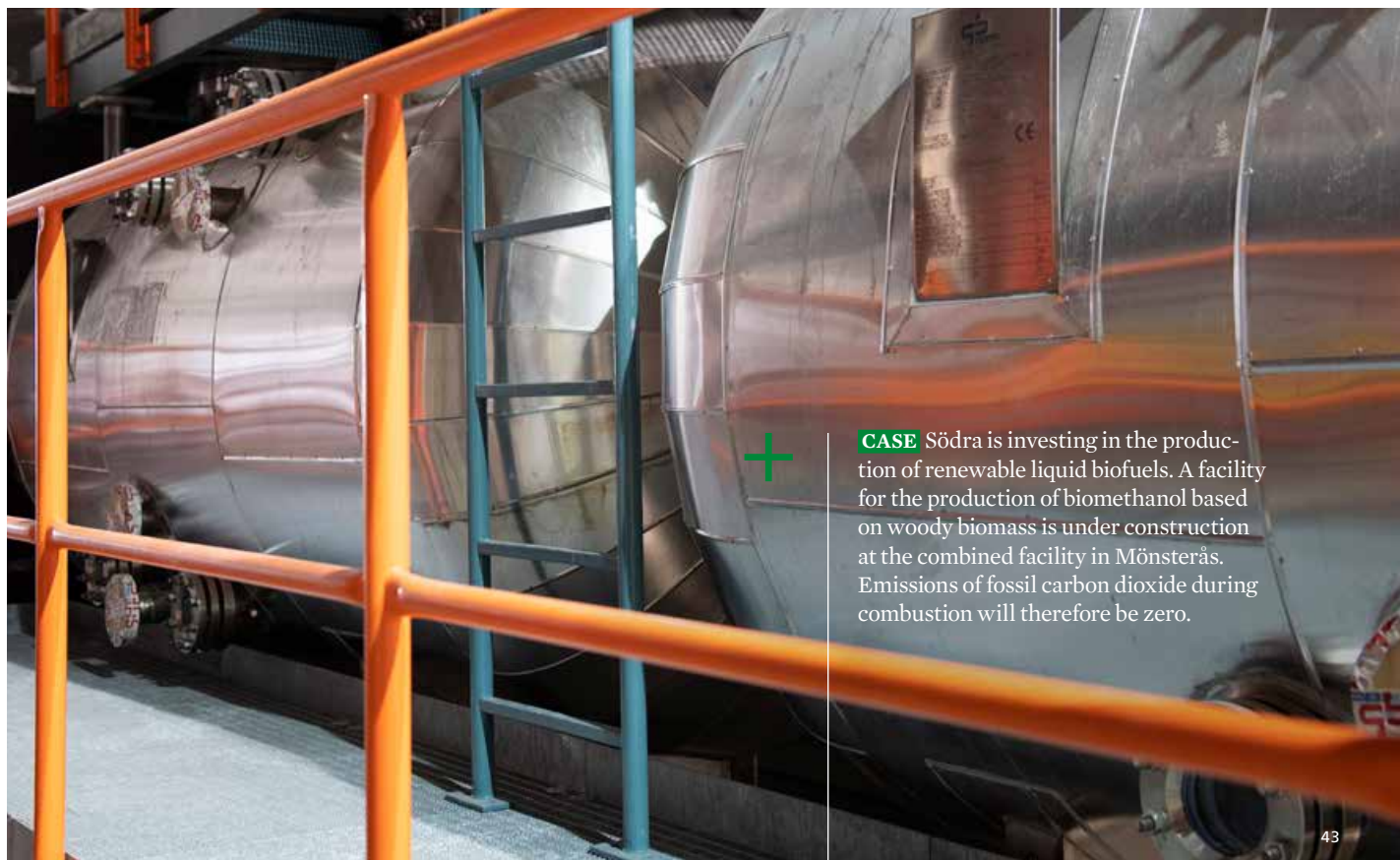
As part of Södra's investment in engineered timber products, a production facility for cross-laminated timber (CLT) is

currently under construction at Värö. Production is scheduled to commence in the second quarter of 2019.

Södra is also investing in the production of liquid biofuel. A production facility for bio-methanol – a renewable liquid biofuel from woody biomass – is under construction at the pulp mill in Mönsterås. In Silva Green Fuel (a joint project with Norwegian Statkraft), a demo facility is being planned for the production of liquid biofuel from residual products from forest biomass.

Another project – From woodchips to aircraft in Småland – has been launched by a consortium of organisations comprising Södra, KLM, the Municipality of Växjö, SkyNRG and Småland Airport, Fores and the Luleå University of Technology. Funding has been granted for a feasibility study into the conditions for developing new technology and improving access to sustainable aviation biofuel.

Progress during the year was in line with the target for at least three commercialised products with better sustainability performance by 2020.



**CASE** Södra is investing in the production of renewable liquid biofuels. A facility for the production of biomethanol based on woody biomass is under construction at the combined facility in Mönsterås. Emissions of fossil carbon dioxide during combustion will therefore be zero.





# Resource efficiency

Resource efficiency means using resources in a more sustainable manner. High resource efficiency contributes to Södra's competitiveness and benefits at the same time to society, businesses and individuals by minimising environmental and climate-change impacts.



## Significant events in 2018

Historically high net electricity deliveries – 388 GWh compared with 335 GWh in 2017.

Södra offers electricity with a Guarantee of Origin to its European customers.

Increased focus on water after the summer drought.

## ENERGY SUPPLY

Södra is almost energy self-sufficient.

Energy for Södra's industrial processes is generated by pulp mills and sawmills and the primary source is wood raw material. The pulp mills recycle the cooking chemicals used in pulp production, while simultaneously generating energy. The sawmills burn bark and other biofuels to generate heat for wood drying. Any additional needs for energy are met by purchasing biofuels and fossil fuels.

All business areas deliver energy to external customers in the form of electricity, district heating and biofuels. Continued energy efficiency improvements at Södra's mills will provide more bio-based energy for society.

Most of Södra's electricity generation comes from renewable energy sources. Electricity is generated at the pulp mills in Mönsterås, Mörrum and Värö. Södra also

owns six wind turbines at Mönsterås, with a total power output of 14 MW.

District heating is delivered both internally within Södra, and externally. The pulp mills in Mönsterås and Värö transfer district heating to the sawmills at the combined facility. External deliveries of district heating are transferred to nearby communities from the Group's three pulp mills, the sawmill at Kinda and the planing mill at Torsås. More than half of the district heating transferred is excess heat from industrial processes.

Biofuels are used in several ways across Södra's value chain. Forest residues (branches and treetops) are a by-product of harvesting and used as fuel in thermal power stations. Bark from the pulp mills is used for internal energy generation and sold on the market as biofuel. The sawmills contribute with bark, woodchips and shavings. Pellets are also produced. 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 will generate more electricity on an annual basis than the Group consumes.

The electricity and heating used for pulp production declined year-on-year due to high production and investments, including a new evaporator in the pulp mill at Mörrum. The target for heating consumption was met.

The electricity and heating used for sawn timber production declined year-on-year due to continuous improvements and more efficient production.

The electricity generated in 2018 increased compared with 2017. The increase in electricity generated in 2018 was the result of higher production volumes in the pulp mill at Värö. In 2018, the Group's electricity consumption remained unchanged compared with 2017, enabling historically high net electricity deliveries.

# 99.5%

During the year, 99.5 percent (99.5) of Södra's total electricity generation was derived from renewable energy sources.

## 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 generated by the pulp mills and Södra's own wind turbines.

- Guarantee of Origin certificates show the energy source of the electricity generation. The government allocates certificates to electricity generators for every megawatt-hour (MWh) of electricity they produce. The certificates can then be traded on the open market. Green Guarantee of Origin certificates for the electricity consumed by the Södra Group and by customers of Södra Medlemsel are used by Södra and removed from the market.

# 1,772 GWh

The electricity generated was 1,772 GWh (1,719), of which 30 GWh (34) was derived from wind power.

# 1,384 GWh

The Group's electricity consumption (excluding other transportation) was 1,384 GWh (1,384).

# 388 GWh

In 2018, net electricity deliveries were 388 GWh (335). The deliveries corresponds to 50,000 times around the world with an electric car.



## Renewable electricity – Guarantees of Origin

**CASE** In 2018, Södra Cell Mönsterås became certified under the European Energy Certificate System (EECS), a standardised system for European Guarantees of Origin. This means that electricity with a Guarantee of Origin can be offered to European customers.

### External energy deliveries

GWh	2018	2017	2016
Electricity	388	335	52
District heating	430	414	368
Solid biofuels (forest fuel, bark, pellets, residual products and energy peat)	3,874	3,749	3,717
<b>Total</b>	<b>4,692</b>	<b>4,498</b>	<b>4,137</b>

In 2018, external energy deliveries totalled approximately 4,700 GWh. Deliveries of electricity and heat were higher compared with preceding years due to higher production in the pulp mills. Deliveries of solid biofuels were slightly higher compared with preceding years, and solid biofuels from industry mainly accounted for the increase.

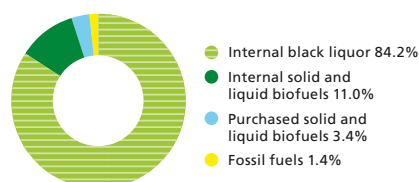
### Electricity and heating consumption – Pulp

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

### Electricity and heating consumption – Sawn timber

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

### Fuel consumption for production 2018



Södra consumed fuel equivalent to 13.5 TWh for production purposes. 1.4 percent of this figure was fossil fuel, mainly fuel oil. Otherwise, biofuels were used, most of which comprised the lignin released in the production process at the pulp mills.



## For more information ...

about Södra's raw materials, energy, products, by-products, waste and air and water emissions, refer to the Sustainability data on pages 58–60.





## RESOURCE USE

The main resources used in Södra's production processes are wood raw material, sawn timber, chemicals, packaging materials and water. The pulp mills use large amounts of alkaline cooking chemicals, which are nearly 100-percent recovered. Chemicals for bleaching the pulp are both manufactured on site, and purchased on an ongoing basis. Södra conducts development projects with the aim of optimising the use of wood raw material from a material and energy perspective. The efficient use of wood raw material and chemicals helps to reduce environmental impacts, keeps costs down and improves profitability.

### Water

The pulp mills rely heavily on access to clean water, and 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 plants that extract raw water, to regulate their withdrawals and prevent any negative effects from their activities. The pulp mills use a range of water-conservation measures when washing pulp. 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 extremely dry summer led to low river flows, and groundwater levels are still low across all of southern Sweden. Water availability and use will acquire a greater focus in Södra's operations moving forward.

## AIR AND WATER EMISSIONS

Air and water emissions are regulated in environmental permits. Södra is working actively to reduce the environmental impact of its forestry and mill operations. The pulp mills and transportation are the main contributors to air emissions. Odours, dust and noise from Södra's industrial and forestry operations can also affect neighbouring areas.

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

## BY-PRODUCTS AND RECYCLING

By-products from Södra's operations are used in construction materials, as biofuels and for the production of liquid biofuels, as well as raw material in the chemical industry. Södra conducts research and development to identify new methods, products and applications for forest products.

In some parts of Södra's membership area, nutrient recycling was introduced in 2018 as a forestry service. In regeneration harvests when forest residues (branches and treetops) are extracted, essential nutrients are removed from the forest. Nutrient recycling by fertilising with bio-ash helps to maintain the natural cycle and ensure long-term forest productivity. The bio-ash contains magnesium, potassium, calcium and phosphorus and is produced at the pulp mill in Mönsterås from materials that were previously sent to landfill.

## WASTE

Södra works actively to minimise the waste it produces, and to ensure that recycling and energy recovery is prioritised 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.

Hazardous waste largely consists of oily 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. Preliminary remedial assessments of the former timber-treatment facility in Hultsfred were completed in 2018, whereby the procurement of a remediation contractor commenced. Remediation of the discontinued sawmill in Hjortsberga continued and the results show that pollutants in the soil have continued to spread. Action was taken to prevent further contamination. In Lidhult, on one of Södra's former sawmill sites, preliminary remedial assessments were conducted during the year and the extent of contamination was confirmed. Soil contamination assessments are ongoing at Ramkvilla, Torsås, Traryd and Åtvidaberg.

### 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.

Södra's operations exceeded guideline values in 2018, but no limits or constraints.

Södra Skog exceeded the permitted daily water use at the Flåboda nursery, and the permitted annual water use at the Falkenberg nursery. The Mönsterås port exceeded the permitted annual average for hydrocarbon content in discharged water.

Södra Wood Långasjö and Värö exceeded the guideline values for noise.

Södra Cell Mörrum exceeded the guideline values for dust and sulphur to air, chlorate, suspended solids, nitrogen and phosphorus to water, and noise. Södra Cell Värö exceeded the guideline values for nitrogen oxides to air, suspended solids and total organic carbon to water, and noise.

In addition to exceeding these guideline values, several other environmental incidents were reported to the relevant supervisory authority in 2018, including fire, discharges of oil and chemicals, and operational disturbances in treatment equipment.

### COMPLAINTS

During the year, Södra's industrial operations received more than 55 (55) external complaints. Most of these referred to odours and noise from Södra Cell's three pulp mills. The complaints were managed in accordance with the environmental management systems of the operations. The complainant receives feedback if requested. The complaints are also reported to the relevant supervisory authority.

During the year, Södra's forestry operations received 10 (20) formal comments, mainly related to forestry measures performed.



# Responsible employer and committed employees

Södra was ranked the most attractive employer in Sweden in the 2018 Randstad Employer Brand Research. Södra takes responsibility for its employees by developing the company's set of values and competency development, and focusing on workplace health and safety.



## Significant events in 2018

Södra ranked Sweden's most attractive employer.

New internal training programme – Developing as a team.

Focus on behaviour-based safety to reduce occupational injuries.

## GUIDING SET OF VALUES

Södra's set of values "value-generating relationships, a long-term approach" guides the company's day-to-day operations. These values are designed to deepen the corporate culture and lead Södra towards its goal of being a next-generation forest company. The culture is summarised in the concept of "One Södra," entailing a cohesive and more effective Group.

## 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 the right employees and developing the employees, Södra is ensuring job satisfaction and competence. The aim is that these efforts will result in Södra's employees recommending Södra as an employer, with an eNPS (employee net promoter score)\* of 60 or higher by 2020.

## OCCUPATIONAL HEALTH AND SAFETY

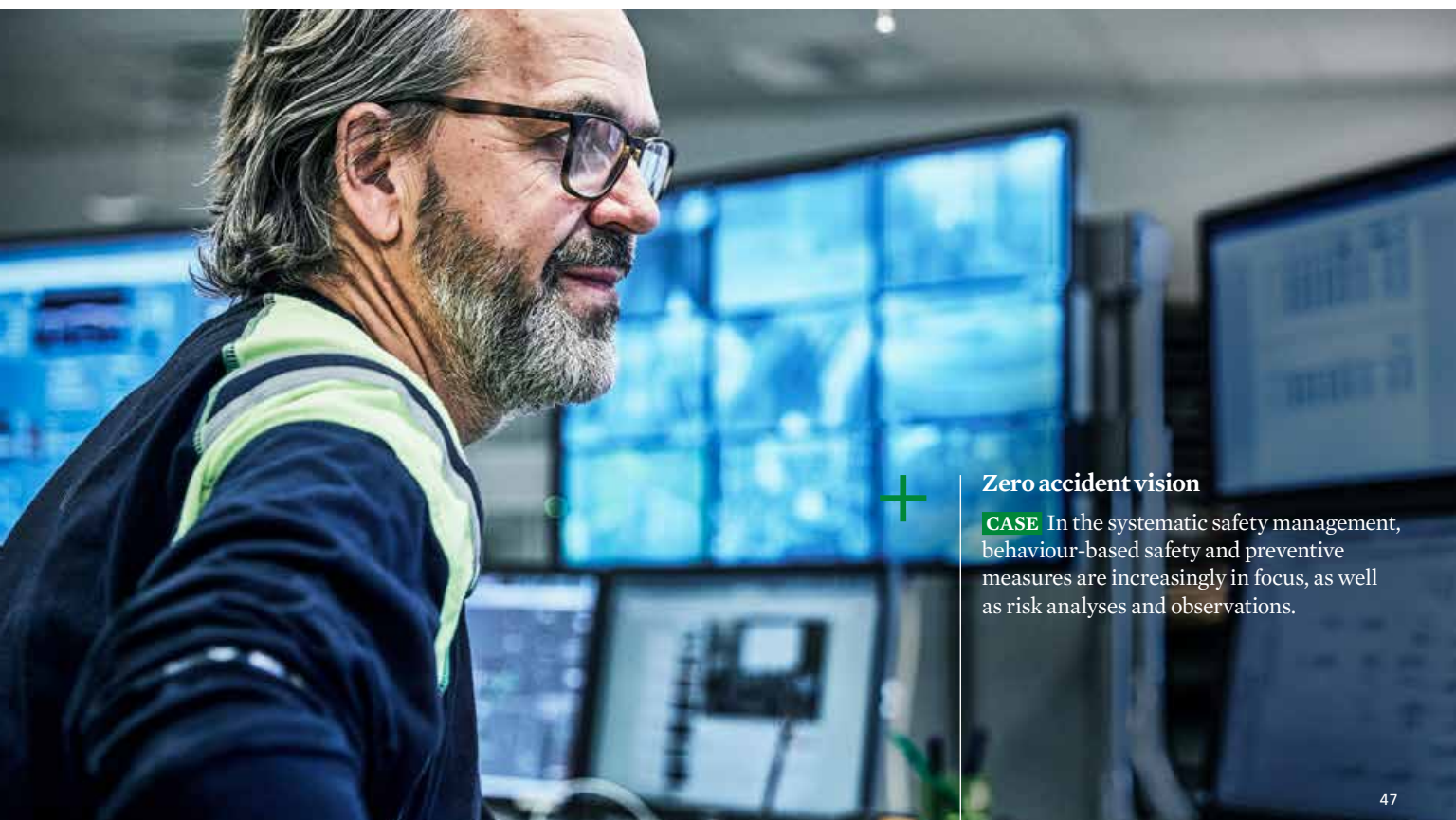
Södra should be characterised by a strong safety culture, in which all employees accept responsibility for their work. Occupational health and safety (OHS) initiatives are preventive, and conducted systemati-

cally. Most of this work is carried out at local level, together with trade unions. OHS objectives are adapted to the requirements and needs of each respective operational focus. Selected key indicators are continuously monitored by Group Senior Management and the Board.

## 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. Occupational health and safety is a prioritised area and in 2017, Södra's Board adopted a programme to reduce the amount of occupational injuries and sickness absence.

\* eNPS (employee net promoter score) measures the likelihood that a company's employees would recommend their employer to a friend.



## Zero accident vision

**CASE** In the systematic safety management, behaviour-based safety and preventive measures are increasingly in focus, as well as risk analyses and observations.





The number of lost-time-accidents (LTA) was 77 (94) and the lost-time-accident rate (LTAR) was 15 (17). One fatal accident involving a contractor at the Långasjö sawmill in 2018 is under investigation. In regard to the fatal accident at the pulp mill in Mönsterås in 2017, Södra is waiting for the District Court's determination of the accepted corporate fine. Södra conducts a number of measures and activities in cooperation with trade unions to reduce the number of occupational injuries. Major investments have been made in safety equipment and technical solutions. Behaviour-based safety and preventive measures are increasingly in focus, as well as risk analyses and observations. Training programmes in safety, culture and structural issues are provided, and all of Södra's units are invited to take part in behaviour-based safety training. The CEO and HR Director conducted "safety walks" at all production facilities, and safety-related issues were given higher priority in Södra's leadership development programmes. Risk observations can easily be photographed and reported using IT support and various apps, enabling prompt action.

In 2018, the rate of sickness absence was 3.6 percent (3.6). Sickness absence is followed-up in various ways, including discussion with the immediate supervisor. Employees on long-term sick leave receive support from professional rehabilitation leaders who support their return to work through a special insurance plan. Employees on long-term sick leave also receive higher sickness benefits.

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. During the year, a Group-wide health challenge was introduced with a focus on physical activity and health promotion.

## RECRUITMENT, JOB SATISFACTION AND RESPECT

Södra works strategically and systematically to attract, develop and retain the right

competencies. This is particularly important because large numbers of employees will soon be retiring. In this process, competency development, leadership development and performance management are key to ensuring that Södra, as the forest company of the future, remains an attractive employer. During the year, Södra established a recruitment centre that follows up new employees by conducting interviews, as well as those candidates who were not offered employment, to gather feedback for future recruitment processes.

Södra aims to be a welcoming workplace, where everyone contributes to health, job satisfaction and well-being. This involves showing respect for each other, regardless of age, gender, ethnicity, faith, disability or sexual orientation. Every employee is responsible for maintaining a work environment free from bullying and harassment, and training is provided in relation to discrimination and bullying. During the year, 37 percent of Södra's employees completed training in Södra's efforts to prevent discrimination and bullying. Employee surveys also address these issues.

## TARGETS AND OUTCOMES

By 2020, at least 30 percent of Södra employees will be women and Södra employees will be willing to recommend Södra as an employer, eNPS will be 60 or higher.

Södra works actively to increase the percentage of women employees. At year-end, 22 percent (21) of Södra's employees were women. The proportion of women managers was 20 percent (19). The trend is that the percentage of women among new employees is rising. There is also an explicit ambition to increase the diversity by recruiting and retaining employees with diverse backgrounds, experience and perspectives. This is a long-term process, and Södra has worked hard in terms of both structure and culture to achieve the set targets. 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. Internal activities have promoted programmes for personal development and

employee benefits. But this also requires efforts in cooperation with, and by, society to influence the general perception of forest companies, especially in school and education systems. The eNPS in the 2018 employee survey was 14 (2016: 14).

## COMPETENCY PROVISION

Södra's competency provision plans include 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 career opportunities are encouraged and help to strengthen the corporate culture, while contributing to the development of both individuals and the organisation. Södra offers a variety of solutions in connection with restructures and organisational changes, such as transition support and relocation assistance.

## LEADERSHIP DEVELOPMENT

Södra's leadership development is run by Södra Academy, which offers strategic training programmes and competency development in selected areas. During the year, the "Develop as a team" training programme was implemented, with the aim of developing and strengthening team collaboration and performance. In addition, both situational leadership training and challenging discussions were successfully implemented.

## 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 both 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.

## Key indicators

	2018	2017	2016	2015	2014
No. of employees	3,141	3,402	3,594	3,599	3,524
Women, %	22	21	20	19	19
Employee turnover, %	11.5	9.3	8.6	7.0	6.5
Average age, years	44	44	44	45	44
Wages, salaries and social security contributions, SEK million	2,362	2,429	2,400	2,298	2,096
Sickness absence, %	3.6	3.6	3.7	3.7	3.5

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



**For more information...**

about Södra employees, refer to the Sustainability data on page 61.



Vi är varandras  
arbetsmiljö

*Every employee is responsible  
for maintaining a work environ-  
ment free from bullying and  
harassment.*





# Responsible business

Responsible business at Södra is based on clear requirements in regard to business ethics, working conditions, human rights and the environment in the Group's Code of Conduct and Supplier Code.



## Significant events in 2018

Establishment of purchasing office and supplier evaluations in China.

Growing demand for certified products – now 69 percent.

All grades of paper pulp can now be supplied with the Blue Label allergy certification.

## INITIATIVES FOR RESPONSIBLE BUSINESS

Södra's set of values "Value-generating relationships, a long-term approach" is the starting point for Södra's responsible business, and is based on the Group's Code of Conduct and Supplier Code. The product labelling and certifications applied by Södra are also important for the traceability of raw material and 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 54.

### 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. During the year, Södra established a purchasing office in China which will place even stricter demands on evaluation and control moving forward due to the higher expected risk of deviations from the Södra Supplier Code.

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 delivery contracts are therefore not covered by the Supplier Code.

## MONITORING COMPLIANCE WITH THE SUPPLIER CODE

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

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. Should the risk of non-compliance be higher, the supplier is requested to conduct a self-assessment and the operations are reviewed by monitoring the self-assessments or an on-site audit.

Suppliers are also reviewed within the framework requirements of the FSC® and PEFC™ standards. Södra's 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.

### TARGETS AND OUTCOMES

Södra's goal is that the Supplier Code will be included in all of Södra's supplier agreements. All suppliers holding supplier agreements with Södra will be risk-assessed, and prioritised suppliers will be evaluated 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.

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

of 2018, the percentage of Södra's suppliers that had signed the Group's Supplier Code had increased compared with 2017, and the percentage of Södra's purchasing value where the Supplier Code had been signed by the supplier remained unchanged. Efforts with risk assessments improved and a larger percentage of Södra's purchasing value was risk-assessed during the year compared with 2017. The percentage of monitoring in the form of self-assessments and on-site audits was higher compared with 2017.

The year's review process was mainly focused on ensuring requirements specification for supply chain control, workplace safety and working conditions, and supplier evaluations in China. In total, more suppliers were reviewed compared with 2017 and there were fewer non-compliances. Identified non-compliances included fire protection deficiencies, incomplete registration of working hours and salaries, and inadequate monitoring of sub-contractors.

The development of sustainability-related criteria for investments and transactions commenced during the year.

### Certified products according to FSC® or PEFC™

	2018	2017	2016
Percentage of products with either FSC® or PEFC™ certification, %	69	63	63

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

## PRODUCT RESPONSIBILITY

Södra offers products made from raw materials from certified forests, including pulp, sawn timber and biofuel. 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 2018, 69 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 Ecolabels, and hold Blue Label certification (an international allergy label).



### Trivselhus – homes with solar panels and charging stations

**CASE** All house models produced by Trivselhus under the Movehome brand carry the Nordic Swan Ecolabel. Optional offers are solar panels and charging station for electric vehicles.

All paper pulp is also approved for the production of paper and cardboard that may come into contact with food, according to German and US food standards. As part of its customer offering, Södra Cell presents annual reports of the wood raw material's origin and environmental data, including carbon dioxide emissions, at product level.

All house models produced by Trivselhus under the Movehome brand carry the Nordic Swan Ecolabel.

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 is often a major player in locations where the company operates, and the Group creates jobs both directly and indirectly. Södra's mills supply district heating to nearby communities. 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.

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.

Key indicators Supplier Code and supplier review	2018	2017	2016
Suppliers that had signed the Södra Supplier Code, %	88	81	39
Södra's purchasing value for which suppliers had signed the Supplier Code, %:	98	98	–
Södra's purchasing value for which a risk assessment of suppliers was performed, %	94	88	63
No. of prioritised suppliers based on the risk assessment	125	63	77
– supplier self-assessments, %	27	16	18
– suppliers monitored on-site (sustainability audit), %	18	11	8
No. of reviewed suppliers	147	104	204
No. of non-compliant suppliers	5	11	12
– suppliers with agreement to address the cause of non-compliance, %	60	82	50
– suppliers where the review led to termination of their contract, %	0	0	0

### PURCHASING AND SUPPLIERS

Purchasing category	No. of suppliers	Purchasing costs by geographic location for contracted party, %
Wood raw material <sup>1)</sup> (sawlogs, pulpwood and sawn timber)	19,990 <sup>2)</sup>	83% Sweden, 3% other Nordic countries, 12% rest of Europe and 2% rest of world
Forestry contracting services <sup>3)</sup> (independent contractors)	339	100% Sweden
Transport services <sup>4)</sup> (transportation of wood raw material and products)	139	77% Sweden, 2% other Nordic countries and 21% rest of Europe
Input products <sup>4)</sup> (process chemicals, fuels, energy and packaging materials)	167	76% Sweden, 7% other Nordic countries and 17% rest of Europe
Indirect material and services <sup>4)</sup> (investments, operating materials, vehicles, IT, travel, office supplies and services)	631	94% Sweden, 5% other Nordic countries and 1% rest of Europe

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

<sup>2)</sup> Of which 11,547 harvesting assignments, 8,346 wood deliveries and 97 external suppliers. Harvesting assignments and wood deliveries are not covered by the Södra Supplier Code.

<sup>3)</sup> Covers suppliers with annual sales to Södra of more than SEK 100,000, and more than SEK 50,000 for forest management contractors.

<sup>4)</sup> Covers suppliers with annual sales to Södra of more than SEK 1,000,000 for Södra's central purchasing organisation: all suppliers to Trivselhus.





# 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 identified at Södra's joint forums. Opportunities are created for members to nurture their relationships with stakeholders – customers, suppliers, organisations, authorities, policy-makers and local residents. Ongoing stakeholder dialogue takes place in different forms, and with varying frequency, throughout the year, refer to the table on page 53.

## COOPERATION FOR SUSTAINABLE DEVELOPMENT

Södra contributes to sustainable development. This takes place through representation in organisations that conduct research and development into forestry, the environment and energy. These include the Federation of Swedish Farmers (LRF), the Forestry Research Institute of Sweden, 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, the delegation for a circular economy, Fossil Free Sweden, the West Sweden Chemicals & Materials Cluster and the 2030 Secretariat (a national coalition to reach a fossil-independent transport sector by 2030). Södra is also actively involved in efforts to develop a forestry and forest-industry centre of excellence for southern Sweden. In collaboration with academia, the private sector, government agencies and interest groups, Södra participated in the Swedish Forest Agency's cooperative processes on key habitats and forest production. Södra also participated in the development of objectives for nature conservation considerations and in the "More pine" project run by the Swedish Forest Agency. Södra participated in two projects led by the Energy Research

Institute of Sweden: "Improved skimming separation," which aims to decrease the content of tall oil soap in black liquor from the pulp mills, and "More efficient lime kilns," which aims to improve the thermal efficiency of lime kilns by reducing dust loading. During the year, the Royal Swedish Academy of Engineering Sciences started the "Climate Crossroads" project to create an action plan for how Sweden can achieve net-zero emissions by 2045, while simultaneously strengthening Swedish competitiveness. Södra plays an active role in this process and contributes as a financier.

## SÖDRA'S KEY STAKEHOLDERS

Södra's key stakeholders are customers, owners/members, employees, business partners and a number of community stakeholders.

### SÖDRA'S STAKEHOLDERS





Stakeholder group	Significant issues	Activities, dialogue and contact 2018
Customers	Product performance (quality, safety, price, development) Traceability Business ethics Profitability Sustainable forestry Environmental impact Working conditions and human rights	Annual and Sustainability Report Customer contacts (meetings, surveys) Research and development projects Code of Conduct and Supplier Code Business management system Certification systems (FSC®, PEFC™)
Owners/members	Profitability and profit distribution Social impact and opinion Market for wood raw material Forestry services and product and service development Business ethics Sustainable forestry Environmental impact Working conditions and human rights	Annual and Sustainability Report Member contacts (Annual General Meeting, Administrative Council meetings, member meetings, service) Business policy activities Research and development Service offerings (forestry services, forest certification) Business management system
Employees	Working conditions and human rights Sustainable forestry Environmental impact Business ethics	Training in the Södra Code of Conduct and Supplier Code Performance appraisals Training programmes Employee surveys Unionisation Business management system Incident reporting system
Business partners	Sustainability requirements in the Supplier Code Contract terms Profitability Assessment and monitoring Sustainable forestry Environmental impact Working conditions and human rights	Code of Conduct and Supplier Code Assessment and monitoring based on the Supplier Code Forest contractor certification
Society at large (capital market, local residents, policy makers and officials, public organisations, 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



In the lead up to the parliamentary election, a forest policy debate with forestry policy spokespersons from all of the parliamentary parties was sent live to air from Gröna Lund in Stockholm.





# Governance and sustainability organisation

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. The Sustainability Policy governs and guides sustainability efforts in key strategic focus areas for A Sustainable Södra. The 15 Group-wide sustainability targets are integrated into Södra's operations.

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 pages 34–35.

## Code of Conduct and Supplier Code

The Södra Code of Conduct and Supplier Code are key components of Södra's

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

The Supplier Code contains the obligations and responsibilities of Södra's suppliers in regard to business practices, working conditions, human rights and the environment. Read more on page 50.

To raise awareness of the Code of Conduct, every employee undertakes a compulsory online training course. At the end of 2018, 81 percent of Södra's employees and 82 percent of Södra's Group Senior Management had completed the online training programme. Group Senior Management, management teams and key groups partici-

pate in an advanced course. The Board also undergoes training in the Code of Conduct. Purchasing managers undergo continuous training in the Supplier Code.

## Follow-up and whistleblower function

Suspected breaches of the Code of Conduct should be reported to the immediate supervisor in the first instance or, alternatively, to a senior member of staff, Södra's HR department or a union representative.

There is an internal whistleblower function for Södra employees, and other people representing Södra, for reporting serious misconduct. The Group has appointed two whistleblower protection officers to deal with any reports. One external whistleblower protection officer has been engaged as an alternative recipient of reports.

Reports received by the whistleblower protection officers are investigated and any required action is taken by the relevant function or level at Södra.



## 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 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 retaining 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 78.

## 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 is a key priority for Södra. The OHS Council is a forum where employers and union parties can discuss health and safety-related issues of a long-term and overall nature, with the aim of developing and improving OHS management. Key elements are the sharing of best practices and lessons learned. Members of the Council include the HR Director, HR specialists, OHS process developers, occupational health services, OHS engineers, OHS officers and union parties. OHS management at the pulp mills is conducted within the framework of the OHSAS 18001 management system.

### Diversity and equal opportunity

One of the targets in the action plan for increased diversity and gender equality in Södra's membership organisation is that at least 40 percent of Södra's elected representatives will be women by 2025.

## SUSTAINABILITY ORGANISATION

Södra's function for communication and sustainability is led by the Director of Communications and Sustainability, who is also a member of Group Senior Management.

The function includes a Sustainability Department, with one Sustainability Manager and four employees. The department coordinates the Group's sustainability efforts and 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. Södra's sustainability targets are monitored by Group Senior Management twice annually. Decisions are then made regarding further action. Södra's Board of Directors revises the Sustainability Policy, Code of Conduct and Supplier Code once annually.

Södra's Business Ethics Council is responsible for the development and implementation of the Group's business ethics policies and guidelines. The Council was formed in 2015 and consists of the HR Director (Chairman), Chief Legal Officer, Director of Communications and Sustainability, the Sustainability Manager, CFO and management representatives from the Södra Skog, Södra Wood and Södra Cell business areas. The Council meets twice annually.

Other groups participate in the coordination of Södra's sustainability efforts. Södra Cell has an Energy Committee and a Chemicals Committee.







# About Södra's Sustainability Report

This Sustainability Report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards Core option. Södra has previously published two Sustainability Reports in accordance with the G4 Sustainability Reporting Guidelines. The Sustainability Report has been reviewed by auditors on behalf of the Board of Södra Skogsägarna ekonomisk förening.

Södra's Sustainability Report is included in the Group's Annual and Sustainability Report. Södra uses the calendar year as its financial year. The last Annual and Sustainability Report was published in March 2018 for the 2017 financial year.

## MATERIALITY ASSESSMENT

Södra's first materiality assessment was conducted in 2015. The aim was to define Södra's most relevant sustainability topics, and to lay the foundation for Södra's sustainability strategy and Sustainability Report. In 2018, the materiality assessment was updated to ensure that the sustainability strategy was appropriate and to define material sustainability topics for the Sustainability Report. The materiality assessment is updated at regular intervals and whenever required, for example, in the event of relevant changes in the operations, business environment or the focus and expectations of stakeholders.

## Internal and external stakeholder engagement

As a part of updating the materiality assessment in 2018, dialogues were conducted with the Group's key stakeholders: customers, owners/members, employees, business

and other partners and interest groups. In surveys, the stakeholders were asked to rank the importance of the selected sustainability topics for Södra from their own perspective. A total of 94 survey responses were received. Södra also conducted seven customer interviews, one supplier interview and 14 interviews with employees.

In the next stage, Södra conducted a business environment analysis and held a workshop with internal experts. The aim of the workshop was to discuss and rank business-critical sustainability topics, partly on the basis of Södra's impact on the business environment.

## Material sustainability topics

The combined assessment of external and internal dialogues led to the inclusion of several new sustainability topics in Södra's materiality assessment. The validation and boundaries of the material topics were determined by internal experts. The new material sustainability topics are anti-corruption, non-discrimination, forest growth, sustainable harvesting rate, new products and services, and attractive employer. These are added to all of the material sustainability topics from previous Sustainability Reports. All sustainability

topics are relevant for Södra. The "Within Södra" boundary is presented in "Scope and content of the Sustainability Report" on page 57. The "Outside Södra" boundary is presented in the GRI Content Index on pages 64–65. For some of the new material sustainability topics, only a comparative figure is presented.

## Reporting

Södra's material sustainability topics are presented in the GRI Content Index on pages 64–65. The sustainability topics that Södra focuses on are also included in the overarching sustainability targets presented on pages 36–37. Södra's Sustainability Report also contains information about other sustainability topics that are important for the operations, see the illustration further down on this page. The connection between Södra's material sustainability topics, Södra's strategic focus areas for sustainability and the selected GRI standards is presented in the table on page 57. The GRI Reporting Principles for defining report content (stakeholder inclusiveness, sustainability context, materiality and completeness) have determined the scope and content of this Sustainability Report.

## Material sustainability topics

Information	Reporting*	Focus*
<ul style="list-style-type: none"> <li>• Development of existing products and services</li> <li>• Local cooperation</li> <li>• Personal and professional development</li> <li>• Social impact and opinion</li> <li>• Water use</li> <li>• Working conditions</li> </ul>	<ul style="list-style-type: none"> <li>• Anti-corruption</li> <li>• Certified products</li> <li>• Climate transition – bio-based/ circular economy</li> <li>• Efficient processes</li> <li>• Effluents and soil contamination</li> <li>• Forest certification</li> <li>• Minimise waste</li> <li>• Non-discrimination, anti-harassment and fair treatment</li> </ul>	<ul style="list-style-type: none"> <li>• Air emissions</li> <li>• Attractive employer</li> <li>• Energy consumption</li> <li>• Forest growth</li> <li>• Fossil-free production</li> <li>• Gender equality and inclusion</li> <li>• Green electricity generation</li> <li>• Nature conservation</li> <li>• New products and services</li> <li>• Occupational health and safety</li> <li>• Reduction of carbon dioxide emissions from transportation</li> <li>• Responsible harvesting</li> <li>• Supply chain</li> <li>• Sustainable harvesting rate</li> </ul>

MEDIUM

Materiality

HIGH

\* Material sustainability topics in accordance with GRI Standards



## SCOPE AND CONTENT OF THE SUSTAINABILITY REPORT

The Sustainability Report covers Södra Skogsägarna ekonomisk förening and its subsidiaries (refer to Note 39 for a summary of the Group companies included), but not its associates, refer to Note 10. Disclosures related to employees and anti-corruption are reported for the Parent Company and its subsidiaries (and their employees). Disclosures related to other material sustainability topics are reported for operations involved in production, including the head office, Södra Vind AB and passenger transport. The impact of other activities is considered zero or negligible. The supplier assessment covers Södra's suppliers, but not sub-suppliers (suppliers' suppliers). In 2018, two Latvian companies – Södra Latvia SIA (and its four wholly owned subsidiaries) and SIA Ruda – were acquired. These Group companies are included in the Sustainability Report for disclosures related to employees, and will otherwise be included in the 2019 Sustainability Report. Units divested or discontinued during the year are included until the date of divestment or closure. The number of employees was calculated at 31 December 2018. For calculation principles, refer to page 62.

### Changes compared with previous reports

- “Regeneration harvesting” is now used instead of “final harvesting.”

- As of 2018, electricity consumption for sawn timber does not include pellet production. Comparative figures for earlier years have been restated.
- As of 2018, eNPS (employee net promoter score) is used to indicate the proportion of Södra employees who would be willing to recommend Södra as an employer.
- The sustainability target of including the Supplier Code in all of Södra's supplier agreements has remained after the deadline in 2017.
- As of 2018, the sustainability target of including the Supplier Code in all of Södra's supplier agreements for Södra's central purchasing has been limited to cover suppliers with annual sales of more than SEK 1 million to Södra. Comparative figures for earlier years have not been restated.
- The number of suppliers for Trivselhus was previously limited to suppliers with annual sales of more than SEK 1 million to Södra. As of 2018, all suppliers are included. Comparative figures for earlier years have not been restated.
- As of 2018, block peat is included in peat for material purposes. Comparative figures for earlier years have not been restated.
- As of 2018, Södra has changed to an own disclosure under GRI 417 Marketing and labelling.

## Restatement of information in previous reports

The information for previous years has been restated. The reasons for these restatements include errors in the reported data, and errors in the calculations.

- Heating consumption for pulp production was restated for 2015, as well as the target level for 2025.
- The proportion of certified products was restated for 2016 and 2017.
- The use of sawn timber was restated for 2017.
- Purchased electricity for production, working machinery and internal transportation was restated for 2017.
- Electricity sales were restated for 2017.
- External deliveries of wood raw material were restated for 2017.
- Biofuel production was restated for 2016 and 2017.
- Waste to materials recycling was restated for 2016 and 2017.
- The number of lost-time-accidents (LTA) was restated for 2017.
- The proportion of Södra employees covered by collective bargaining agreements was restated for 2017.

## EVENTS AFTER THE CLOSE OF THE PERIOD

In January 2019, a contractor suffered a fatal accident.

Material sustainability topics	Strategic focus areas for sustainability	GRI Standard
Air emissions	Climate-positive operations Resource efficiency	GRI 305: Emissions
Anti-corruption	Responsible business	GRI 205: Anti-corruption
Attractive employer	Responsible employer and committed employees	Own: Attractive employer
Certified products	Responsible business	GRI 417: Marketing and labelling
Climate transition – bio-based/circular economy	Climate-positive operations	GRI 201: Economic performance
Efficient processes	Climate-positive operations Sustainable innovation Resource efficiency	GRI 301: Materials GRI 302: Energy GRI 305: Emissions GRI 306: Effluents and waste
Effluents and soil contamination	Resource efficiency	GRI 306: Effluents and waste
Energy consumption	Climate-positive operations Sustainable innovation Resource efficiency	GRI 302: Energy
Forest certification	Sustainable forestry	GRI 417: Marketing and labelling
Forest growth	Climate-positive operations	Own: Forest growth
Fossil-free production	Climate-positive operations Resource efficiency	GRI 305: Emissions
Gender equality and inclusion	Responsible employer and committed employees	GRI 405: Diversity and equal opportunity
Green electricity generation	Climate-positive operations Sustainable innovation Resource efficiency	GRI 302: Energy
Minimise waste	Resource efficiency	GRI 306: Effluents and waste
Nature conservation	Sustainable forestry	GRI 304: Biodiversity
New products and services	Sustainable innovation	Own: New products and services
Non-discrimination, anti-harassment and fair treatment	Responsible employer and committed employees	GRI 406: Non-discrimination
Occupational health and safety	Responsible employer and committed employees	GRI 403: Occupational health and safety
Reduction of carbon dioxide emissions from transportation	Climate-positive operations Resource efficiency	GRI 305: Emissions
Responsible harvesting	Sustainable forestry	GRI 304: Biodiversity
Supply chain	Responsible business	GRI 308: Supplier environmental assessment GRI 414: Supplier social assessment
Sustainable harvesting rate	Sustainable forestry	Own: Sustainable harvesting rate





# Sustainability data

## Raw materials and energy

		Södra Group, total		
		2018	2017	2016
<b>Raw material use<sup>1)</sup></b>				
Wood raw material <sup>2)</sup>	mill. m <sup>3</sup> sub	12.0	11.6	10.0
Sawn timber <sup>3)</sup>	1,000 m <sup>3</sup>	207	196	113
Chemicals <sup>4)</sup>	1,000 tonnes	340	291	263
Packaging materials	1,000 tonnes	5.8	5.8	5.0
Water	mill. m <sup>3</sup>	83	85	79
Other raw materials <sup>5)</sup>	1,000 tonnes	11	14	12
<b>Fuel consumption<sup>6)</sup></b>				
Renewable fuels, total	GWh	13,618	13,457	11,875
Internal black liquor	GWh	11,377	10,856	9,367
Internal solid and liquid biofuels	GWh	1,487	1,782	1,772
Purchased solid and liquid biofuels	GWh	754	819	736
– for production	GWh	455	501	552
– for working machinery and internal transportation	GWh	55	44	29
– for other transportation	GWh	244	274	155
Fossil fuels, total	GWh	1,032	933	969
Fuel oil	GWh	170	78	138
Fossil vehicle fuels	GWh	842	834	815
– for working machinery and internal transportation	GWh	160	175	186
– for other transportation	GWh	682	659	629
Other fossil fuels	GWh	20	21	16
<b>Electricity</b>				
Electricity consumption	GWh	1,411	1,410	1,298
– for production, working machinery and internal transportation	GWh	1,384	1,384	1,274
– for other transportation	GWh	27	26	24
Purchased electricity	GWh	211	229	339
– for production, working machinery and internal transportation	GWh	184	203	315
– for other transportation	GWh	27	26	24
Electricity generation	GWh	1,772	1,719	1,326
Electricity sales	GWh	572	538	367
<b>District heating<sup>7)</sup></b>				
Purchased district heating, total	GWh	5	7	7
– from steam	GWh	5	7	7
– from secondary heating <sup>8)</sup>	GWh	0	0	0
Sold district heating, total	GWh	430	414	368
– from steam	GWh	139	158	162
– from secondary heating	GWh	291	256	206

<sup>1)</sup> Wood raw material and sawn timber are renewable raw materials, while chemicals, packaging materials and other raw materials are largely fossil-derived. Measurement and monitoring of the renewable percentage is not available for chemicals and packaging materials.

<sup>2)</sup> Wood raw material includes the sawlogs, pulpwood, fuel wood and forest residues used in Södra's industries.

<sup>3)</sup> Sawn timber relates to external purchasing.

<sup>4)</sup> Chemicals relates to purchased chemicals. Consumption mainly takes place in the pulp mills, in digesters and bleachers. The hazard category of chemicals varies, but is most commonly corrosive, oxidising and toxic.

<sup>5)</sup> Other raw materials mainly comprise insulation and gypsum in Trivselshus.

<sup>6)</sup> Energy for passenger transport by rail and air is included for 2018 and 2017 (not 2016).

<sup>7)</sup> District heating relates to external purchasing and external sales.

<sup>8)</sup> Secondary heating is residual heat from the process. No additional fuel is required.

### COMMENTS ON THE TABLE

- The use of wood raw material and chemicals was higher compared with preceding years due to higher production in the pulp mills. Water use was lower compared with preceding years, despite increased 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 for work-

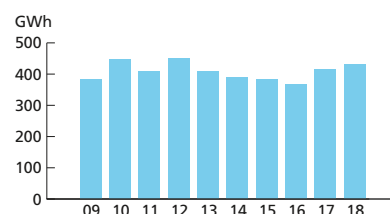
ing machinery and internal transportation. The use of fossil fuels was higher compared with preceding years, mainly due to the increased use of fuel oil in the pulp mills. Bio-oil was in short supply in the market. Fuel consumption for other transportation remained largely unchanged compared with 2017, but the use of renewable fuels was lower due to the shortage of HVO.

### Energy consumption within and outside Södra

GWh	2018	2017	2016
Renewable fuels	13,618	13,457	11,875
– within Södra	13,390	13,201	11,738
– outside Södra	228	256	137
Fossil fuels	1,032	933	969
– within Södra	200	119	197
– outside Södra	832	814	772
Purchased electricity	211	229	339
– within Södra	184	203	315
– outside Södra	27	26	24
Purchased district heating	5	7	7
– within Södra	5	7	7
– outside Södra	0	0	0
<b>Total</b>	<b>14,866</b>	<b>14,626</b>	<b>13,190</b>
– within Södra	13,779	13,530	12,257
– outside Södra	1,087	1,096	933

Energy is used within and outside Södra for production, working machinery and internal transportation, and for other transportation. Energy consumption outside Södra comprises external harvesting contractors and external carriers. Södra also makes external deliveries of energy in the form of electricity and district heating.

### External district heating deliveries



Södra delivers district heating to neighbouring communities from the pulp mills at Mönsterås, Mörrum and Värö, the sawmill at Kinda, and the planing mill at Torsås. External district heating deliveries increased in 2018, mainly from the pulp mill at Värö due to increased pulp production.

# Products and waste

		Södra Group, total		
		2018	2017	2016
<b>Products from Södra</b>				
Wood raw material <sup>1)</sup>	mill. m <sup>3</sup> sub	1.5	1.6	1.5
Cellulose pulp	1,000 tonnes	1,786	1,712	1,429
Sawn timber <sup>2)</sup>	1,000 m <sup>3</sup>	1,715	1,787	1,747
Interior wood products	1,000 m <sup>3</sup>	32	53	71
Biofuel	GWh	3,874	3,749	3,717
Houses	no.	441	581	468
Seedlings (own production)	million	25	30	25
<b>By-products from Södra</b>				
By-products of wood (cellulose chips, shavings) <sup>3)</sup>	1,000 tonnes	517	480	210
Peat for material use <sup>4)</sup>	1,000 m <sup>3</sup>	250	75	166
Tall oil	1,000 tonnes	39	34	24
Turpentine	1,000 tonnes	1.4	1.2	0.8
Lime sludge	1,000 tonnes	18	21	25
<b>Forestry services from Södra</b>				
Harvesting <sup>5)</sup>	mill. m <sup>3</sup> sub	8.1	8.2	7.5
Forest management <sup>6)</sup>	1,000 hectares	106	115	110
<b>Waste</b>				
Waste to materials recycling	1,000 tonnes	31	28	11
Waste to energy recovery <sup>7)</sup>	1,000 tonnes	3.6	3.6	3.4
Landfill waste, wet	1,000 tonnes	49	55	58
Hazardous waste	1,000 tonnes	0.8	1.0	1.0

<sup>1)</sup> Wood raw material relates to external deliveries.

<sup>2)</sup> Sawn timber relates to external deliveries, excluding subcontracting.

<sup>3)</sup> By-products of wood relate to external deliveries.

<sup>4)</sup> Peat for material use relates to peat litter, horticultural peat and block peat. Block peat is included for 2018 (not for 2016 or 2017).

<sup>5)</sup> Harvesting volume relates to harvested round timber from the field organisation in Sweden and the Baltic countries.

<sup>6)</sup> Forest management relates to forestry operations, excluding regeneration harvesting.

<sup>7)</sup> It is assumed that energy is recovered from all incineration of waste.

## COMMENTS ON THE TABLE

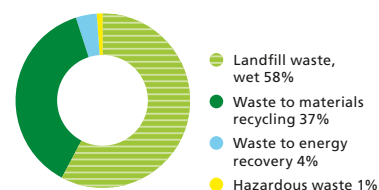
- Production in the pulp mills was higher compared with preceding years, while the production of sawn timber, houses and seedlings was lower. The interior wood business was divested during the year.
- Biofuel deliveries were slightly higher compared with preceding years. Peat production was considerably higher compared with 2017, due to favourable weather conditions in 2018. Block peat is also included in 2018.
- 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 and forest management remained largely unchanged compared with 2017.
- The amount of waste to landfill was lower compared with preceding years. A higher proportion of the waste is recycled.

## Biofuel 2018



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 3,900 GWh.

## Waste management 2018



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 2018, the total weight of Södra's waste was 83,870 tonnes.





# Air and water emissions

		Södra Group, total		
		2018	2017	2016
<b>Air emissions<sup>1)</sup></b>				
NO <sub>x</sub> (nitrogen oxides as NO <sub>2</sub> )	tonne	5,499	5,486	4,481
S (gaseous sulphur as SO <sub>2</sub> )	tonne	1,235	1,369	1,329
Dust	tonne	583	437	402
CO <sub>2</sub> -eq (CO <sub>2</sub> equivalents) <sup>2)</sup>	1,000 tonnes	4,948	4,904	4,190
Fossil CO <sub>2</sub>	1,000 tonnes	299	271	298
– for production	1,000 tonnes	61	34	51
– for working machinery and internal transportation	1,000 tonnes	42	46	48
– for other transportation	1,000 tonnes	196	191	199
Biogenic CO <sub>2</sub>	1,000 tonnes	4,620	4,603	3,863
– for production	1,000 tonnes	4,542	4,519	3,815
– for working machinery and internal transportation	1,000 tonnes	14	12	7
– for other transportation	1,000 tonnes	64	72	41
Other greenhouse gases	1,000 tonnes	29	30	29
– for production	1,000 tonnes	24	25	25
– for working machinery and internal transportation	1,000 tonnes	1	1	1
– for other transportation	1,000 tonnes	4	4	3
VOCs (volatile organic compounds)	tonne	2,036	2,084	1,966
<b>Emissions to water<sup>3)</sup></b>				
Wastewater	1,000 m <sup>3</sup>	69,400	69,900	67,500
AOX (halogenated organic compounds)	tonne	99	52	31
TOC (total organic carbon)	tonne	9,393	8,224	7,061
COD (chemical oxygen demand)	tonne	26,421	21,806	18,820
BOD <sub>7</sub> (biochemical oxygen demand)	tonne	1,930	2,194	1,478
TSS (total suspended solids)	tonne	2,154	2,503	2,028
Total N (nitrogen)	tonne	219	211	246
Total P (phosphorus)	tonne	20	23	26

<sup>1)</sup> Emissions from passenger transport by rail and air are included for 2018 and 2017 (not 2016).

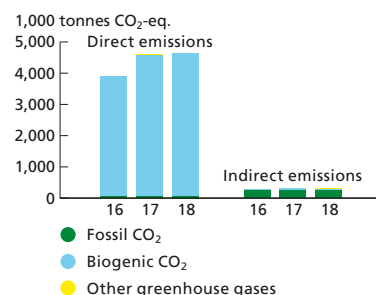
<sup>2)</sup> CO<sub>2</sub>-eq includes CO<sub>2</sub> and CH<sub>4</sub> (methane) and N<sub>2</sub>O (nitrous oxide) (other greenhouse gases).

<sup>3)</sup> Emissions to water from the pulp mills are reported.

## COMMENTS ON THE TABLE

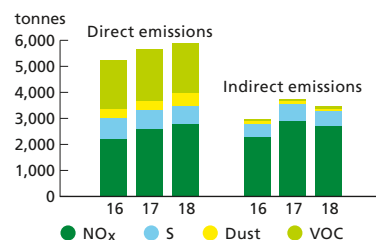
- Nitrogen oxide emissions to air were slightly higher compared with preceding years. The increase was due to higher production rates in the pulp mills. However, nitrogen oxide emissions from other transportation were lower.
- Sulphur emissions to air were lower compared with preceding years, due to lower emissions from both the pulp mills and other transportation.
- Dust emissions to air were higher compared with preceding years due to higher emissions from the pulp mills.
- Emissions to air of fossil carbon dioxide for production were higher compared with preceding years due to higher use of fuel oil in the pulp mills. Emissions to air of biogenic carbon dioxide remained largely unchanged compared with preceding years.
- Emissions of halogenated organic compounds to water were higher compared with preceding years, due to the higher proportion of pulp bleached with chlorine dioxide. Emissions of organic water pollutants were higher compared with preceding years due to problems with water treatment in the pulp mill at Värö. Suspended solid emissions to water were lower compared with 2017, due to improved treatment capacity in the pulp mill at Mörrum.

## Direct and indirect greenhouse gas emissions



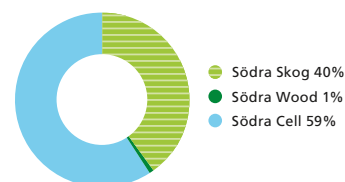
Emissions from production, working machinery and internal transportation are direct emissions (scope 1), excluding external harvesting contractors. Emissions from other transportation are indirect (scope 3), excluding own haulage operations.

## Other direct and indirect air emissions



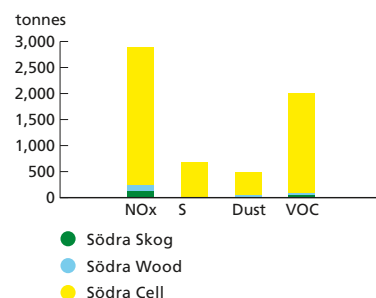
Emissions from production, working machinery and internal transportation are direct emissions, excluding external harvesting contractors. Emissions from other transportation are indirect, excluding own haulage operations.

## Emissions of fossil carbon dioxide from production, working machinery and internal transportation in 2018



Fossil carbon dioxide 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 103 kt tonnes.

## Other air emissions from production, working machinery and internal transportation in 2018



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.



# Employees

	Södra Group, total		
	2018	2017	2016
<b>No. of employees</b>			
Men	2,437	2,686	2,871
Women	704	716	723
<b>Occupational health and safety, number</b>			
Incidents, including risk observations	6,241	4,840	5,292
Occupational injuries without absence <sup>1)</sup>	510	446	428
Lost-time-accidents (LTA) <sup>1)2)</sup>	77	94	94
Fatal accidents	0	1	0
Lost days per injury	8.0	3.9	8.5
Lost-time-accident rate (LTAR) <sup>3)</sup>	15	17	16
<b>Sickness absence<sup>4)</sup>, %</b>			
Men	3.3	3.3	3.4
Women	4.9	4.6	4.7
Total	3.6	3.6	3.7
<b>Level of education, %</b>			
Basic education	7.6	8.5	13.4
– men	6.7	7.4	11.2
– women	0.9	1.1	2.2
Upper-secondary school	60.0	58.2	55.1
– men	48.4	48.2	46.1
– women	11.6	10.0	9.0
University studies, less than 120 credits	14.8	15.2	14.3
– men	11.8	12.3	11.7
– women	3.0	2.9	2.6
University studies, more than 120 credits	16.7	17.3	16.2
– men	10.0	10.3	10.0
– women	6.7	7.0	6.2
Postgraduates/Licentiatees	0.9	0.8	1.0
– men	0.6	0.5	0.5
– women	0.3	0.3	0.5

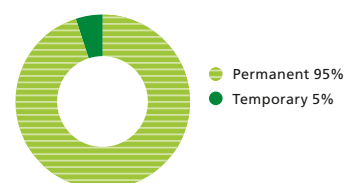
<sup>1)</sup> Some of the most common causes of occupational injuries (with and without absence) are contact with a sharp object, getting caught or stuck between objects, getting struck by flying or falling objects or falls from the same level (tripping or slipping).

<sup>2)</sup> LTA (lost-time-accident): occupational injury with absence.

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

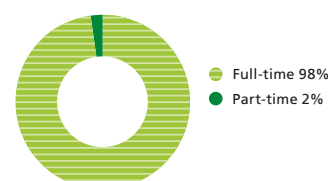
<sup>4)</sup> Including occupational diseases.

## Form of employment



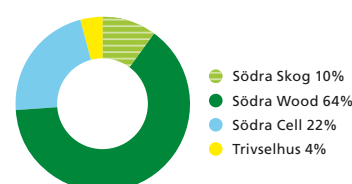
**Permanent:** 2,999 employees (3,224), of whom 78 percent (79) were men and 22 percent (21) women. Sweden: 2,851 employees, other countries: 148 employees  
**Temporary:** 142 employees (178), of whom 58 percent (70) were men and 42 percent (30) women. Sweden: 142 employees, other countries: 0 employees.

## Full-time/part-time employees



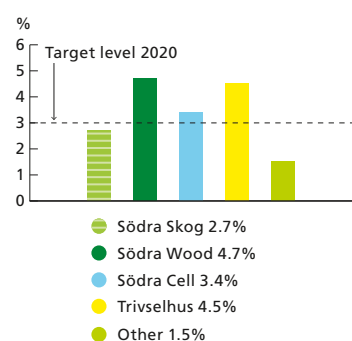
**Full-time:** 3,078 (3,324) employees, of whom 78 percent (80) were men and 22 percent (20) women  
**Part-time:** 63 employees (78), of whom 41 percent (40) were men and 59 percent (60) women

## Occupational injuries with absence 2018



Initiatives during the year were mainly focused on a safety culture and safe behaviours.

## Sickness absence 2018



Sickness absence remained high, especially for Södra Wood and Trivselhus.

## Age spread, %

Age category	2018			2017			2016		
	Total	Managers	Employees	Total	Managers	Employees	Total	Managers	Employees
<30	16	0	16	15	0	15	14	0	14
– men	11	0	11	11	0	11	11	0	11
– women	5	0	5	4	0	4	3	0	3
30–50	50	6	44	51	6	45	52	6	46
– men	38	4	34	39	4	35	41	5	36
– women	12	2	10	12	2	10	11	1	10
>50	34	4	30	34	3	31	34	3	31
– men	29	4	25	28	3	25	29	3	26
– women	5	0	5	6	0	6	5	0	5





# Own material sustainability topics

Not all material sustainability topics correspond to a GRI Standard. Södra has therefore chosen to report a number of its own material sustainability topics with related disclosures. In some cases, Södra has supplemented some GRI Standards with its own disclosures.

## **GRI 304 BIODIVERSITY, CONSIDERATIONS IN REGENERATION HARVESTING**

Various types of environmental considerations are required for regeneration harvesting. These include consideration for specific habitats and cultural environments, buffer strips around water and limited impacts on soil and water. This disclosure is used to report the proportion of approved objects in relation to considerations in regeneration harvesting in Södra's Green Balance Sheet, a review performed by Södra's forest management auditors.

## **GRI 304 BIODIVERSITY, NATURE-CONSERVATION MEASURES**

Nature-conservation measures are required to protect or develop some forestry environments with high conservation value. These measures are important for preserving and promoting biodiversity in the landscape. This disclosure is used to report the area of performed nature-conservation measures.

## **GRI 406 NON-DISCRIMINATION, TRAINING IN POLICIES RELATED TO NON-DISCRIMINATION**

Södra aims to be a welcoming workplace, where everyone contributes to health, job satisfaction and well-being. This involves showing respect for each other, regardless of age, gender, ethnicity, faith, disability or sexual orientation. Every employee is responsible for maintaining a work environment free from bullying and harassment. This disclosure is used to report the proportion of Södra employees who completed training in Södra's efforts to prevent discrimination and bullying.

## **GRI 417 MARKETING AND LABELLING, FOREST CERTIFICATION AND CERTIFIED PRODUCTS**

Forest certification is an important tool for responsible management of members' forests. Södra offers products made from raw materials from certified forests. Certification guarantees that the wood raw material is a product of responsible forestry, and that its origin has been verified. This disclosure is used to report the proportion of Södra's affiliated forest area with forest certification and the proportion of certified products.

## **FOREST GROWTH, ANNUAL RATE OF FOREST GROWTH ON SÖDRA MEMBERS' ESTATES**

Growing forests absorb carbon dioxide through photosynthesis and help to combat climate change. This disclosure is used to report the rate of forest growth in Södra members' forests.

## **SUSTAINABLE HARVESTING RATE, HARVESTING RATE ON LAND OWNED BY SÖDRA MEMBERS**

Forests are a resource that should be used, but not overused. Harvesting shall be within the sustainable harvesting rate interval. This disclosure is used to report the harvesting rate in Södra members' forests.

## **NEW PRODUCTS AND SERVICES, NEW SUSTAINABLE PRODUCTS**

Renewable forest products can replace fossil-based materials in many applications. Demand for sustainable products is rising as customers and consumers become more aware of how their behaviour impacts the environment and the climate. This disclosure is used to report the number of new, commercialised products with better sustainability performance than today's alternatives. A better sustainability performance than today's alternatives means that one or more sustainability aspects must be better without compromising any other aspect.

## **ATTRACTIVE EMPLOYER, EMPLOYEES WHO WOULD RECOMMEND SÖDRA**

Södra works strategically and systematically to attract, develop and retain the right competencies. As a forest company of the future, Södra wants to remain an attractive employer. This disclosure is used to report the proportion of Södra employees who would be willing to recommend Södra as an employer.

# Calculation principles

Information for the Sustainability Report is gathered in a variety of ways. Södra Skog is responsible for forest growth, sustainable harvesting and biodiversity. Information about raw materials, energy, products, waste, air and water emissions is gathered in Södra's annual environmental inventory and compiled by the Sustainability Department. HR is responsible for employee data and the Treasury unit gathers information about the gender and age spread in Boards and management teams.

## **FOREST GROWTH AND SUSTAINABLE HARVESTING**

The rate of forest growth and harvesting is based on statistics from the National Forest Inventory's sample plots on land owned by Södra members. In 2018, the rate of forest growth is a mean of the annual growth rings from 2012–2016. The harvesting rate for 2018 is a mean for three seasons, from the first bud burst in 2014 to the first bud burst in 2017.

## **BIODIVERSITY**

Information about protected areas, considerations in regeneration harvesting and nature-conservation measures is compiled by Södra Skog on the basis of official statistics, forest management plans, member statistics, production monitoring systems and Green Balance Sheets.

## **ENERGY**

Information about energy consumption within and outside the organisation is produced in different ways: direct measurements of electricity and heating, calculations based on fuel consumption and calculations based on transport mode, transported volume and transport distance. The conversion figures have different origins and varying accuracy: measurements of biofuels' calorific values, specific calorific values from suppliers, general calorific values from the Swedish Environmental Protection Agency, transportation factors from carriers and standard values for 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 consumption outside Södra, respectively. Energy intensity, electricity and heat, are reported per tonne of pulp and per m<sup>3</sup> of sawn timber.

## **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. Direct emissions relate to the operations where Södra has operational control. Indirect greenhouse gas emissions are calculated on the basis of transport mode, transported volume and transport distance. Emission factors are provided by carriers, and the standard values for emission factors by the NTM and the Swedish Environmental Protection Agency. Emissions from passenger transport are reported under "Emissions from other transportation" and "Indirect 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 laboratories is responsible for measurements and analyses, and some analyses are performed by external laboratories.

## **WASTE**

Waste volume refer 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. Waste management by deep well injection is not applied. Hazardous waste is not classified according to treatment method.

## **EMPLOYEES**

Information about employees is gathered by the central HR system, which covers all of Södra's units in Sweden. In Sweden, occupational health and safety statistics are reported in the IA system (AFA Försäkring) and compiled. Foreign units reports via digital forms. 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 IR (injury rate). Days of absence from work are counted per working day, including the day of injury. Södra has chosen to report the number of days absent from work per case of injury, instead of the lost day rate (LDR). Absence from work due to occupational diseases is included in sickness absences. The occupational diseases rate (ODR) 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.



# GRI Content Index

## GENERAL DISCLOSURES

GRI Standard	Disclosure	Description	Comments	Reference
<b>Organisational profile</b>				
GRI 102: General disclosures 2016	102-1	Name of the organisation		Inside cover
	102-2	Activities, brands, products, and services		2
	102-3	Location of headquarters		145
	102-4	Location of operations	Södra mainly conducts operations in Sweden. From a sustainability perspective, the Swedish operations are most relevant due to both their scope and nature.	97–98
	102-5	Ownership and legal form		132–133
	102-6	Markets served		4–5, 14–15, 97
	102-7	Scale of the organisation		3–4, 71
	102-8	Information on employees and other workers	Temporary employees are used during peak periods, for example. Contractors are extensively engaged for forestry operations and large-scale industrial projects, such as investments. Read more about suppliers and contractors on page 50. Seasonal variations in the number of employees was less than one percent of the total number of employees.	61–62, 98
	102-9	Supply chain		50–51
	102-10	Significant changes to the organisation and its supply chain		50, 78
	102-11	Precautionary Principle or approach	Södra applies the precautionary approach and other general rules of consideration set out in the Swedish Environmental Code relating to permits, and in its ongoing environmental work.	77
	102-12	External initiatives	Södra intends to endorse these external charters, principles and initiatives but has not signed them.	54
	102-13	Memberships of associations		52
<b>Strategy</b>				
GRI 102: General disclosures 2016	102-14	Statement from senior decision-maker		6–7
<b>Ethics and integrity</b>				
GRI 102: General disclosures 2016	102-16	Values, principles, standards, and norms of behaviour		47, 50, 54
<b>Governance</b>				
GRI 102: General disclosures 2016	102-18	Governance structure		54–55, 132–137
<b>Stakeholder engagement</b>				
GRI 102: General disclosures 2016	102-40	List of stakeholder groups		52
	102-41	Collective bargaining agreements	97.0 percent (96.4) of Södra employees are covered by collective bargaining agreements. For Södra employees in Sweden, the rate was 100 percent (100).	
	102-42	Identifying and selecting stakeholders		56
	102-43	Approach to stakeholder engagement		52–53
	102-44	Key topics and concerns raised		52–53
<b>Reporting practice</b>				
GRI 102: General disclosures 2016	102-45	Entities included in the consolidated financial statements		57, 117
	102-46	Defining report content and topic boundaries		56–57
	102-47	List of material topics		57
	102-48	Restatements of information		57
	102-49	Changes in reporting		56
	102-50	Reporting period		56
	102-51	Date of most recent report		56
	102-52	Reporting cycle		56
	102-53	Contact point for questions regarding the report		145
	102-54	Claims of reporting in accordance with the GRI Standards		56
	102-55	GRI content Index		63–65
	102-56	External assurance		56, 66





## MATERIAL SUSTAINABILITY TOPICS

GRI Standard	Disclosure	Description	Comments	Boundary	Reference
Economic topics					
GRI 201: Economic performance 2016	GRI 103-1	Explanation of the material topic and its boundary		Within Södra	12–13, 57, 64, 76–77, 107–110, 132–137
	GRI 103-2	The management approach and its components			
	GRI 103-3	Evaluation of the management approach			
	GRI 201-2	Financial implications and other risks and opportunities due to climate change	Omissions are made in regard to the quantification of possible future revenue and costs due to the risks and opportunities facing Södra as a result of climate change, information unavailable.		38–39, 44, 76–77, 97, 107–110, 112
GRI 205: Anti-corruption 2016	GRI 103-1	Explanation of the material topic and its boundary		Within Södra Outside Södra for Södra's suppliers and customers Boundary related to Board and management to Board of Directors and Group Senior Management	50, 54, 57, 64, 77
	GRI 103-2	The management approach and its components			
	GRI 103-3	Evaluation of the management approach			
	GRI 205-2	Communication and training about anti-corruption policies and procedures	Omission of number of Board members who completed online training programme, information unavailable. Code of Conduct and Supplier Code include anti-corruption. Employees and partners receive information about the Codes via the intranet and sodra.com, where any major changes to the Codes are also communicated.		54
Environmental topics					
GRI 301: Materials 2016	GRI 103-1	Explanation of the material topic and its boundary		Within Södra	43, 46, 57, 64, 76–77
	GRI 103-2	The management approach and its components			
	GRI 103-3	Evaluation of the management approach			
	GRI 301-1	Materials used by weight or volume			58
GRI 302: Energy 2016	GRI 103-1	Explanation of the material topic and its boundary		Within Södra Outside Södra for external harvesting contractors and transportation	37–38, 43–44, 55, 57, 64, 77
	GRI 103-2	The management approach and its components			
	GRI 103-3	Evaluation of the management approach			
	GRI 302-1	Energy consumption within the organisation			58, 62
	GRI 302-2	Energy consumption outside of the organisation			58, 62
	GRI 302-3	Energy intensity	Energy intensity, electricity and heat, is restricted to within Södra for pulp and sawn timber.		37, 45, 62
GRI 304: Biodiversity 2016	GRI 103-1	Explanation of the material topic and its boundary		Within Södra Outside Södra for Södra members and for Södra's suppliers of wood raw material	36, 40–42, 46, 57, 64, 76–77
	GRI 103-2	The management approach and its components			
	GRI 103-3	Evaluation of the management approach			
	GRI 304-3	Habitats protected or restored			42, 46, 62
	Own	Considerations in regeneration harvesting			36, 40–41, 62
	Own	Nature-conservation measures			36, 41, 62
GRI 305: Emissions 2016	GRI 103-1	Explanation of the material topic and its boundary		Within Södra Outside Södra for external harvesting contractors and transportation	36, 38, 46, 55, 57, 64, 77
	GRI 103-2	The management approach and its components			
	GRI 103-3	Evaluation of the management approach			
	GRI 305-1	Direct (Scope 1) GHG emissions			39, 60, 62
	GRI 305-3	Other indirect (Scope 3) GHG emissions			39, 60, 62
	GRI 305-7	Nitrogen oxides (NO <sub>x</sub> ), sulphur oxides (SO <sub>x</sub> ), and other significant air emissions			60, 62
GRI 306: Effluents and waste 2016	GRI 103-1	Explanation of the material topic and its boundary		Within Södra	46, 55, 57, 64, 77
	GRI 103-2	The management approach and its components			
	GRI 103-3	Evaluation of the management approach			
	GRI 306-1	Water discharge by quality and destination			46, 60, 62
	GRI 306-2	Waste by type and disposal method	Omission on the reporting of waste volumes stored on site since this is not monitored at Group level, information unavailable.		59, 62
GRI 308: Supplier environmental assessment 2016	GRI 103-1	Explanation of the material topic and its boundary		Within Södra Outside Södra for Södra's suppliers	37, 50, 57, 64, 76
	GRI 103-2	The management approach and its components			
	GRI 103-3	Evaluation of the management approach			
	GRI 308-2	Negative environmental impacts in the supply chain and actions taken			50–51



GRI Standard	Disclosure	Description	Comments	Boundary	Reference
Social topics					
GRI 403: Occupational health and safety 2016	GRI 103-1	Explanation of the material topic and its boundary		Within Södra	37, 47–48, 55, 57, 65, 77
	GRI 103-2	The management approach and its components			
	GRI 103-3	Evaluation of the management approach			
	GRI 403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Omission of 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 of reporting of IR (incident rate). Södra has chosen to report LTAR (lost-time-accident rate) instead. Omission of occupational diseases rate (ODR) reporting. Absence from work due to occupational diseases is included in sickness absences. Omission of lost day rate (LDR) reporting. Södra has chosen to report the number of days of absence from work per occupational injury instead. All omissions due to not applicable.		61–62
GRI 405: Diversity and equal opportunity 2016	GRI 103-1	Explanation of the material topic and its boundary		Within Södra	37, 48, 55, 57, 65, 77
	GRI 103-2	The management approach and its components			
	GRI 103-3	Evaluation of the management approach			
	GRI 405-1	Diversity of governance bodies and employees			61–62, 98
GRI 406: Non-discrimination 2016	GRI 103-1	Explanation of the material topic and its boundary		Within Södra	48, 55, 57, 65, 77
	GRI 103-2	The management approach and its components			
	GRI 103-3	Evaluation of the management approach			
	Own	Training in non-discrimination policies			48, 62
GRI 414: Supplier social assessment 2016	GRI 103-1	Explanation of the material topic and its boundary		Within Södra Outside Södra for Södra's suppliers	37, 50, 57, 65, 76
	GRI 103-2	The management approach and its components			
	GRI 103-3	Evaluation of the management approach			
	GRI 414-2	Negative social impacts in the supply chain and actions taken			50–51
GRI 417: Marketing and labelling 2016	GRI 103-1	Explanation of the material topic and its boundary		Within Södra Outside Södra for Södra's customers	41, 50, 57, 65, 76–77
	GRI 103-2	The management approach and its components			
	GRI 103-3	Evaluation of the management approach			
	Own	Forest certification and certified products			41, 50, 62
Own topics					
Forest growth	GRI 103-1	Explanation of the material topic and its boundary		Within Södra Outside Södra for Södra's members	36, 39, 57, 65, 76
	GRI 103-2	The management approach and its components			
	GRI 103-3	Evaluation of the management approach			
	Own	Forest growth, Annual rate of forest growth on Södra members' estates			36, 39, 62
Sustainable harvesting rate	GRI 103-1	Explanation of the material topic and its boundary		Within Södra Outside Södra for Södra's members	36, 40, 57, 65, 77
	GRI 103-2	The management approach and its components			
	GRI 103-3	Evaluation of the management approach			
	Own	Harvesting rate on land owned by Södra members			36, 40, 62
New products and services	GRI 103-1	Explanation of the material topic and its boundary		Within Södra	36, 43, 57, 65, 76
	GRI 103-2	The management approach and its components			
	GRI 103-3	Evaluation of the management approach			
	Own	New sustainable products			29, 36, 43, 62
Attractive employer	GRI 103-1	Explanation of the material topic and its boundary		Within Södra	37, 47–48, 55, 57, 65, 77
	GRI 103-2	The management approach and its components			
	GRI 103-3	Evaluation of the management approach			
	Own	Employees who would recommend Södra			37, 47–48, 62



# Assurance report

## Independent Auditor's Limited Assurance Report on Södra Skogsägarna ekonomisk förening's Sustainability Report

To Södra Skogsägarna ekonomisk förening,  
Corp. ID. No. 729500-3789

### INTRODUCTION

We have been engaged by the Board of Directors of Södra Skogsägarna ekonomisk förening to undertake a limited assurance of Södra Skogsägarna ekonomisk förening's Sustainability Report for the year 2018. Södra Skogsägarna ekonomisk förening has defined the scope of the sustainability report on the inside of the cover of this document.

### RESPONSIBILITIES OF THE BOARD AND GROUP MANAGEMENT FOR THE SUSTAINABILITY REPORT

The Board of Directors and the Executive Management are responsible for preparing the Sustainability Report in accordance with applicable criteria, as explained on pages 56–57 and 62 and consist of the parts of the framework for sustainability reports published by GRI (Global Reporting Initiative) that are applicable to the sustainability report, as well as the accounting and calculation principles that Södra Skogsägarna ekonomisk förening has developed. This responsibility also includes the internal control which is deemed necessary to establish a sustainability report that does not contain material misstatement, whether due to fraud or error.

### RESPONSIBILITIES OF THE AUDITOR

Our responsibility is to express a conclusion on the sustainability report based on the limited assurance procedures we have performed.

We conducted our limited assurance engagement in accordance with ISAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report,

and applying analytical and other limited assurance procedures. A limited assurance engagement have a different focus and a considerably smaller scope compared to the focus and scope of an audit in accordance with International Standards on Auditing and generally accepted auditing standards.

The audit firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We are independent in relation to Södra Skogsägarna ekonomisk förening according to generally accepted auditing standards in Sweden and have fulfilled our professional ethics responsibility according to these requirements.

The procedures performed in a limited assurance engagement do not allow us to obtain such assurance that we become aware of all significant matters that could have been identified if an audit was performed. The stated conclusion based on a limited assurance, therefore, does not have the security that a stated conclusion based on an audit has.

Our procedures are based on the criteria defined by the Board of Directors and the Group Management as described above. We consider these criteria as suitable for the preparation of the Sustainability Report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion below.

### CONCLUSION

Based on the limited assurance procedures we have performed, nothing has come to our attention that causes us to believe that the Sustainability Report is not, in all material respects, prepared in accordance with the criteria defined by the Board of Directors and Group Management.

Växjö, 13 February 2019



Martin Johansson  
*Authorised Public Accountant*

Madeleine Edberg  
*Authorised Public Accountant*

Fredrik Ljungdahl  
*Special member of FAR*





# Sustainability Report in accordance with the Swedish Annual Accounts Act

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

The mandatory Sustainability Report consists of the following pages and areas:

- Business model: pages 10–11
- Risks and risk management: pages 76–77

- Sustainability issues: pages 30–55
  - Policies and governance: pages 54–55
  - Results: pages 36–37 and the table below
- Other sustainability disclosures (including a materiality assessment): pages 56–67

For more information about where the various sustainability-related disclosures can be found, refer to the GRI Content Index on pages 63–65.

Sustainability topics	Results reported by Södra
Environment	Climate-positive operations (pages 38–39), Sustainable forestry (pages 40–42), Resource efficiency (pages 44–46), Responsible business (pages 50–51), Sustainability data (pages 58–60)
Social conditions and employment	Responsible employer and committed employees (pages 47–48), Responsible business (pages 50–51), Sustainability data (page 61)
Human rights	Responsible employer and committed employees (pages 47–48), Responsible business (pages 50–51)
Anti-corruption	Responsible business (pages 50–51), Governance and sustainability organisation (pages 54–55)

## 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 2018 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, 13 February 2019

Martin Johansson  
Authorised Public Accountant

Mats Löfgren  
Representative Auditor

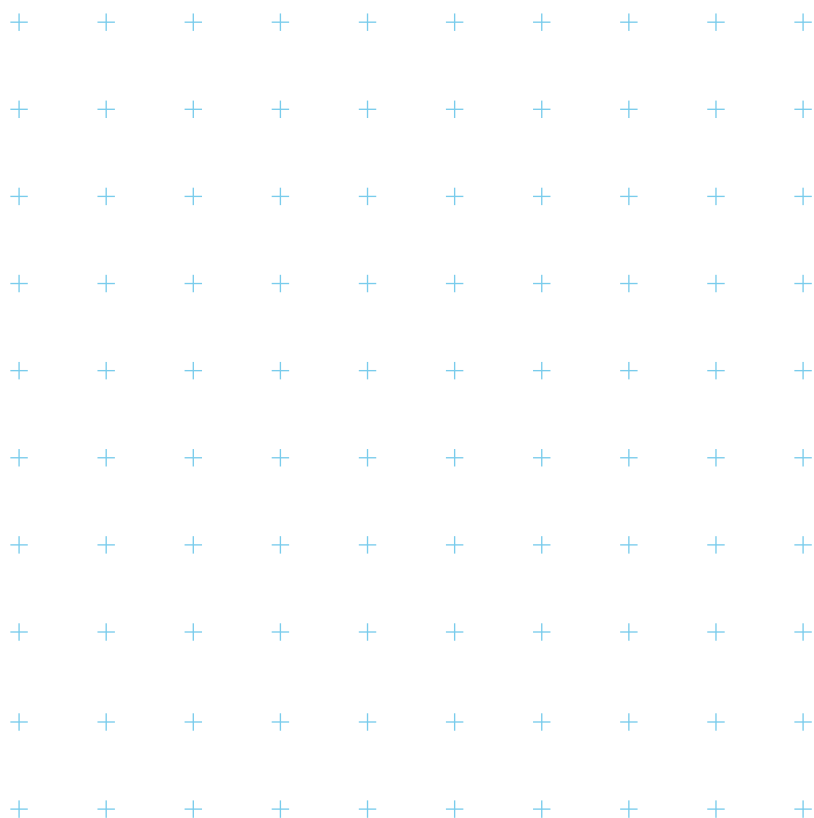
Madeleine Edberg  
Authorised Public Accountant

Dick Stagmo  
Representative Auditor



FINANCIAL STATEMENTS

# Financial statements





# Historically strong result

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*2018 was a record year for Södra. Net sales for the full-year rose 18 percent to SEK 24,230 million, with operating profit of SEK 4,508 million. The proposed profit distribution is SEK 1,795 million.*

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**59%**

Södra stands strong. The equity ratio rose 3 percentage points during the year to 59 percent.

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**19%**

The operating margin increased to 19 percent due to efficient and profitable mill operations.

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**SEK 4.3 billion**

Södra continues to take an offensive approach and in 2018, invested SEK 4.3 billion.





# Contents

Multi-year summary	71	Consolidated statement of changes in equity	82
Alternative performance measures	72	Consolidated statement of cash flows	83
Other definitions	73	Parent Company income statement	84
Directors' Report	74	Parent Company balance sheet	85
Consolidated statement of comprehensive income	79	Parent Company statement of changes in equity	87
Consolidated statement of financial position	80	Parent Company statement of cash flows	88

## NOTES

Note 1 Significant accounting policies and valuation principles	89	Note 25 Non-current operating receivables	111
Note 2 Operating segments	96	Note 26 Deferred tax assets/liabilities	111
Note 3 Net sales	97	Note 27 Inventories	112
Note 4 Other revenue	98	Note 28 Receivables from Group companies	112
Note 5 Operating leases	98	Note 29 Current operating receivables	112
Note 6 Employee expenses	98	Note 30 Cash and cash equivalents	112
Note 7 Other expenses	100	Note 31 Equity	113
Note 8 Depreciation, amortisation and impairment of assets	100	Note 32 Untaxed reserves	113
Note 9 Payment to auditors	100	Note 33 Interest-bearing liabilities from Group companies	113
Note 10 Shares in associates	100	Note 34 Interest-bearing liabilities	113
Note 11 Income from financial items	101	Note 35 Pensions	114
Note 12 Appropriations	102	Note 36 Provisions	116
Note 13 Taxes	102	Note 37 Non-current operating liabilities	116
Note 14 Other comprehensive income	103	Note 38 Current operating liabilities and provisions	116
Note 15 Business combinations	103	Note 39 Group companies	117
Note 16 Intangible assets	104	Note 40 Pledged assets	117
Note 17 Buildings and land	105	Note 41 Contingent liabilities	118
Note 18 Machinery and equipment	106	Note 42 Statement of cash flows	118
Note 19 Construction in progress	107	Note 43 Critical accounting estimates and judgements	118
Note 20 Biological assets	107	Note 44 Investment commitments	119
Note 21 Financial investments	107	Note 45 Financial instruments	119
Note 22 Financial risk management	107	Note 46 Events after the balance-sheet date	121
Note 23 Other non-current investments	111	Note 47 Related parties	122
Note 24 Non-current financial receivables	111	Note 48 Parent Company information	122

Proposed appropriation of profits	123
Audit report	124



# Multi-year summary

	2018	2017	2016 <sup>1)</sup>	2015	2014
<b>RESULT</b>					
Net sales, SEK million	24,230	20,518	18,482	18,267	17,339
Net sales, change in %	18	11	1	5	5
Operating profit before depreciation, amortisation and impairment, SEK million	5,654	3,009	1,887	3,146	2,552
Depreciation, amortisation and impairment of assets, SEK million	-1,146	-1,092	-908	-984	-1,036
Operating profit, SEK million	4,508	1,917	979	2,162	1,516
Operating margin, %	19	9	5	12	9
Financial income and expenses, SEK million	-77	-87	-66	-90	-56
Profit before tax, SEK million	4,431	1,830	913	2,072	1,460
<b>FINANCIAL POSITION</b>					
Non-current assets, SEK million	18,408	14,932	14,413	11,948	10,044
Inventories, SEK million	3,649	3,036	3,097	2,801	2,615
Equity, SEK million	16,011	12,884	11,766	11,945	10,524
Return on equity, %	24	12	6	14	11
Net debt, SEK million	4,558	3,901	3,879	1,290	1,050
Debt/equity ratio, times	0.3	0.3	0.3	0.1	0.1
Average capital employed, SEK million	19,029	16,493	14,600	12,639	11,349
Return on capital employed, %	24	12	7	17	13
Total assets, SEK million	27,094	23,104	21,671	19,248	17,229
Equity ratio, %	59	56	54	62	61
<b>CASH FLOW</b>					
Cash flow from operating activities, SEK million	4,270	1,915	2,315	3,123	1,988
Investments, SEK million	4,380	1,606	4,256	2,959	2,046
Cash flow after investments, SEK million	-142	356	-1,581	218	267
<b>VOLUMES</b>					
Wood volume, million m <sup>3</sup> sub	16.5	15.9	15.0	15.1	15.3
Deliveries of biofuels, 1,000 m <sup>3</sup> s	4,630	4,393	4,632	4,678	4,758
Sawn timber production, 1,000 m <sup>3</sup>	1,761	1,841	1,955	2,031	1,932
Pulp production, 1,000 tonnes	1,786	1,712	1,429	1,512	1,521
Electricity generation, GWh	1,772	1,719	1,326	1,379	1,419
<b>SUSTAINABILITY</b>					
CO <sub>2</sub> fossil from production, ktonnes	103	80	99	87	131
CO <sub>2</sub> fossil from transportation, ktonnes	196	191	199	193	210
Rate of forest growth, m <sup>3</sup> fo/ha per year	6.7	6.9	6.9	6.6	6.9
Occupational injuries with absence (LTA) <sup>2)</sup> , no.	77	94	94	75	104
Lost-time-accident rate (LTAR) <sup>3)</sup>	15	17	16	13	18
<b>OTHER</b>					
Profit distribution, SEK million	1,795 <sup>4)</sup>	868	602	1,002	553
No. of members	51,637	51,009	50,771	50,360	50,227
Affiliated forest area, 1,000 hectares	2,591	2,517	2,481	2,440	2,392
Members' wood deliveries, million m <sup>3</sup> sub	9.8	9.7	9.4	9.4	9.0
No. of employees	3,141	3,402	3,594	3,599	3,524
USD/SEK (average rate)	8.69	8.55	8.56	8.43	6.86
EUR/SEK (average rate)	10.26	9.64	9.47	9.35	9.10
NBSK (average rate, USD/tonne)	1,166	881	802	856	925

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

<sup>2)</sup> LTA (lost-time-accident): occupational injury with absence.

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

<sup>4)</sup> Proposed profit distribution.



# 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 %

	2018	2017	2016	2015	2014
Opening	20,518	18,482	18,267	17,339	16,580
Closing	24,230	20,518	18,482	18,267	17,339
Change	18	11	1	5	5

### Explanation

Shows Södra's growth.

### Definition

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

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

	2018	2017	2016 <sup>1)</sup>	2015 <sup>1)</sup>	2014 <sup>1)</sup>
Operating profit	4,508	1,917	979	2,162	1,516
Depreciation, amortisation and impairment of assets	1,146	1,092	908	984	1,036
Operating profit before depreciation, amortisation and impairment	5,654	3,009	1,887	3,146	2,552

### Explanation

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

### Definition

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

## EBITDA MARGIN, %

	2018	2017	2016 <sup>1)</sup>	2015 <sup>1)</sup>	2014 <sup>1)</sup>
Operating profit before depreciation, amortisation and impairment	5,654	3,009	1,887	3,146	2,552
Net sales	24,230	20,518	18,482	18,267	17,339
EBITDA margin	23	15	10	17	15

### Explanation

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

### Definition

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

## OPERATING PROFIT, SEK MILLION

	2018	2017	2016 <sup>1)</sup>	2015 <sup>1)</sup>	2014 <sup>1)</sup>
Net sales	24,230	20,518	18,482	18,267	17,339
Other revenue	372	190	213	359	374
Operating expenses	-18,948	-17,699	-16,808	-15,480	-15,161
Depreciation, amortisation and impairment of assets	-1,146	-1,092	-908	-984	-1,036
Operating profit	4,508	1,917	979	2,162	1,516

### Explanation

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

### Definition

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

## RETURN ON EQUITY, %

	2018	2017	2016 <sup>1)</sup>	2015 <sup>1)</sup>	2014 <sup>1)</sup>
Equity OB	12,884	11,766	11,806	10,524	9,495
Equity CB	16,011	12,884	11,766	11,945	10,524
Average equity	14,448	12,325	11,786	11,235	10,009
Profit before tax	4,431	1,830	913	2,072	1,460
Standard tax, 22%	-975	-403	-201	-456	-321
Return	24	12	6	14	11

### 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.

## OPERATING MARGIN, %

	2018	2017	2016 <sup>1)</sup>	2015 <sup>1)</sup>	2014 <sup>1)</sup>
Operating profit	4,508	1,917	979	2,162	1,516
Net sales	24,230	20,518	18,482	18,267	17,339
Operating margin	19	9	5	12	9

### 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.

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



## NET DEBT, SEK MILLION

	2018	2017	2016	2015	2014
Interest-bearing provisions	—	—	—	—	12
Interest-bearing liabilities	5,630	5,222	4,914	2,624	2,421
Financial receivables	—	—	-1	-1	-1
Current investments and cash and cash equivalents	-1,072	-1,321	-1,034	-1,333	-1,382
<b>Net debt</b>	<b>4,558</b>	<b>3,901</b>	<b>3,879</b>	<b>1,290</b>	<b>1,050</b>

### 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.

## DEBT/EQUITY RATIO, TIMES

	2018	2017	2016 <sup>1)</sup>	2015 <sup>1)</sup>	2014 <sup>1)</sup>
Net debt	4,558	3,901	3,879	1,290	1,050
Equity	16,011	12,884	11,766	11,945	10,524
<b>Debt/equity ratio</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.1</b>	<b>0.1</b>

### Explanation

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

### Definition

Net debt in relation to equity.

## CAPITAL EMPLOYED, SEK MILLION

	2018	2017	2016 <sup>1)</sup>	2015 <sup>1)</sup>	2014 <sup>1)</sup>
Assets	27,094	23,104	21,671	19,248	17,229
– Financial assets	-1,086	-1,341	-1,052	-1,351	-1,402
– Provisions <sup>2)</sup>	-141	-160	-180	-114	-253
– Income tax <sup>2)</sup>	-1,569	-1,201	-1,038	-1,257	-1,089
– Operating liabilities	-3,329	-3,313	-3,505	-3,083	-2,649
<b>Capital employed</b>	<b>20,969</b>	<b>17,089</b>	<b>15,896</b>	<b>13,443</b>	<b>11,836</b>
Average	19,029	16,493	14,600	12,639	11,349

### 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, %

	2018	2017	2016 <sup>1)</sup>	2015 <sup>1)</sup>	2014 <sup>1)</sup>
Average capital employed	19,029	16,493	14,600	12,639	11,349
Operating profit	4,508	1,917	979	2,162	1,516
<b>Return</b>	<b>24</b>	<b>12</b>	<b>7</b>	<b>17</b>	<b>13</b>

### Explanation

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

### Definition

Operating profit expressed as a percentage of average capital employed.

## EQUITY RATIO, %

	2018	2017	2016 <sup>1)</sup>	2015 <sup>1)</sup>	2014 <sup>1)</sup>
Equity	16,011	12,884	11,766	11,945	10,524
Assets	27,094	23,104	21,671	19,248	17,229
<b>Equity ratio</b>	<b>59</b>	<b>56</b>	<b>54</b>	<b>62</b>	<b>61</b>

### Explanation

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

### Definition

Equity expressed as a percentage of total assets.

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

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

# 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.



# Directors' Report

The Board and the President of Södra Skogsägarna ekonomisk förening, Corp. ID. No. 729500-3789, hereby present the annual accounts and consolidated financial statements for the 2018 financial year.

## Record year for Södra

2018 was a record year for Södra. After yet another strong quarter, net sales amounted to SEK 24,230 million (20,518) with operating profit of SEK 4,508 million (1,917). Return on capital employed was 24 percent (12) and the equity ratio was 59 percent (56).

### ABOUT SÖDRA

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

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

The wood from members is processed at Södra's mills and becomes either sawn timber or market pulp. Södra has one of the largest sawmill operations in Europe, and is one of the biggest European suppliers of softwood sulphate pulp. Dissolving pulp is also produced from hardwood. Södra also generates more than 1.7 TWh of electricity at its pulp mill, and supplies other energy producers with raw material. Södra owns also the house-manufacturing company Trivselhus.

### MARKET TREND

2018 was characterised by high and stable demand for Södra's products. Price levels for both market pulp and sawn timber remained favourable and contributed to the excellent result. Södra's well-invested facilities delivered stable, high-quality volumes and could thereby capitalise on the continued favourable trend in the global economy.

In the fourth quarter of the year, the price trend stagnated for both market pulp and sawn timber. Higher production in Central Europe, largely the result of a spruce bark beetle infestation that led to increased harvesting, shifted inventory balances and caused prices to level off. For the first time in more than eight quarters, the price of softwood sulphate pulp, for example, fell from USD 1,230 per tonne at the end of the third quarter, to USD 1,170 per tonne at year-end. The average delivery price for sawn timber also weakened slightly, from SEK 2,355/m<sup>3</sup>sw at the begin-

ning of the quarter to SEK 2,165/m<sup>3</sup>sw at year-end. However, prices remained at a very high level and a sustained production rate at Södra's mills led to continued strong demand for both saw logs and softwood and hardwood pulp. Strong demand is expected to continue in the coming year. Södra's total fresh fibre inventory is currently well-balanced.

Although the global economy remained favourable in the final months of the year, a slight slowdown was discernible. Despite downward revisions of GDP projections in general, the global growth rate is still projected to exceed 3 percent in the coming years. Employment rates and wages are still rising, which is driving inflation. As a result, the central banks will probably continue their efforts to normalise monetary policy.

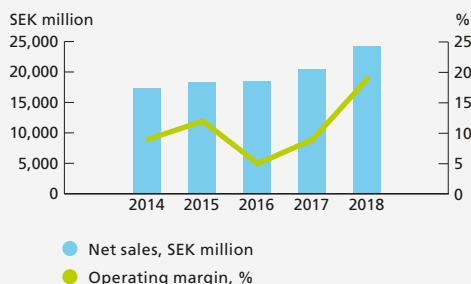
There are some concerns, however, primarily the threat of an escalated trade dispute between the US and China, which will not only affect these two countries but also several developing countries. Political instability in Europe could also have negative effects on economic growth.

In the US, economic growth remains positive, but the stock market volatility that began in October has dampened confidence. The Federal Reserve raised rates a total of four times in 2018, bringing the key interest rate to about 2.5 percent, closing in on levels that would be considered restrictive. Chairman of the Federal Reserve, Jerome Powell, has signalled a more cautious approach to rate hikes in 2019.

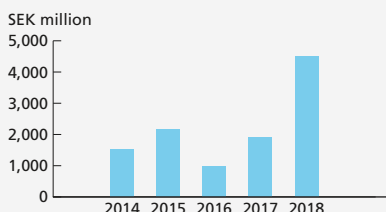
Chinese economic growth continued to slow during the final quarter due to the ongoing trade dispute with the US, but also because of the Chinese government's structural measures to reduce the country's reliance on credit as a driver of growth.

Europe was dominated by Brexit talks and the situation in Italy. The rate of growth has slowed, partly because the German car manufacturing industry has had difficulty adjusting to new emission testing standards, which has led to a temporary decline in demand. At the same time, capacity utilisation was the highest since 2007 and companies reported a shortage of both labour and machine capacity.

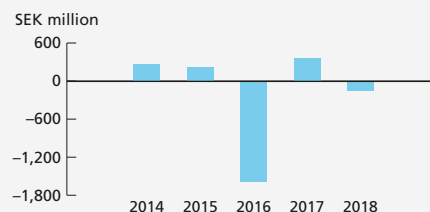
Net sales and operating margin



Operating profit



Cash flow after investments



In the Nordic region, Sweden continued to grapple with a weaker housing market and an uncertain parliamentary situation. The export-dependent Finnish economy slowed somewhat, but is still growing. Oil investments gave the Norwegian economy a short-term boost in 2019, but this is not expected to persist. The Baltic countries continue to lead the Eurozone and growth rates are expected to be around 3–3.5 percent in the coming years.

During the year, the SEK weakened against the USD, the GBP and the EUR. This led to growth for the Swedish export industry, which thereby offset the lower growth in the domestic construction sector. USD rates are most relevant for the pulp operations, while GBP rates affect the sawmill operations, since the UK is Södra's largest export market for sawn timber.

## NET SALES

Consolidated net sales amounted to SEK 24,230 million (20,518), corresponding to growth of 18 percent.

## RESULT

Operating profit totalled SEK 4,508 million (1,917), representing an operating margin of 19 percent (9). The positive earnings trend for the year was mainly attributable to high price levels for both market pulp and sawn timber. Tax expense for the year was SEK 701 million (259). The Group's net financial items amounted to an expense of SEK 77 million (expense: 87).

Return on capital employed was 24 percent (12).

## BUSINESS AREAS

**Södra Skog's** operating profit totalled SEK 101 million (70), excluding revaluation of the biological assets. The earnings trend reflects lower expenses and favourable results from Södra's Baltic forests. Due the sharp increase in saw log prices in the Baltics in 2017 and 2018 as well as a strong EUR, the remeasurement effect of the biological assets amounted to SEK 158 million. Including this figure, operating profit for the business area totalled SEK 259 million (SEK 76 million).

**Södra Wood's** operating profit totalled SEK 608 million (157). The year-on-year improvement is mainly due to favourable market conditions and a consistently implemented market strategy. As of 2018, earnings from the interior wood business are no longer included in Wood's figures – they are now recognised in Other segments instead because the operation was discontinued during the year. The comparative figure above has been adjusted to reflect this.

**Södra Cell's** operating profit totalled SEK 4,032 million (1,924). The earnings improvement was mainly the result of very high price levels (mainly for softwood sulphate pulp), a favourable USD exchange rate and real volume growth of 4 percent. Cell's operating profit was adversely impacted by a total provision of SEK 155 million for an anticipated bad debt losses.

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

## OTHER SEGMENTS

Operating profit for Trivselhus totalled SEK 1 million (57). The year-on-year deterioration was mainly attributable to the declining housing market. New mortgage repayment requirements, among other factors, led to a stagnation in orders, especially for duplexes.

As of the second quarter, the interior wood business (previously part of the Södra Wood business area) has been reported under Other segments. Most of the interior wood business was divested on 7 June 2018, while the remaining operations were divested in the fourth quarter.

Södra's share of SunPine's profit was SEK 53 million (83).

Cumulative operating loss for Other segments amounted to SEK 25 million (profit: 2).

## CASH FLOW AND LIQUIDITY

Cash flow before investments was a positive SEK 4,270 million (1,915), and a negative SEK 142 million (pos: 356) after investments. At year-end, cash and cash equivalents and current investments amounted to SEK 1,072 million (1,321).

## FINANCIAL POSITION

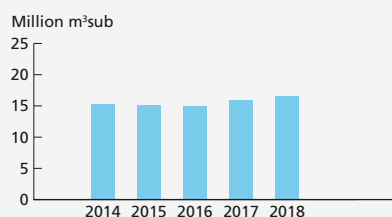
At 31 December 2018, equity amounted to SEK 16,011 million (12,884), of which paid-up and issued contributed capital accounted for SEK 3,620 million (3,310). Total assets increased to SEK 27,094 million (23,104).

At 31 December 2018, the equity ratio was 59 percent (56). Södra's borrowings comprised loans of SEK 3,529 million (3,106) 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. Södra has a credit agreement in the form of a club agreement, enabling Södra to borrow up to SEK 2,000 million over a period of just over five years.

## USE OF FINANCIAL INSTRUMENTS

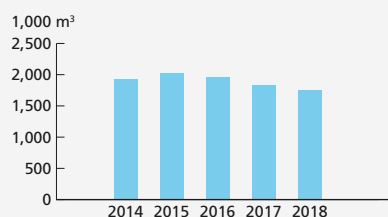
Due to the international and capital-intensive nature of its operations, Södra is constantly exposed to financial risks such as market risk, credit risk and liquidity and financing risk. The Group's financial policy for handling financial risks, as adopted by the Board, provides a framework of guidelines and rules in the form of risk mandates and limits for financial activities. Refer to Note 22 for financial risk management and the use of financial instruments.

**Wood volumes**  
**Södra Skog**



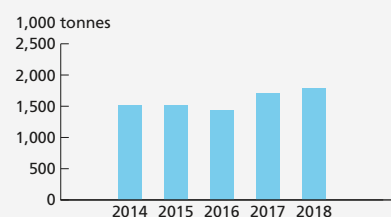
Wood supply in Södra's area was in line with the preceding year.

**Sawn and planed timber production**  
**Södra Wood**



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

**Pulp production**  
**Södra Cell**



Production amounted to approximately 1.8 million tonnes, which is an increase year-on-year.





## RISKS AND RISK MANAGEMENT

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

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

Efforts to identify, assess and manage risks are an integral and key component of Södra's business management. The Treasury unit is responsible for managing financial risk, based on a financial policy established by the Board. Operational risks are controlled and managed by the President, management team and employees, in accordance with central policies and guidelines. Södra has also established a Business Ethics Council and a Safety Committee that work Group-wide with risk areas including corruption, cyber security and safety 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
<p><b>Climate and nature.</b> 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 pest outbreaks, root rot and browsing damage primarily affect individual forest owners, but also Södra in the long term.</p>	<p>Forest management measures reduce risk and are continuously communicated with forest owners: thinning, selective tree 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.</p>
<p><b>Economy.</b> Södra's earnings are highly sensitive to economic trends, and directly reflected in price movements and changes in sales volumes. Adverse changes in both global and local economies could have a negative impact on Södra's sales, financial position and earnings.</p>	<p>A global market focus with sales to customers across many sectors and countries reduces vulnerability, and the effects of local economic trends. Alongside of continued investment in each business area's core markets, Södra works actively to increase its presence in new markets and developing regions.</p>
<p><b>Competition.</b> Both pulp and sawn timber industries are mature, with intense price competition. Price pressure intensifies due to new production capacity, or a weak economy. This is more noticeable in some segments due to changed consumption patterns, and the increase in 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, for example.</p>	<p>Ongoing development of strategic customer relationships, through longer contracts, for example, reduces Södra's vulnerability while 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 carried out at Södra Cell at the Värö and Mörrum mills are now finished. Södra Wood's restructuring of the production capacity in its sawmills is now completed. The Interior Wood segment was divested during the year. The innovation strategy's focus on faster commercialisation of innovation and new products will secure long-term competitiveness.</p>
<p><b>Raw material risk.</b> The expansion of Södra's industrial capacity combined with intensifying market competition is increasing the significance of members' delivery loyalty and high-quality forestry, in terms of both production and environmental concerns. In terms of wood raw material, the major flow from Södra's members will be supplemented with a certain amount of imported wood. Both of these flows are also dependent on a well-functioning logistics chain. FSC® and PEFC™ certification of 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 varies depending on the economy, supply and demand, and – in most cases – is beyond Södra's control, but also has a major impact on competitiveness.</p>	<p>The forestry field organisation is focusing on 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. To secure the necessary transportation capacity in both the short and long term, Södra has undertaken several initiatives to promote a positive trend in the contracting and carrier sector. 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 2018, 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.</p>
<p><b>Political risks.</b> 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.</p>	<p>Södra works actively with business policy initiatives to secure favourable conditions for family forestry and cooperative enterprise. Södra collaborates with the Swedish Forest Industries Federation, the Federation of Swedish Farmers (LRF) and CEPF at both national and international level. At regional level, Södra collaborates directly with LRF's regional organisation. In 2018, the focus was on dialogue around litigation rights, contributions to decision support for forest-related legislation at EU level, participation in the Swedish Forest Agency's consultation groups and bringing the forest owner's perspective into both opinion-shaping and EU administration in Brussels. The business policy pod initiative #skogenochframtiden will continue. Södra supports its members in legal proceedings related to matters of privacy.</p>
<p><b>Brand risk.</b> 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.</p>	<p>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. The Södra Code of Conduct and Supplier Code contain guidelines and requirements related to business ethics, working conditions, human rights and the environment. Members' forests are covered by a firmly established revision programme. Responsibility for branding rights is centralised and includes dedicated resources for business policy communication. The Group's crisis management capacity has been maintained by developing methodology and practical exercises.</p>

## OPERATIONAL RISKS

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

RISKS	CONTROL AND MANAGEMENT
<b>Facilities.</b> Unforeseen events that can damage facilities, cause production losses and damage to goods during transport.	Systematic work with preventive maintenance. Property and business interruption insurance where facilities are insured up to their replacement value. In the event of production losses, the insurance covers the profits that would have been earned. Goods being transported are insured, when considered justified. The value of the seed orchard is secured through geographic distribution and crosswise ownership.
<b>Health and safety.</b> Södra's operations include facilities with hazardous work environments and activities that may be dangerous or entail health risks. This also includes the psychosocial work environment.	The Group works systematically with occupational health and safety management, according to the accepted methodology, with an explicit focus on continuous improvements. All pulp mills are certified according to the OHSAS 18001 occupational health and safety standard. Södra's occupational health and wellness initiatives are an important contribution to creating a healthy workplace. Employee surveys are conducted on a regular basis.
<b>Environmental risks.</b> 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.	Södra complies with the applicable environmental legal requirements, including the Seveso Directives, and conditions for industrial production. Efforts to improve energy-efficiency are continuous. The Södra Code of Conduct and Supplier Code contain environmental guidelines and requirements. The Supplier Code is to be included in Södra's supplier agreements. A major focus lies on preventive measures, the precautionary principle of the Swedish Environmental Code is applied, responsibility is taken for any remediation of contaminated soil and financial provisions are made to cover such costs. There are also a large number of area-specific initiatives to reduce Södra's environmental impacts, such as efforts to achieve fossil-free operation in pulp production, HVO fuel for own and sub-contracted hauliers, and the classification of watercourses – blue management targets – in green forest management plans. Södra Skog continues to invest in a broad training programme – Nature Conservation Södra – for all field workers, and all contractors must hold green and blue driving licenses to ensure compliance with environmental considerations both on land and around watercourses.
<b>Product safety.</b> Several of Södra's products are used in the food and construction industries, of which both have clear and comprehensive regulations for safety and producer responsibility. Product defects could affect customers and/or consumers.	All business areas are certified according to international standards (ISO). Products maintain the relevant labelling/approvals, such as FDA and BfR approval for use in the food industry, CE marking for the construction industry, and so forth. Information/recall procedures for defective products are in place. The Group's liability insurance includes global product liability.
<b>Competency provision.</b> Södra is dependent on the ability to recruit, retain and develop competent leaders and employees. If people with the right expertise cannot be attracted to, and developed in, positions at Södra, this could have negative consequences in both the long and short term.	Södra's HR strategy and brand strategy, together with systematic work for leadership and competency provision, combine to maintain and increase the company's attractiveness over time. Resources are invested in Tekniskpråget, internships, Södra summer camp, summer job programmes and Södra Skog's trainee programme.
<b>Corruption.</b> Södra operates in national and international markets across several different types of buying and selling channels. The risk of corruption in these settings varies but is always present and is, therefore, a constant threat to Södra's basic value of responsible business for a sustainable value chain.	The applicable guidelines and business practices for employees and representatives of Södra are set out in the Södra Code of Conduct. Knowledge of the Code is ensured and maintained through basic training courses, refresher courses, follow-up tests and performance review dialogues. Södra's purchasing is managed by the Group's purchasing departments. All suppliers, in 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. Processes and procedures for internal control are developed continuously in dialogue with Södra's auditors. A whistleblower function has been established. Södra's Business Ethics Council is responsible for monitoring the Group's exposure to ethical risk and ensuring that measures are in place for managing identified risks.
<b>Information security and IT.</b> Södra's increasing dependence on information technology and digital tools in everything from industrial production to internal and external communication – especially with our customers and members – renders the Group vulnerable to IT/cybersecurity risk. Risk in the form of malicious software, system disruptions, defective data quality and information loss/leakage could potentially have major consequences in terms of direct costs, an increased burden on the organisation and/or lost stakeholder trust. The inability to follow trends and commercialise opportunities using digitisation, big data, robotics, etc. could eventually erode Södra's competitiveness.	Administrative and technical controls are continuously updated to maintain a form of digital perimeter security. Redundant environments and a modern backup-system are in place. Internal training in cybersecurity is provided for all employees. Advanced crisis management capability. A strategic plan for digitisation-driven business development.

For information about financial risk and sensitivity analysis, refer to Note 22.

**INVESTMENTS, ACQUISITIONS AND DIVESTMENTS**

Investments totalled SEK 4,380 million (1,606), of which SEK 3,348 million (60) pertained to Södra Skog, SEK 124 million (132) to Södra Wood and SEK 770 million (1,249) to Södra Cell. In addition to the acquisition of forest land in Latvia, the investments were mainly focused on expansion, productivity and the environment.

During the year, Södra's interior wood business was discontinued. On 7 June, the operations in Kallinge and Umeå were sold to Sörnsen Grimslov AB and on 29 November, Berg & Berg (which was close to being discontinued) was sold to the Mor-Gerd Group. Discontinuation of the interior wood business generated a total non-recurring cost of SEK 63 million, which was charged to earnings in the second quarter and recognised in Other.

On 13 November, it was announced that Södra had acquired Bergvik's forest holding in Latvia. The total purchase amount was EUR 324 million. The acquired area was 111,100 hectares, of which 80,300 is forest land.

**INNOVATION, RESEARCH AND DEVELOPMENT**

The Group's research and development costs amounted to SEK 88 million (96), corresponding to 0.4 percent (0.5) of operating expenses. This included costs for Södra's own operations and financial support for external research projects. Södra also participated in a new share issue totalling SEK 80 million in Silva Green Fuel AS.

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

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

Södra also supports research through the Södra Foundation for Research, Development and Education. The Foundation grants funding for research projects and training programmes that promote forest management and forest industry operations in southern Sweden. Over the years, the Foundation has awarded total funding SEK 213 million.

**REGULATED ACTIVITIES**

Of Södra's net sales, 78 percent (75) are subject to permit or mandatory notification requirements under the Swedish Environmental Code. At year-end, Södra conducted 48 (54) 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 2018, Södra Cell Mönsterås submitted notification for the construction of a biomethanol plant and a new cooling tower. Södra Cell Mörrum's permit for its own landfill was amended.

The sawmills hold permits with conditions for noise and air emissions among others. Södra Wood's interior wood operations at Kallinge and Umeå were divested during the year. The operations in Ronneby were closed down.

The peat extraction site at Smörmyr was discontinued.

There were no other significant changes in permits 2018.

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

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

In accordance with the Swedish Annual Accounts Act Chapter 6, Section 11, Södra Skogsägarna ekonomisk förening has chosen to prepare a Sustainability Report that is a separate from the Annual Report. The scope of the Sustainability Report is presented on page 67.

**EMPLOYEES**

At year-end, the number of employees was 3,141 (3,402), of whom 22 percent (21) were women.

The decrease in number of employees was due to restructuring within the Group.

**EVENTS AFTER THE CLOSE OF THE PERIOD**

No significant events occurred after the end of the reporting period.

**FUTURE OUTLOOK**

At year-end, prices for both sawn timber and market pulp remained at very high levels, which is expected to continue over the coming months. The discernible signs of a global slowdown could also affect Södra's operations. Overall, it is difficult to make long-term assessments, but the trend for the first months of 2019 is expected to be favourable.

**PARENT COMPANY****Result**

Net sales rose to SEK 21,402 million (17,649) and operating profit to SEK 4,069 million (1,651). Profit after net financial items totalled SEK 4,073 million (1,717).

**Members**

The number of members was 51,637 (51,009) and the affiliated membership area rose to 2.59 million hectares (2.52), an increase of approximately 70,000 million hectares.

In 2019, contribution repayments to members who had left the association by 31 December 2018 will amount to SEK 36 million (40).

**Proposed appropriation of profits**

The Board proposes that the profits at the disposal of Södra's AGM, an amount of SEK 4,773,373,227, be appropriated as follows:

Dividend to members of 10 percent of contributed capital, totalling	SEK 361,999,126
Dividend to members of 10 percent on wood deliveries, totalling	SEK 499,552,059
The dividend is calculated on members' wood deliveries from 1 January 2018 to 31 December 2018 and on all ranges, excluding sold standing forest.	
To members' contribution capital accounts through a bonus issue	SEK 933,114,004
The bonus issue represents 60 percent of available paid-up contributed capital at 31 December 2018.	
Amount carried forward	SEK 2,978,708,038
	SEK 4,773,373,227





# Consolidated statement of comprehensive income

SEK million	Note	2018	2017
Net sales	2, 3	24,230	20,518
Other revenue	4	372	190
Change in inventories of finished products and products in process		320	-31
Capitalised work		12	12
Raw materials and consumables		-13,668	-12,092
Goods for resale		-61	-201
Freight and transport		-1,142	-992
Employee expenses	6	-2,449	-2,503
Other expenses	5, 7, 9	-2,003	-1,966
Depreciation, amortisation and impairment of assets	8	-1,146	-1,092
Share of profit of associates	10	43	74
<b>Operating profit</b>	<b>2</b>	<b>4,508</b>	<b>1,917</b>
Financial income		16	5
Financial expenses		-93	-92
Net financial items	11	-77	-87
<b>Profit before tax</b>		<b>4,431</b>	<b>1,830</b>
Income tax	13	-701	-259
<b>Profit for the year</b>		<b>3,730</b>	<b>1,571</b>
<b>Other comprehensive income</b>			
Actuarial gains and losses		-99	-78
Tax attributable to items that will not be reclassified to profit or loss		20	17
<b>Items that will not be reclassified to profit or loss</b>		<b>-79</b>	<b>-61</b>
Translation differences for the year on translation of foreign operations		39	8
Revaluation of available-for-sale financial assets to fair value		0	0
Hedge accounting		9	—
Tax attributable to items that will be reclassified to profit or loss		-2	0
<b>Items that will be reclassified to profit or loss</b>		<b>46</b>	<b>8</b>
<b>Other comprehensive income for the year</b>	<b>14</b>	<b>-33</b>	<b>-53</b>
<b>Total comprehensive income for the year</b>		<b>3,697</b>	<b>1,518</b>
<b>Profit attributable to:</b>			
Parent Company		3,730	1,571
<b>Profit for the year</b>		<b>3,730</b>	<b>1,571</b>
<b>Total comprehensive income for the year attributable to:</b>			
Owners of the Parent		3,697	1,518
<b>Total comprehensive income for the year</b>		<b>3,697</b>	<b>1,518</b>



# Consolidated statement of financial position

31 December, SEK million	Note	2018	2017
<b>ASSETS</b>	15, 44, 45		
<b>Non-current assets</b>			
Intangible assets			
Goodwill		240	241
Other intangible assets		151	143
<b>Total intangible assets</b>	16	<b>391</b>	<b>384</b>
Property, plant and equipment			
Buildings and land	17	4,647	3,499
Machinery and equipment	18	9,713	9,902
Construction in progress	19	500	319
<b>Total property, plant and equipment</b>		<b>14,860</b>	<b>13,720</b>
Biological assets	20	2,738	540
Shares and participations in associates	10	310	222
Financial investments	21	14	20
Non-current operating receivables	25	90	39
Deferred tax assets	26	5	7
<b>Total non-current assets</b>		<b>18,408</b>	<b>14,932</b>
<b>Current assets</b>			
Inventories	27	3,649	3,036
Tax assets		23	66
Current operating receivables	29	3,942	3,749
Current investments	21	199	199
Cash and cash equivalents	30	873	1,122
<b>Total current assets</b>		<b>8,686</b>	<b>8,172</b>
<b>TOTAL ASSETS</b>		<b>27,094</b>	<b>23,104</b>



31 December, SEK million	Note	2018	2017
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Contributed capital		3,620	3,310
Other paid-up capital		1,413	1,413
Reserves		22	-24
Retained earnings including profit for the year		10,956	8,185
Equity attributable to owners of the Parent		16,011	12,884
<b>Total equity</b>	<b>31</b>	<b>16,011</b>	<b>12,884</b>
<b>Liabilities</b>	<b>15, 44, 45</b>		
<b>Non-current liabilities</b>			
Non-current interest-bearing liabilities	22, 34	2,465	2,482
Provisions for pensions	35	414	324
Non-current provisions	36	141	160
Deferred tax liabilities	26	1,478	1,188
<b>Total non-current liabilities</b>		<b>4,498</b>	<b>4,154</b>
<b>Current liabilities</b>			
Current interest-bearing liabilities	34	3,165	2,740
Income tax liabilities		91	13
Current operating liabilities and provisions	36, 38	3,329	3,313
<b>Total current liabilities</b>		<b>6,585</b>	<b>6,066</b>
<b>Total liabilities</b>		<b>11,083</b>	<b>10,220</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>27,094</b>	<b>23,104</b>

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 2018	3,310	1,413	-24	0	8,185	12,884
Profit for the year	—	—	—	—	3,730	3,730
Other comprehensive income for the year	—	—	39	7	-79	-33
<b>Comprehensive income for the year</b>	<b>—</b>	<b>—</b>	<b>39</b>	<b>7</b>	<b>3,651</b>	<b>3,697</b>
Contributed capital, paid-up by members	128	—	—	—	—	128
Contributed capital, paid-out to members	-34	—	—	—	—	-34
Dividends to members	—	—	—	—	-652	-652
Bonus issue	216	—	—	—	-216	—
Other changes	—	—	—	—	-12	-12
<b>Closing balance 31 Dec 2018</b>	<b>3,620</b>	<b>1,413</b>	<b>15</b>	<b>7</b>	<b>10,956</b>	<b>16,011</b>
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 for the year	—	—	8	0	-61	-53
<b>Comprehensive income for the year</b>	<b>—</b>	<b>—</b>	<b>8</b>	<b>0</b>	<b>1,510</b>	<b>1,518</b>
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	—
<b>Closing balance 31 Dec 2017</b>	<b>3,310</b>	<b>1,413</b>	<b>-24</b>	<b>0</b>	<b>8,185</b>	<b>12,884</b>

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



# Consolidated statement of cash flows

SEK million	Note	2018	2017
<b>Operating activities</b>			
Profit before tax		4,431	1,830
Adjustment for non-cash items			
Depreciation and amortisation		1,125	1,059
Impairment of non-current assets		21	33
Change in value of biological assets		-158	-6
Loss from sale of non-current assets		-8	-35
Other items not affecting cash flow		64	-92
Income tax paid		-261	-92
<b>Net cash flow from operating activities before change in working capital</b>		<b>5,214</b>	<b>2,697</b>
Change in			
Inventories (increase -)		-628	15
Operating receivables (increase -)		-335	-620
Operating liabilities (increase +)		19	-177
<b>Cash flow from operating activities</b>		<b>4,270</b>	<b>1,915</b>
<b>Investing activities</b>			
Acquisition of subsidiaries and associates	10	-78	-25
Divestment of companies	15	—	-6
Acquisition of other financial assets		-4	-3
Divestment of other financial assets		14	—
Investments in intangible assets		-28	-9
Investments in property, plant and equipment		-4,352	-1,597
Divestment of property, plant and equipment		36	81
<b>Cash flow from investing activities</b>		<b>-4,412</b>	<b>-1,559</b>
<b>Cash flow after investing activities</b>		<b>-142</b>	<b>356</b>
<b>Financing activities</b>			
Contributed capital, paid-up		128	108
Contributed capital, paid out		-34	-41
Dividends paid		-652	-467
Loans from members		6,848	6,574
Payment from member deposits		-6,425	-6,250
New loans		5	12
Repayment of other loans		-20	-30
Dividends received and shareholders' contributions repaid		33	28
Change in current investments with maturity > 90 days		0	78
<b>Cash flow from financing activities</b>		<b>-117</b>	<b>12</b>
<b>CASH FLOW FOR THE YEAR</b>	<b>42</b>	<b>-259</b>	<b>368</b>
Cash and cash equivalents at beginning of year		1,122	758
Exchange gains/losses on cash and cash equivalents		10	-4
Cash and cash equivalents at end of year	<b>30</b>	<b>873</b>	<b>1,122</b>

For additional information related to change in liabilities attributable to financing activities, refer to Note 34.



# Parent Company income statement

SEK million	Note	2018	2017
Net sales	2, 3	21,402	17,649
Change in inventories of finished products and products in process		325	23
Capitalised work		12	12
Other revenue	4	216	129
Raw materials and consumables		-11,827	-10,303
Other external expenses	5, 9	-2,766	-2,512
Employee expenses	6	-2,187	-2,196
Depreciation, amortisation and impairment of assets	8	-1,090	-1,028
Other operating expenses	7	-16	-123
<b>Operating profit</b>	<b>2</b>	<b>4,069</b>	<b>1,651</b>
Profit from shares in Group companies		47	50
Profit from shares in associates		25	68
Interest income and similar profit items		18	23
Interest expenses and similar loss items		-86	-75
Net financial items	11	4	66
<b>Profit after financial items</b>		<b>4,073</b>	<b>1,717</b>
Appropriations	12	-1,485	-743
<b>Profit before tax</b>		<b>2,588</b>	<b>974</b>
Income tax	13	-377	-49
<b>Profit for the year</b>		<b>2,211</b>	<b>925</b>

Profit for the year matches Comprehensive income for the year.





# Parent Company balance sheet

31 December, SEK million	Note	2018	2017
<b>ASSETS</b>	<b>44</b>		
<b>Non-current assets</b>			
Intangible assets			
Other intangible assets		3	6
<b>Total intangible assets</b>	<b>16</b>	<b>3</b>	<b>6</b>
Property, plant and equipment			
Buildings and land	17	3,252	3,363
Machinery and equipment	18	9,529	9,715
Construction in progress	19	379	242
<b>Total property, plant and equipment</b>		<b>13,160</b>	<b>13,320</b>
Financial assets			
Shares in Group companies	39	4,561	1,238
Shares and participations in associates	10	246	166
Endowment policies	35	36	40
Other non-current investments	23	14	20
Other non-current receivables	25	81	39
Deferred tax assets	26	47	57
<b>Total financial assets</b>		<b>4,985</b>	<b>1,560</b>
<b>Total non-current assets</b>		<b>18,148</b>	<b>14,886</b>
<b>Current assets</b>			
Inventories	27	2,610	2,075
Current receivables			
Interest-bearing receivables from Group companies	28	846	872
Deferred tax receivables		—	56
Operating receivables	28, 29	3,475	3,350
<b>Total current receivables</b>		<b>4,321</b>	<b>4,278</b>
Current financial investments	21	198	279
Cash and bank balances		742	866
<b>Total current assets</b>		<b>7,871</b>	<b>7,498</b>
<b>TOTAL ASSETS</b>		<b>26,019</b>	<b>22,384</b>



## &gt; Parent Company balance sheet, cont.

31 December, SEK million	Note	2018	2017
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Restricted equity			
Contributed capital		3,620	3,310
Statutory reserve		1,413	1,413
Total restricted equity		5,033	4,723
Non-restricted equity			
Profit carried forward		2,563	2,506
Profit for the year		2,211	925
Total non-restricted equity		4,773	3,431
<b>Total equity</b>	31	<b>9,807</b>	<b>8,154</b>
<b>Untaxed reserves</b>	32	<b>7,184</b>	<b>5,678</b>
<b>Provisions</b>			
Provisions for pensions	35	36	40
Other non-current provisions	36	132	154
<b>Total provisions</b>		<b>168</b>	<b>194</b>
<b>Non-current liabilities</b>			
Non-current interest-bearing liabilities from Group companies	33	8	8
Non-current interest-bearing liabilities	34	2,465	2,482
<b>Total non-current liabilities</b>		<b>2,473</b>	<b>2,490</b>
<b>Current liabilities</b>			
Current interest-bearing liabilities from Group companies	33	182	132
Current interest-bearing liabilities	34	3,165	2,725
Current tax liabilities		81	—
Current operating liabilities and provisions	36, 38	2,959	3,011
<b>Total current liabilities</b>		<b>6,387</b>	<b>5,868</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>26,019</b>	<b>22,384</b>

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

# Parent Company statement of changes in equity

SEK million	Restricted equity			Non-restricted equity		Total equity
	Contributed capital	Subordinated debentures	Statutory reserve	Profit carried forward	Profit for the year	
Opening balance 1 Jan 2018	3,310	—	1,413	2,506	925	8,154
Transfer of profit/loss for the period	—	—	—	925	–925	—
Profit for the year	—	—	—	—	2,211	2,211
<b>Total equity excluding owner transactions</b>	<b>3,310</b>	<b>—</b>	<b>1,413</b>	<b>3,431</b>	<b>2,211</b>	<b>10,365</b>
Contributed capital, paid-up by members	128	—	—	—	—	128
Contributed capital, paid-out to members	–34	—	—	—	—	–34
Appropriation of profits	—	—	—	—	—	—
Dividends to members	—	—	—	–652	—	–652
Bonus issue	216	—	—	–216	—	—
<b>Closing balance 31 Dec 2018</b>	<b>3,620</b>	<b>—</b>	<b>1,413</b>	<b>2,563</b>	<b>2,211</b>	<b>9,807</b>
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
<b>Total equity excluding owner transactions</b>	<b>3,108</b>	<b>130</b>	<b>1,413</b>	<b>3,115</b>	<b>925</b>	<b>8,691</b>
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	—	—
Paid-out subordinated debentures	—	–130	—	—	—	–130
<b>Closing balance 31 Dec 2017</b>	<b>3,310</b>	<b>—</b>	<b>1,413</b>	<b>2,506</b>	<b>925</b>	<b>8,154</b>

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	2018	2017
<b>Operating activities</b>			
Profit after financial items		4,073	1,717
<b>Adjustment for non-cash items</b>			
Depreciation and amortisation according to plan		1,085	1,024
Impairment		5	4
Reversal of impairment		—	–40
Change in value of current investments		1	1
Profit from divestment of non-current assets		0	8
Profit/loss from sale of Group companies		1	–6
Other items not affecting cash flow		133	–34
Income tax paid		–230	–44
<b>Net cash flow from operating activities before change in working capital</b>		<b>5,068</b>	<b>2,630</b>
<b>Change in</b>			
Inventories (increase –)		–558	152
Operating receivables (increase –)		–302	–758
Operating liabilities (increase +)		0	–102
<b>Cash flow from operating activities</b>		<b>4,208</b>	<b>1,922</b>
<b>Investing activities</b>			
Acquisition of associate/Group companies	10	–3,405	–25
Sale of shares in subsidiaries		—	—
Group contributions received		77	21
Group contributions paid		—	—
Investments in property, plant and equipment and intangible assets		–976	–1,468
Divestment of property, plant and equipment		17	13
Acquisition of financial assets		8	–3
Decrease in financial receivables		0	7
<b>Cash flow from investing activities</b>		<b>–4,279</b>	<b>–1,455</b>
<b>Cash flow after investing activities</b>		<b>–71</b>	<b>467</b>
<b>Financing activities</b>			
Contributed capital, paid-up		128	108
Contributed capital, paid out		–34	–41
Repayment of subordinated debentures		—	–130
Dividends paid		–652	–474
Loans from members		6,848	6,574
Payment from member deposits		–6,425	–6,250
New loans		—	100
Repayment of loans		—	1
Change in current investments with maturity > 90 days		2	77
<b>Cash flow from financing activities</b>		<b>–133</b>	<b>–35</b>
<b>CASH FLOW FOR THE YEAR</b>	42	<b>–204</b>	<b>432</b>
Cash and cash equivalents at beginning of year		946	514
Cash and cash equivalents at end of year	30	742	946

For additional information related to change in liabilities attributable to financing activities, refer to Note 34.

# 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 private forestry; monitoring and lobbying the business policy interests of its members; and conducting operations otherwise compatible with the above.

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

The annual report and consolidated financial statements for the 2018 financial year were approved for publication by the Board of Directors and the President on 13 February 2019. 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 2019.

### 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 2018. 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 either other comprehensive income or profit or loss.

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

### 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 financial periods commencing 1 January 2018 are described below:

IFRS 9 Financial instruments replaces the sections of IAS 39 that address classification and measurement of financial instruments. The changes to IFRS 9 are mainly related to three areas: classification and measurement, impairment of financial assets and hedge accounting. 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. IFRS 9 also requires that a provision for expected credit losses is recognised for receivables and other types of debt instruments. In order to recognise both the expected and actual credit losses, Södra made an impairment assessment of trade receivables and other receivables, which did not result in any material transition effect compared with the previous method of recognition and measurement. The rules for hedge accounting under IFRS 9 consist of the three hedge accounting mechanisms, but provide more flexibility in the types of transactions that qualify for hedge accounting, the risks that can be hedged, and the instruments that can be used as hedging instruments. The new hedge accounting model provides an opportunity to more accurately reflect a company's risk management activities in the financial statements. Södra adopted hedge accounting under IFRS 9 from the fourth quarter of 2018. In accordance with IFRS 9, Södra has elected to implement the new standard without restating its comparative figures for 2017. No significant effects were identified in the transition to IFRS 9.

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. Södra has elected to apply the modified retrospective method, which means that a cumulative effect due to the transition to IFRS 15 is recognised as an adjustment to opening retained earnings. No effects were identified, however, which means that the opening balance for 2018 is identical to the closing balance for 2017.

No other new or revised standards or interpretations have had any significant effect on recognition, measurement 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 new or revised standards for financial periods beginning on or after 1 January 2018 is planned, and none of these is expected to have any material impact on the consolidated financial statements, with the exception of the following:

IFRS 16 Leases 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. This standard came into effect on 1 January 2019 and the Group has not adopted IFRS 16 in advance. The following accounting policies will be applied as of the adoption of IFRS 16 on 1 January 2019:

Södra will recognise new assets and liabilities for operating leases where Södra is the lessee. The cost of these lease agreements will be changed, since Södra will recognise any impairment loss on right-of-use assets and interest expense on lease liabilities. Operating lease payments were previously recognised on a straight-line basis over the lease term and leased assets and liabilities were only recognised if there was a difference between the actual lease payment and recognised cost. No significant impact is expected for finance leases.

Södra is planning to apply the modified retrospective approach, which means that the cumulative effect of applying IFRS 16 will be recognised in opening retained earnings on 1 January 2019, with no restatement of comparative periods. Södra will apply the exemptions for low-value leases and leases of less than 12 months, whereby these will continue to be recognised on a straight-line basis over the lease term.

Based on the information available, additional lease liabilities of SEK 443 million, additional right-of-use assets of SEK 458 million and a deferred tax asset of SEK 0 million are expected to be recognised on transition. A negative effect of SEK 1 million arises in equity, mainly the result of translation differences on contracts denominated in a foreign currency and because interest rates are higher at the beginning of the payment period than at the end according to the annuity method, while depreciation is calculated using the straight-line method. Operating profit is expected to increase by about SEK 1 million compared with application of the previous accounting policies, since some of the lease payment will be recognised as interest expense. The effect on profit after tax is expected to be negligible. The application of IFRS 16 is not expected to affect Södra's ability to fulfil the Group's loan covenants.

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 major operating segments consist of Södra Skog, Södra Wood and Södra Cell.

Södra Skog purchases forest products from members and delivers them to Södra's mills, and conducts external trade with wood raw material and biofuels. Södra Skog also provides forestry services and, on behalf of Södra's members, manages the entire ecosystem of their forests – from

planting and forest management to regeneration harvesting, site preparation and replanting for future-generation forestry.

Södra Wood, with sawmills in Sweden and Finland, comprises two product segments: sawn timber and timber building systems. High-grade sawn and planed construction materials are produced at Södra's own sawmills. Customers are primarily in the building trade, and the housing, packaging and wood-processing industries. During the year, the operation related to interior wood products was divested and is now recognised in Other segments.

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

Other segments include the operations conducted in Trivselsus, Södra Vind, Södra Medlemsel and the interior wood business.

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 different options for recognising this: recognising the non-controlling interest's proportionate share of net assets or measuring the non-controlling interest at fair value,



> Note 1, cont.

meaning that the non-controlling interest has a share of goodwill. The choice between the options for recognising non-controlling interests are made by Södra on an acquisition-by-acquisition basis.

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

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

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

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

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

### CHANGES IN NON-CONTROLLING INTERESTS

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

### ASSOCIATES

Associates in which Södra has a significant influence are recognised using the equity method, which means that the Group's share of profit in the associates is recognised in the consolidated income statement. The Group's investment in an associate is recognised in the consolidated balance sheet at an amount corresponding to the Group's share of the associate's net assets. Associates are all companies in which the Group has a significant but not controlling influence, which generally entails holding 20–50 percent of the voting rights and ownership that constitutes a lasting relationship. This means that the carrying amount in the Group for shares in associates is equivalent to the Group's share of equity in the associates plus consolidated goodwill and any remaining consolidated surplus and deficits. The Group's share of profit from associates attributable to owners of the Parent is recognised in the consolidated statement of comprehensive income, with adjustment for any depreciation or amortisation, impairment and reversals of acquired surplus or deficits. Share in profits less dividends received from associates represents the main change in the carrying amount of the shares in associates.

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

When the Group's share of recognised losses in the associate exceeds the carrying amount of the shares in the Group, the value of the shares is reduced to zero. Losses are also settled against non-current, unsecured financial dealings, which in economic terms represents part of the owner's net investment in the associate. Continuing losses are only recognised if the Group has provided guarantees to cover them. The equity method is applied until the date that control ceases.

### 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 cumulative translation differences attributable to the divested foreign operation are reclassified from equity to net profit or loss as an adjustment on the same date on which the gain or loss from the sale is recognised.

### 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 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, transportation, forest management plans, site preparation etc., is recognised in net profit or loss according to the same principle as sales of goods. Revenue from new residential construction on the buyer's land is recognised when the asset is created, meaning when control over the asset is transferred to the buyer as it is created. Any promise to transfer an asset to a customer that can be separated from other promises in a contract represents a performance obligation. Every distinct performance obligation is recognised separately and an obligation is considered fulfilled when the customer obtains control of the asset.

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

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 lease 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.

**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 future lease payments are recognised as non-current and current liabilities. Minimum lease payments 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 in which they arise. Under an operating lease, the lease payment is allocated over the term of the lease on a linear basis. Benefits received when signing agreements are recognised as a reduction of the lease payment. Variable fees are expensed in the periods in which they arise.

**FINANCIAL INCOME AND EXPENSES**

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

Interest income on receivables and interest expenses on liabilities are calculated using the effective interest method. Dividend income is recognised when the dividend has been determined and the right to receive payment is established. Issue expenses and arrangement fees for loans are accrued over the term of the loan, using the effective interest method.

**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.

**Classification**

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

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

**Measurement**

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. Acquisition and divestment of financial assets is recognised on the settlement date, which is the date on which the asset is delivered to or from the company. The following measurement of investments in debt instruments depends on the Group's business model for managing the asset and contractual cash flow characteristics of the asset.

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

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

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

**Investments in debt instruments**

Södra classifies investments in debt instruments into three measurement categories:

**FAIR VALUE THROUGH PROFIT OR LOSS**

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

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

**FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

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

> Note 1, cont.

loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

#### FAIR VALUE THROUGH AMORTISED COST

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

#### Investments in equity instruments

Södra measures all equity instruments at fair value with value changes recognised directly in profit or loss. Dividends are recognised in profit or loss when the Group's right to receive payment has been established.

Södra holds unlisted shares and participations totalling SEK 14 million, where the cost is still judged to be the best estimate of fair value.

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

#### Derivatives used for hedging purposes

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

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

#### Derivatives not used for hedging

If derivative instruments are acquired for a purpose other than as an economic hedge against risks for interest, price and currency exposure, hedge accounting is not applied. In such cases, the derivative is measured at fair value with changes in value recognised in net profit or loss. With hedge accounting, the ineffective component is recognised in the same manner as the changes in value of derivatives 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 cumulative impairment losses. Goodwill is allocated to cash-generating units and impairment tested not less than annually. Goodwill on acquisitions of associates is included in the carrying amount for shares in associates.

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

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

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

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

#### 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 fixed assets manufactured in-house includes expenses for material, for remuneration of employees, if applicable, other manufacturing costs considered directly attributable to the fixed asset, and estimated expenses for dismantling and removal of the 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 divestment or when no future economic benefits are expected from the use or disposal/divestment of the asset. The gain or loss arising on the divestment or disposal of an asset represents the difference between the selling price and the carrying amount of the asset less direct selling costs. The gain and loss are recognised as operating income/expenses.

#### ADDITIONAL EXPENSES

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

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

#### 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.



**ESTIMATED USEFUL LIVES**

	Group No. of years	Parent Company No. of years
Wind turbines	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 have 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 CO<sub>2</sub>. The affected plants are allocated permits free of charge by the Swedish Environmental Protection Agency. Allocated permits are recognised at zero cost. Purchased permits are recognised as inventories under current assets at cost, less cumulative impairment losses, where applicable.

As long as own holdings of permits cover own emission commitments, no provision in value is made for emissions liability. If emission commitments exceed own holdings of permits, a liability provision is made corresponding to the requisite number of permits measured at market value.

**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**

As of 1 January 2018, expected credit losses related to investments in debt instruments are measured by using forward-looking information. The provision method depends on whether or not there has been a significant increase in credit risk. In accordance with IFRS 9, Södra applies the simplified approach for impairment of trade receivables, which means that the provision for expected credit losses is calculated on the basis of lifetime expected credit loss and recognised when the receivable is initially recognised. For more information, refer to Note 29 Operating receivables for provisions for uncertain receivables.

**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.

> Note 1, cont.

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.

### 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 cumulative impairment.

The recoverable amount of the subsidiary or associate is calculated where there are indications of impairment. Impairment is recognised when the carrying amount of the subsidiary or associate exceeds the recoverable amount. 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, IFRS 9's financial instruments and hedge accounting requirements 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.

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 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.

### 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.



## 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.

## 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	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Net sales														
from external customers	4,354	3,995	4,792	4,450	13,218	9,703	1,866	2,368	—	2	—	—	24,230	20,518
from other segments	7,019	5,779	682	656	186	119	3	5	3	7	-7,893	-6,566	—	—
	<b>11,373</b>	<b>9,774</b>	<b>5,474</b>	<b>5,106</b>	<b>13,404</b>	<b>9,822</b>	<b>1,869</b>	<b>2,373</b>	<b>3</b>	<b>9</b>	<b>-7,893</b>	<b>-6,566</b>	<b>24,230</b>	<b>20,518</b>
Depreciation, amortisation and impairment of assets	-43	-45	-174	-166	-862	-797	-46	-63	-21	-21	—	—	-1,146	-1,092
Share of profit of associates	0	0	0	4	—	—	43	70	—	—	—	—	43	74
<b>Operating profit/loss</b>	<b>259</b>	<b>76</b>	<b>608</b>	<b>157</b>	<b>4,032</b>	<b>1,924</b>	<b>-25</b>	<b>2</b>	<b>-366</b>	<b>-275</b>	<b>—</b>	<b>33</b>	<b>4,508</b>	<b>1,917</b>
Net financial items													-77	-87
<b>Profit before tax</b>													<b>4,431</b>	<b>1,830</b>
Assets	3,071	2,573	2,658	2,148	15,067	10,969	1,601	1,763	5,745	6,799	-1,048	-1,148	27,094	23,104
Operating profit/loss excl. biological change in value	101	70	608	157	4,032	1,924	-25	2	-366	-275	—	33	4,350	1,911
Operating profit/loss before depreciation, amortisation and impairment	301	121	782	323	4,894	2,721	21	65	-344	-254	—	33	5,654	3,009
Operating margin, %	2	1	11	3	30	20	neg.	0	—	—	—	—	19	9
Operating capital*	4,720	682	3,014	2,860	13,015	12,841	1,327	1,406	—	—	—	—	20,969	17,089
Return on operating capital*	10	9	21	5	31	16	neg.	0	—	—	—	—	24	12
Cash flow after investments	-3,770	317	430	208	3,857	467	32	-141	-691	-495	—	—	-142	356
Investments	3,348	60	124	132	770	1,249	3	60	135	105	—	—	4,380	1,606

\*) Operating capital = Property, plant and equipment and intangible assets, biological assets, inventories and other operating assets less operating liabilities. Capital employed is used in the Group. Capital employed = Operating capital less net tax liability. The figures reported for Södra Wood refer only to the sawmill operations.

## SEGMENT ALLOCATION

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

Assets and investments for the period in property, plant and equipment and intangible assets are grouped geographically by where the assets are located. Investments comprise property, plant and equipment and

intangible assets, as well as biological assets. Assets deemed to be held or used in the operation for a minimum of 12 months are recognised as non-current assets. The non-current assets are mainly distributed between the geographic markets of Sweden SEK 13,873 million (13,982), Latvia SEK 3,602 million (210), Estonia SEK 313 million (242), Finland SEK 172 million (174), UK 19 million (19) and Norway SEK 7 million (15).





&gt; Note 2, cont.

	Södra Skog		Södra Wood		Södra Cell		Other segments		Intra-Group		Eliminations		Total consolidated	
Parent Company	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
<b>Net sales</b>														
from external customers	4,275	3,956	2,695	2,646	13,218	9,703	264	472	—	2	—	—	20,452	16,779
from other segments	7,019	5,779	1,598	1,446	188	120	13	42	3	7	-7,871	-6,524	950	870
	<b>11,294</b>	<b>9,735</b>	<b>4,293</b>	<b>4,092</b>	<b>13,406</b>	<b>9,823</b>	<b>277</b>	<b>514</b>	<b>3</b>	<b>9</b>	<b>-7,871</b>	<b>-6,524</b>	<b>21,402</b>	<b>17,649</b>
Depreciation, amortisation and impairment of assets	-41	-44	-157	-151	-861	-796	-14	-17	-17	-20	—	—	-1,090	-1,028
<b>Operating profit/loss</b>	<b>50</b>	<b>42</b>	<b>519</b>	<b>75</b>	<b>4,043</b>	<b>1,869</b>	<b>-84</b>	<b>-55</b>	<b>-459</b>	<b>-280</b>	<b>—</b>	<b>—</b>	<b>4,069</b>	<b>1,651</b>
Net financial items													4	66
<b>Profit after financial items</b>													<b>4,073</b>	<b>1,717</b>

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

	2018	Share, %	2017	Share, %
Sweden	9,965	41	8,372	41
UK	3,413	14	2,659	13
Italy	2,431	10	1,750	9
Germany	1,781	7	1,434	7
Austria	992	4	972	5
France	714	3	450	2
The Netherlands	585	3	471	2
Poland	456	2	342	2
Norway	316	1	550	3
Rest of Europe	2,566	11	1,834	9
Indonesia	166	1	—	—
China	140	1	491	2
Japan	98	0	554	3
Rest of Asia	251	1	322	1
Africa	107	1	102	0
Rest of World	249	0	215	1
<b>Total</b>	<b>24,230</b>	<b>100</b>	<b>20,518</b>	<b>100</b>

### Net sales per revenue category:

2018	Södra Skog	Södra Wood	Södra Cell	Other segments	Group
Wood raw material	1,763	—	—	—	1,763
Wood products	—	4,403	—	314	4,717
Market pulp	—	—	12,710	—	12,710
Energy products	654	169	508	81	1,412
Houses and lots	—	—	—	736	736
Forestry services	1,501	—	—	—	1,501
Transportation	410	—	—	—	410
Construction contracts	—	—	—	730	730
Other	26	220	—	5	251
<b>Net sales, goods and services</b>	<b>4,354</b>	<b>4,792</b>	<b>13,218</b>	<b>1,866</b>	<b>24,230</b>

### GEOGRAPHIC SEGMENTS

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

### Parent Company net sales by geographic market

	2018	2017
Sweden	8,771	7,040
UK	2,460	1,963
Italy	2,431	1,750
Germany	1,782	1,435
Austria	992	972
France	714	450
The Netherlands	585	468
Poland	456	342
Rest of Europe	2,448	1,789
Asia	655	1,337
Africa	107	102
Rest of World	1	1
<b>Total</b>	<b>21,402</b>	<b>17,649</b>



## Note 4 | Other revenue

### Other revenue by revenue type

	Group		Parent Company	
	2018	2017	2018	2017
Sale of goods	20	7	40	24
Services	3	2	17	12
Rental income	11	11	6	7
Change in fair value of biological assets	158	6	—	—
Exchange-rate effect	93	—	92	—
Capital gains	25	59	16	15
Government grants	3	7	2	7
Insurance/strike compensation	9	2	9	2
Compensation for damages	—	41	—	41
Other	50	55	34	21
<b>Total</b>	<b>372</b>	<b>190</b>	<b>216</b>	<b>129</b>

Other government grants of SEK 3 million (7) are included in the consolidated total, and mainly relate to contributions of SEK 2 million (3) for personnel and SEK 1 million (3) for innovation.

## Note 5 | Operating leases

### Leases where Södra is lessee.

Non-terminable lease payments amounted to:	Group		Parent Company	
	2018	2017	2018	2017
Within 1 year	113	91	68	62
Between 1 and 5 years	125	152	24	57
More than 5 years	8	52	0	0
<b>Total</b>	<b>246</b>	<b>295</b>	<b>92</b>	<b>119</b>

Of the Group's future lease payments, SEK 39 million (73) pertains to time-charter vessels, SEK 3 million (0) to working machinery, SEK 38 million (36) to equipment and SEK 166 million (186) to leases. The amount of future lease payments for rented premises is based on the consumer price index. No variable fees otherwise occur.

Expensed fees for operating leases amount to:	Group		Parent Company	
	2018	2017	2018	2017
Minimum lease payments	135	152	96	106
<b>Total</b>	<b>135</b>	<b>152</b>	<b>96</b>	<b>106</b>

## Note 6 | Employee expenses

### Average number of employees

	2018			2017			2016		
	No. of	men, %	women, %	No. of	men, %	women, %	No. of	men, %	women, %
<b>Parent Company</b>									
Sweden	2,749	77	23	2,889	81	19	3,004	82	18
<b>Subsidiaries</b>									
Sweden	227	99	1	277	69	31	260	70	30
Finland	44	82	18	42	81	19	42	81	19
UK	41	51	49	43	58	42	43	67	33
Latvia	30	60	40	6	67	33	5	80	20
Germany	13	46	54	14	43	57	14	43	57
Estonia	5	60	40	5	60	40	5	60	40
US	5	20	80	5	20	80	4	25	75
Norway	4	100	—	78	85	15	93	87	13
China	4	50	50	3	33	67	3	33	67
Lithuania	—	—	—	34	41	59	68	48	52
Denmark	—	—	—	—	—	—	11	64	36
<b>Total</b>	<b>3,122</b>	<b>77</b>	<b>23</b>	<b>3,396</b>	<b>79</b>	<b>21</b>	<b>3,552</b>	<b>80</b>	<b>20</b>

### Men/women in management

%	Group						Parent Company					
	2018		2017		2016		2018		2017		2016	
	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women
<b>Boards</b>												
<30 years	—	—	—	—	—	—	—	—	—	—	—	—
30–50 years	91	9	100	—	92	8	100	—	100	—	100	—
>50 years	78	22	70	30	87	13	62	38	67	33	73	27
<b>Total proportion</b>	<b>83</b>	<b>17</b>	<b>81</b>	<b>19</b>	<b>89</b>	<b>11</b>	<b>67</b>	<b>33</b>	<b>70</b>	<b>30</b>	<b>75</b>	<b>25</b>
<b>Management groups</b>												
<30 years	—	—	—	—	—	100	—	—	—	—	—	—
30–50 years	62	38	64	36	62	38	67	33	67	33	100	—
>50 years	85	15	88	12	75	25	57	43	62	38	43	57
<b>Total proportion</b>	<b>76</b>	<b>24</b>	<b>78</b>	<b>22</b>	<b>66</b>	<b>34</b>	<b>60</b>	<b>40</b>	<b>64</b>	<b>36</b>	<b>64</b>	<b>36</b>

&gt; Note 6, cont.

**Salaries, benefits and social security costs**

Salaries, benefits and social security costs	2018		2017	
	Board and President	Other employees	Board and President	Other employees
Parent Company	13	1,418	16	1,453
Subsidiaries	6	195	7	240
<b>Total</b>	<b>19</b>	<b>1,613</b>	<b>23</b>	<b>1,693</b>

	2018		2017	
	Salaries, benefits and social security costs	Social security contributions	Salaries, benefits and social security costs	Social security contributions
Parent Company	1,431	678	1,469	658
(of which pension costs) <sup>1)</sup>		(224)		(203)
Other Group	201	52	247	55
(of which pension costs)		(14)		(-1)
<b>Total</b>	<b>1,632</b>	<b>730</b>	<b>1,716</b>	<b>713</b>
(of which pension costs) <sup>2)</sup>		(238)		(202)

<sup>1)</sup> Of the Parent Company's pension costs, SEK 4 million (4) pertains to current and previous Presidents. Outstanding pension obligations to previous Presidents amounted to SEK 36 million (40).

<sup>2)</sup> Of the Group's pension costs, SEK 5 million (5) pertains to the current and previous Presidents and Board members. Outstanding pension obligations to previous Presidents amounted to SEK 36 million (40).

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

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

2017, SEK 000s	Board fees		Salary <sup>3)</sup>	Pension cost <sup>4)</sup>	Benefits <sup>5)</sup>	Total
	fixed <sup>1)</sup>	variable <sup>2)</sup>				
Elected Board members in Södra Skogsägarna ekonomisk förening	3,445	1,421	—	—	—	4,866
President Lars Idermark	—	—	10,959	4,070	339	15,368
Group Senior Management, other*	—	—	24,529	9,420	736	34,685
<b>Total</b>	<b>3,445</b>	<b>1,421</b>	<b>35,488</b>	<b>13,490</b>	<b>1,075</b>	<b>54,919</b>

\* Including estimated variable remuneration of SEK 15,000 (13,000).

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

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

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

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

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

**Fees to elected Board members**

2018, SEK 000s	Board fees		Total
	fixed	variable	
Lena Ek (Chairman)	900	351	1,251
Paul Christensson (Vice Chairman)	465	184	649
Karin Andersson	270	87	357
Kjell Andersson <sup>2)</sup>	180	49	229
Hans Berggren	270	68	338
Pål Börjesson	270	83	353
Ylva op den Velde Hammargren	270	59	329
Ola Hildingsson	270	66	336
Ulf Johansson	270	152	422
Anders Roman	270	133	403
<b>Total</b>	<b>3,435</b>	<b>1,232</b>	<b>4,667</b>

2017, SEK 000s	Board fees		Total
	fixed	variable	
Lena Ek (Chairman)	885	415	1,300
Paul Christensson (Vice Chairman)	465	177	642
Karin Andersson	257	112	369
Kjell Andersson <sup>1)</sup>	158	64	222
Hans Berggren	258	22	280
Pål Börjesson <sup>1)</sup>	158	43	201
Marie Hallén <sup>2)</sup>	167	46	213
Ylva op den Velde Hammargren <sup>1)</sup>	157	49	206
Ola Hildingsson	258	80	338
Ulf Johansson	258	165	423
Stefan Olsson <sup>2)</sup>	167	53	220
Anders Roman	257	195	452
<b>Total</b>	<b>3,445</b>	<b>1,421</b>	<b>4,866</b>

<sup>1)</sup> Board member's fee for the June–December period.

<sup>2)</sup> 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 2017 or 2018.

**SALARIES AND REMUNERATION TO SENIOR MANAGEMENT**
**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 Senior Management may be employed in the Parent Company or in subsidiaries. In 2018, Senior Management consisted of 11 people. In 2017, the corresponding figure was 11.

**Variable salaries/pensions**

The President/CEO has a fixed salary only. In addition to fixed salaries, other members of Senior Management receive variable remuneration in accordance with the Group-wide policy (maximum of one month's salary). The President/CEO and most other senior executives have a defined-contribution pension, ITP 1. At year-end, one member of Senior Management had a defined-benefit pension, ITP 2.

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

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

**Redundancy payments/termination**

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





## Note 7 | Other expenses

Group	2018	2017
Repairs, maintenance and other operating costs	567	589
Other services and subcontracted personnel	331	339
Vehicle costs	192	177
Travel expenses and cost of sales	150	156
Cost of premises and property	153	149
R&D costs	35	47
Company insurances and other risk costs	217	53
Rent of non-current assets	30	33
Administration expenses	35	32
Other expenses	293	391
<b>Total</b>	<b>2,003</b>	<b>1,966</b>

R&D costs also include employee expenses of SEK 48 million (44) and amortisation of SEK 3 million (3). Other expenses includes costs of SEK 245 million (118) for scheduled maintenance shutdowns in the Group's pulp mills.

### Other operating expenses

Parent Company	2018	2017
Capital loss	16	21
Exchange-rate effect	—	102
<b>Total</b>	<b>16</b>	<b>123</b>

## Note 8 | Depreciation, amortisation and impairment of assets

Group	2018			2017		
	Depreciation and amortisation	Impairment <sup>1)</sup>	Total	Depreciation and amortisation	Impairment <sup>1)</sup>	Total
Goodwill	—	2	2	—	29	29
Other intangible assets	11	8	19	6	—	6
Buildings	162	—	162	157	—	157
Land	—	6	6	—	—	—
Land improvements	52	—	52	49	—	49
Machinery	739	4	743	697	4	701
Equipment	161	1	162	150	—	150
Leasing	—	—	—	0	—	0
<b>Total</b>	<b>1,125</b>	<b>21</b>	<b>1,146</b>	<b>1,059</b>	<b>33</b>	<b>1,092</b>

Parent Company	2018			2017		
	Depreciation and amortisation	Impairment <sup>1)</sup>	Total	Depreciation and amortisation	Impairment <sup>1)</sup>	Total
Other intangible assets	3	—	3	3	—	3
Buildings	157	—	157	153	—	153
Land	—	—	—	—	—	—
Land improvements	52	—	52	48	—	48
Machinery	724	4	728	682	4	686
Equipment	149	1	150	138	—	138
<b>Total</b>	<b>1,085</b>	<b>5</b>	<b>1,090</b>	<b>1,024</b>	<b>4</b>	<b>1,028</b>

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

## Note 9 | Payment to auditors

	Group		Parent Company	
	2018	2017	2018	2017
PwC				
auditing assignments	4	4	3	3
auditing activities other than the audit assignment	0	—	0	—
tax consultancy services	0	—	0	—
other assignments	0	0	0	0
Other				
auditing assignments	1	1	—	0
tax consultancy services	0	0	—	—
other assignments	0	0	—	—

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

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

## Note 10 | Shares in associates

	Group		Parent Company	
	2018	2017	2018	2017
At the beginning of the year	222	164	166	101
Reclassification	—	-13	—	—
Share of profit of associates	43	49	—	—
Acquisitions and shareholders' contributions	70	25	80	25
Dividends	-25	-28	—	—
Reversal of impairment	—	25	—	40
Translation difference	0	0	—	—
<b>Carrying amount at the end of the year</b>	<b>310</b>	<b>222</b>	<b>246</b>	<b>166</b>

> Note 10, cont.

The following information pertains to associates in full.

#### Specification of associates/joint ventures

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

2017	Country	Revenue	Result	Assets	Liabilities	Adjusted 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	—

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

## Note 11 | Income from financial items

#### Net financial items

Group	2018	2017
<b>Financial income</b>		
Net profit		
Assets and liabilities at fair value through profit or loss	9	0
Dividends	1	1
Other interest income	5	4
Net exchange rate fluctuations	0	0
Other financial income	1	0
	<b>16</b>	<b>5</b>
<b>Financial expenses</b>		
Net loss		
Assets and liabilities at fair value through profit or loss	-10	-5
Net exchange rate fluctuations	-8	-6
Impairment of shares in external companies	0	-2
Interest expenses on defined-benefit pension obligations	-5	-7
Other interest expenses	-59	-56
Other financial expenses	-11	-16
	<b>-93</b>	<b>-92</b>
<b>Total</b>	<b>-77</b>	<b>-87</b>
<b>Of which:</b>		
Interest income from instruments measured at amortised cost	5	4
Interest expenses from instruments measured at amortised cost	-59	-56
<b>Profit from financial instruments recognised in operating profit/loss</b>		
Group	<b>2018</b>	<b>2017</b>
Exchange-rate effect in trade receivables	93	-109
Net profit from currency derivatives	—	—
	<b>93</b>	<b>-109</b>

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

#### Net financial items

Parent Company	2018	2017
<b>Profit from shares in Group companies</b>		
Dividends from Group companies	48	44
Impairment of shares in Group companies	—	—
Profit from sale of shares in Group companies	-1	6
	<b>47</b>	<b>50</b>
<b>Profit from shares in associates</b>		
Dividends from associates	25	28
Impairment reversals, associates	—	40
	<b>25</b>	<b>68</b>
<b>Interest income and similar profit items</b>		
Dividends on shares in other companies	1	1
Interest income from Group companies	10	7
Interest income from others	4	3
Exchange-rate gain	0	0
Profit on sale of current investments	3	12
Other	0	0
	<b>18</b>	<b>23</b>
<b>Interest expenses and similar loss items</b>		
Interest expenses from Group companies	-1	-1
Interest expenses from others	-56	-53
Impairment	-11	0
Foreign exchange rate loss	-8	-7
Other	-10	-14
	<b>-86</b>	<b>-75</b>
<b>Total</b>	<b>4</b>	<b>66</b>

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



## Note 12 | Appropriations

Parent Company	2018	2017
Change in tax allocation reserve		
– provisions for the year	—	—
– releases for the year	—	—
Change in provisions in excess of plan		
– buildings and land	—	46
– machinery and equipment	–1,507	–866
Group contributions received	22	77
Group contributions paid	0	0
<b>Total</b>	<b>–1,485</b>	<b>–743</b>

## Note 13 | Taxes

Recognised tax expense	Group		Parent Company	
	2018	2017	2018	2017
Tax expense for the period	–390	–57	–367	–33
Adjustment of tax pertaining to previous years	–1	–8	0	–5
<b>Current tax expense</b>	<b>–391</b>	<b>–65</b>	<b>–367</b>	<b>–38</b>
Deferred tax expense pertaining to temporary differences	–310	–194	–10	–11
<b>Deferred tax expense</b>	<b>–310</b>	<b>–194</b>	<b>–10</b>	<b>–11</b>
<b>Total</b>	<b>–701</b>	<b>–259</b>	<b>–377</b>	<b>–49</b>

Note 13, cont.

### Reconciliation of effective tax

Reconciliation of effective tax	Group				Parent Company	
	2018	Tax rate, %	2017	Tax rate, %	2018	2017
Profit/loss before tax	4,431		1,830		2,588	974
Tax based on current tax rate for Parent Company	–975	22	–403	22	–569	–214
Effect of special tax rules for economic associations*	191		147		191	147
Effect of other tax rates for foreign subsidiaries	13		8		—	—
Non-deductible expenses incl. restructuring costs	–12		–10		–11	–6
Non-taxable income	2		0		16	29
Share of profit of associates	9		9		—	—
Revaluation of deficit deductions**/temporary differences	–2		–2		—	—
Standard interest on tax allocation reserve	0		0		0	0
Tax pertaining to previous years	–1		–8		0	–5
Changed tax rate	74		—		–4	—
Effective tax recognised	–701	16	–259	14	–377	49

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

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	–1,077	–194	—	—	–1,271
Biological assets	2	–3	—	—	–1
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
Other	0	7	—	—	7
<b>Total</b>	<b>–1,002</b>	<b>–194</b>	<b>—</b>	<b>17</b>	<b>–1,181</b>



## Note 14 | Other comprehensive income

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

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
<b>Carrying amount at the end of the period</b>	<b>-24</b>	<b>0</b>	<b>-378</b>

\* Actuarial gain/loss is included in retained earnings.

### Hedge accounting derivatives – transferred to profit for the year

	2018	2017
Net sales	—	—
Other expenses	—	—

### TRANSLATION RESERVE

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

### FAIR VALUE RESERVE

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

### HEDGE RESERVE

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

## Note 15 | Business combinations

### ACQUISITIONS IN 2018

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

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

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

### DIVESTMENTS IN 2018

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

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

### DIVESTMENTS IN 2017

On 1 July 2017, the Lithuanian subsidiary UAB SI Wood was divested to Sörnsen Holzleisten 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
<b>Identifiable assets</b>	<b>20</b>
Adjustment for capital gain	-1
<b>Divestment price</b>	<b>19</b>
Less:	
Cash (divested)	-6
<b>Net cash flow</b>	<b>13</b>



## Note 16 | Intangible assets

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

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

### TESTING OF IMPAIRMENT REQUIREMENT FOR GOODWILL AND BRANDS

Impairment testing of the carrying amount of goodwill, and brands with indefinite useful lives, was performed prior to the balance-sheet date on 31 December 2018. In the consolidated statement of financial position, the carrying amount of goodwill is SEK 240 million (241). 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 per cent (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 per cent (9), on average, before tax. The most significant valuation parameter is the discount rate, and if this was changed by +/-1 per cent, the value of the underlying asset would be impacted by SEK -166/+SEK 209 million. Even minor changes in management's projections of future cash flows could lead to impairment.

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

#### Goodwill/brand per cash-generating unit

	2018	2017
Södra Wood	61	62
Intra-Group, Södra Trivselhus Holding AB (incl. brand)	302	302
<b>Total</b>	<b>363</b>	<b>364</b>

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

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



## Note 17 | Buildings and land

Group	2018				2017			
	Buildings	Land	Land improvements	Total Buildings and land	Buildings	Land	Land improvements	Total Buildings and land
<b>Cost</b>								
At the beginning of the year	4,464	290	1,207	5,961	4,305	220	1,127	5,652
Business combinations	—	—	—	—	—	60	—	60
Investments	2	1,271	1	1,274	98	11	51	160
Reclassifications*	73	—4	22	91	98	—10	37	125
Divestments and disposals	—126	—15	—13	—154	—36	—4	—8	—48
Translation differences	4	19	—	23	—1	13	0	12
	<b>4,417</b>	<b>1,561</b>	<b>1,217</b>	<b>7,195</b>	<b>4,464</b>	<b>290</b>	<b>1,207</b>	<b>5,961</b>
<b>Depreciation</b>								
At the beginning of the year	—1,916	—	—468	—2,384	—1,781	—	—423	—2,204
Reclassifications	—	—	—	—	—	—	—	—
Divestments and disposals	103	—	11	114	22	—	4	26
Depreciation according to plan for the year	—162	—	—52	—214	—157	—	—49	—206
Translation differences	0	—	—	0	0	—	—	0
	<b>—1,975</b>	<b>—</b>	<b>—509</b>	<b>—2,484</b>	<b>—1,916</b>	<b>—</b>	<b>—468</b>	<b>—2,384</b>
<b>Impairment</b>								
At the beginning of the year	—55	—10	—13	—78	—72	—13	—17	—102
Divestments and disposals	18	—	2	20	16	3	4	23
Impairment for the year	—	—6	—	—6	—	—	—	—
Translation differences	—	—	—	—	1	—	—	1
	<b>—37</b>	<b>—16</b>	<b>—11</b>	<b>—64</b>	<b>—55</b>	<b>—10</b>	<b>—13</b>	<b>—78</b>
<b>Carrying amount at the end of the period</b>	<b>2,405</b>	<b>1,545</b>	<b>697</b>	<b>4,647</b>	<b>2,493</b>	<b>280</b>	<b>726</b>	<b>3,499</b>

Parent Company	2018				2017			
	Buildings	Land	Land improvements	Total Buildings and land	Buildings	Land	Land improvements	Total Buildings and land
<b>Cost</b>								
At the beginning of the year	4,315	257	1,192	5,764	4,150	260	1,113	5,523
Investments	—	—	—	—	98	—	52	150
Reclassifications*	74	12	21	107	104	—	36	140
Divestments and disposals	—77	—5	—13	—95	—37	—3	—9	—49
	<b>4,312</b>	<b>264</b>	<b>1,200</b>	<b>5,776</b>	<b>4,315</b>	<b>257</b>	<b>1,192</b>	<b>5,764</b>
<b>Depreciation</b>								
At the beginning of the year	—1,875	—	—461	—2,336	—1,743	—	—418	—2,161
Divestments and disposals	68	—	11	79	21	—	5	26
Depreciation according to plan for the year	—157	—	—52	—209	—153	—	—48	—201
	<b>—1,964</b>	<b>—</b>	<b>—502</b>	<b>—2,466</b>	<b>—1,875</b>	<b>—</b>	<b>—461</b>	<b>—2,336</b>
<b>Impairment</b>								
At the beginning of the year	—42	—10	—13	—65	—58	—13	—17	—88
Divestments and disposals	5	—	2	7	16	3	4	23
Depreciation according to plan for the year	—	—	—	—	—	—	—	—
	<b>—37</b>	<b>—10</b>	<b>—11</b>	<b>—58</b>	<b>—42</b>	<b>—10</b>	<b>—13</b>	<b>—65</b>
<b>Carrying amount at the end of the period</b>	<b>2,311</b>	<b>254</b>	<b>687</b>	<b>3,252</b>	<b>2,398</b>	<b>247</b>	<b>718</b>	<b>3,363</b>

\*) Reclassifications predominantly relate to capitalised work in progress, which are considered investments.





# Note 18 | Machinery and equipment

Group	2018				2017			
	Machinery	Equipment	Leased assets	Total Machinery and equipment	Machinery	Equipment	Leased assets	Total Machinery and equipment
<b>Cost</b>								
At the beginning of the year	23,135	2,386	2	25,523	21,560	2,215	2	23,777
Business combinations	—	—	—	—	—	—	—	—
Investments	1	5	—	6	858	224	0	1,082
Reclassifications*	570	181	—	751	994	37	—	1,031
Divestments and disposals	-635	-160	-2	-797	-275	-89	—	-364
Translation differences	7	1	0	8	-2	-1	—	-3
	<b>23,078</b>	<b>2,413</b>	<b>0</b>	<b>25,491</b>	<b>23,135</b>	<b>2,386</b>	<b>2</b>	<b>25,523</b>
<b>Depreciation</b>								
At the beginning of the year	-13,855	-1,497	-1	-15,353	-13,382	-1,435	-1	-14,818
Reclassifications	—	—	—	—	—	—	—	—
Divestments and disposals	580	147	1	728	222	87	—	309
Depreciation according to plan for the year	-739	-161	0	-900	-697	-150	0	-847
Translation differences	-6	-1	0	-7	2	1	0	3
	<b>-14,020</b>	<b>-1,512</b>	<b>0</b>	<b>-15,532</b>	<b>-13,855</b>	<b>-1,497</b>	<b>-1</b>	<b>-15,353</b>
<b>Impairment</b>								
At the beginning of the year	-206	-62	—	-268	-226	-63	—	-289
Divestments and disposals	26	1	—	27	24	1	—	25
Impairment for the year	-4	-1	—	-5	-4	0	—	-4
Translation differences	—	0	—	0	0	0	—	0
	<b>-184</b>	<b>-62</b>	<b>—</b>	<b>-246</b>	<b>-206</b>	<b>-62</b>	<b>—</b>	<b>-268</b>
<b>Carrying amount at the end of the period</b>	<b>8,874</b>	<b>839</b>	<b>0</b>	<b>9,713</b>	<b>9,074</b>	<b>827</b>	<b>1</b>	<b>9,902</b>

Parent Company	2018				2017			
	Machinery	Equipment	Leased assets	Total Machinery and Equipment	Machinery	Equipment	Leased assets	Total Machinery and Equipment
<b>Cost</b>								
At the beginning of the year	22,962	2,140	—	25,102	21,383	1,970	—	23,353
Investments	—	—	—	—	856	220	—	1,076
Reclassifications*	560	171	—	731	988	33	—	1,021
Divestments and disposals	-598	-152	—	-750	-265	-83	—	-348
	<b>22,924</b>	<b>2,159</b>	<b>—</b>	<b>25,083</b>	<b>22,962</b>	<b>2,140</b>	<b>—</b>	<b>25,102</b>
<b>Depreciation</b>								
At the beginning of the year	-13,777	-1,403	—	-15,180	-13,318	-1,342	—	-14,660
Divestments and disposals	546	139	—	685	223	77	—	300
Depreciation according to plan for the year	-724	-149	—	-873	-682	-138	—	-820
	<b>-13,955</b>	<b>-1,413</b>	<b>—</b>	<b>-15,368</b>	<b>-13,777</b>	<b>-1,403</b>	<b>—</b>	<b>-15,180</b>
<b>Impairment</b>								
At the beginning of the year	-205	-2	—	-207	-225	-3	—	-228
Divestments and disposals	25	1	—	26	24	1	—	25
Impairment for the year	-4	-1	—	-5	-4	0	—	-4
	<b>-184</b>	<b>-2</b>	<b>—</b>	<b>-186</b>	<b>-205</b>	<b>-2</b>	<b>—</b>	<b>-207</b>
<b>Carrying amount at the end of the period</b>	<b>8,785</b>	<b>744</b>	<b>—</b>	<b>9,529</b>	<b>8,980</b>	<b>735</b>	<b>—</b>	<b>9,715</b>

\*) Reclassifications predominantly relate to capitalised work in progress, which are considered investments.

## Note 19 | Construction in progress

Group	2018	2017
<b>Cost</b>		
At the beginning of the year	319	1,224
Investments	1,065	285
Reclassifications	-884	-1,190
<b>Carrying amount at the end of the period</b>	<b>500</b>	<b>319</b>
<b>Parent Company</b>	<b>2018</b>	<b>2017</b>
<b>Cost</b>		
At the beginning of the year	242	1,161
Investments	975	242
Reclassifications	-838	-1,161
<b>Carrying amount at the end of the period</b>	<b>379</b>	<b>242</b>

## 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 2018, Södra's forest holding amounted to 118,000 hectares (36,900) of productive forest land. The volume of standing timber was 14.9 million m<sup>3</sup>fo (4.3). The total value of the forest holding was SEK 4,054 million (611). Of this amount, SEK 1,317 million (87) pertained to forest land. The change in value of standing timber amounted to SEK 158 million (6) during the year, and recognised in profit or loss. Of this amount, change in fair value accounted for SEK 141 million (neg: 5), and translation differences for SEK 17 million (11).

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 (6.5) after tax, and in Latvia using an interest rate of 6.4 percent (7.0) 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	2018	2017
At the beginning of the year	540	524
Purchases of growing forest	17	10
Purchases of growing forest by asset acquisition	2,023	—
Sales of growing forest	0	0
Change in fair value less selling costs	141	-5
Translation differences	17	11
<b>Carrying amount at the end of the period</b>	<b>2,738</b>	<b>540</b>

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%	-127/+144
Wood price	+/- 1% in real terms	-/+ 50
Harvesting costs	+/- 1% in real terms	-/+ 12
Harvesting volumes	+/- 1%	-/+ 11

## Note 21 | Financial investments

Group	2018	2017
<b>Non-current assets</b>		
Measured at fair value through profit or loss		
Financial investments	14	20
	<b>14</b>	<b>20</b>
<b>Current assets</b>		
Bonds	10	10
Other current investments	189	269
- of which reclassified to cash and cash equivalents	—	-80
	<b>199</b>	<b>199</b>

Non-current financial assets comprise unlisted shares and participations measured at cost since a reliable market value could not be determined. If objective evidence of impairment exists, this is taken into account. At 31 December 2018, impairment losses totalled SEK 1 million (15). Södra does not intend to divest any of its financial investments in 2019.

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

Interest-bearing securities measured at fair value through profit or loss have a fixed interest rate of between 0 (-0.25) and 0.19 percent (0.08). The receivables have maturities of up to five years.

Parent Company	2018	2017
<b>Current financial investments</b>		
Bonds	10	10
Other current investments	188	269
	<b>198</b>	<b>279</b>

## 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 SEK 93 million (neg: 102) in operating profit, and an expense of SEK 8 million (expense: 6) 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 accounting is used when the demands for this are met.

**Transaction exposures at 31 Dec 2018 (per major currency)**

Currency	2019				2020			
	Forecast net influx	Hedges	%	Average rate	Forecast net influx	Hedges	%	Average rate
USD*	881	—	—	—	933	—	—	—
EUR	263	—	—	—	280	—	—	—
GBP	142	—	—	—	145	—	—	—
<b>Total</b>			—				—	
According to the accepted hedging interval in Södra's financial policy				0–70	0–50			

\* 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 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	—	—	—
<b>Total</b>			4				—	
According to the accepted hedging interval in Södra's financial policy				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.

**TRANSLATION EXPOSURE**

Translation exposure refers to the net value in foreign subsidiaries. The basic principle is to not currency hedge this exposure. The most significant translation exposures pertain to equity and surplus values in the following local currencies: EUR 495 million (59), NOK 148 million (191), GBP 28 million (31) and DKK 6 million (22). In 2018, currency swaps equivalent to EUR 194 million were signed in order to hedge some of the Group's translation exposure in EUR. The currency swaps are contracted with the issued bond (SEK 1,000 million) and loan raised with Nordic Investment Bank (SEK 1,000 million) as the benchmark. The aim of the hedges is to reduce the effects of a changed EUR/SEK exchange rate, where a stronger SEK would have a negative impact on consolidated equity, which is offset by the currency swaps. These effects are recognised in other comprehensive income until the asset and currency swaps are divested. The strategy for this currency hedging is to reduce the risk of major restatement effects given the considerable acquisition amount of Bergvik Skog AB's forest holding in Latvia. The time-to-maturity of each currency swap is 2021 for the issued bond, and 2026 for the loan with Nordic Investment Bank, with loan repayments commencing in 2019. No translation exposures were hedged in the preceding year.

**Net investment in foreign operations**

	2018	2017
Currency swap bond and bank loan	–194	—
Hedged net investment in foreign operations (EUR)	428	—
Hedge ratio	1:2	—
Changes in the value of currency swaps	9	—
Changes in value of the hedged item to determine effectiveness	–7	—
Weighted average of forward rates, EUR/SEK	10.30	—
Closing rate, EUR/SEK	10.25	—

**Interest risk**

Interest risk represents the negative changes in market value that can arise with interest fluctuations in the yield curve (market rates for different terms). According to the financial policy, the objective is to keep the interest-rate term of the financial liabilities to within 0–18 months. At 31 December 2018, the fixed-rate term of the financial liability was 4 months (4). The fixed-rate term is an average where the frequency of interest-rate reset matches the interest rate of the financial liability. The interest rate for member deposits is reset periodically following a decision by the President based on the Riksbank's key interest rate. For other loans, the interest rate is adjusted with the change in STIBOR for each contracted fixed-rate period.



> Note 22, cont.

Trading with fixed-rate instruments is permitted under the financial policy. At 31 December 2018, 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 46 million (39).

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 2018, the fixed-rate term for interest-bearing investments was 2 months (2).

### Price risk

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

### Pulp price risk

Pulp price risk is the risk of the average price received for pulp being less than the expected price. To reduce pulp price risk, Södra Treasury can trade in quoted pulp forward contracts, forward contracts or swap contracts on the OTC market. Södra hedges pulp price risk in two ways: hedging of cash flow risk from the future sale of Södra's pulp, and hedging of fair value risk in fixed price customer contracts.

Cash flow risk from the future sale of own production of pulp arises through cyclical variations in pulp price, expressed in foreign currency, which, in conjunction with variations in exchange rates, can mean the pulp price that Södra receives measured in SEK is less than the pulp price expected by the Group in the long term. The main strategy is to be restrictive with this kind of hedge and no hedges were in place at year-end.

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

### Pulp price derivatives

	2019		2020	
	ktonne	%	ktonne	%
31 Dec 2018				
Fair value hedges	1	0	—	—

	2018		2019	
	ktonne	%	ktonne	%
31 Dec 2017				
Fair value hedges	2	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 2019 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 2019 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 2018, the Södra Group's total counterparty exposure amounted to SEK 1,072 million (1,321). 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

	2018	2017
Trade receivables that are not due	2,257	2,405
Trade receivables that are due	708	444
<b>Trade receivables gross</b>	<b>2,965</b>	<b>2,849</b>
Current investments	199	199
Cash and cash equivalents	873	1,122
<b>Total financial investments</b>	<b>1,072</b>	<b>1,321</b>
Derivative instruments with positive values	9	1
Customer contracts	0	0
Earned but not invoiced revenue	12	15
Other operating receivables	918	800
<b>Total other receivables</b>	<b>939</b>	<b>816</b>
<b>Maximum credit risk exposure</b>	<b>4,976</b>	<b>4,986</b>

Refer to Note 29 Current operating receivables and information about a loan loss provision of SEK 163 million (7) for trade receivables.

**LIQUIDITY AND FINANCING RISK**

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

Liquid assets are mainly invested in current interest-bearing securities. Investments can also be made in highly liquid assets that are negotiable within three days.

To cover future financing requirements, Södra aims to have account credits, loan structures, or other binding loan agreements that guarantee access to liquidity in the coming two-year period.

A substantial part of loan financing consists of loans from members through member accounts, forest loans and payment plans. Södra has a credit agreement in the form of a club agreement, enabling Södra to borrow up to SEK 2,000 million over a period of just over five years. The loan agreements have two covenants, Södra's equity ratio and debt/equity ratio, whereby the lenders are entitled to renegotiate the loan agreement should Södra's equity ratio fall below 40 percent, or the debt/equity ratio exceed 0.7 times. The covenants also apply to the loan of SEK 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 forecast rolling 12-month revenue. On the balance-sheet date, the liquidity reserve totalled SEK 3,072 million (4,388), representing 13 percent (21) 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	2018	2017	2018	2017	2018	2017	2018	2017
Certificates	189	269	—	—	—	—	189	269
Bonds	10	—	—	10	—	—	10	10
Total	199	269	—	10	—	—	199	279

Interest-bearing investments amounted to SEK 199 million (279), of which 100 percent (96) have a duration of up to one year, 0 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						Total	
			Within 1 year		1–5 years		More than 5 years			
Financial liabilities	Interest rate, %	Currency	2018	2017	2018	2017	2018	2017	2018	2017
Borrowings		SEK	168	28	1,589	1,594	329	478	2,086	2,100
Loans from members										
Liquidity accounts	0.0 (0.0)	SEK	6	9	—	—	—	—	6	9
Payment plans	1.0 (1.0) variable	SEK	576	467	451	335	78	53	1,105	855
Forest loans*	1.0 (1.0) variable six months	SEK	69	55	—	—	—	—	69	55
Member accounts*	0.8 (0.8) variable six months	SEK	2,393	2,214	—	—	—	—	2,393	2,214
Trade creditors			2,321	2,333	—	—	—	—	2,321	2,333
Negative derivatives			0	5	—	—	—	—	0	5
Other liabilities			4	19	102	—	—	102	106	121
Total			5,537	5,130	2,142	1,929	407	633	8,086	7,692

\* 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	680
Pulp price	+/- SEK 300/tonne	530
Fibre cost for the pulp mills	+/- SEK 25/m <sup>3</sup> sub	210
Pulp production	+/- 50,000 tonnes	190
Sawn timber price	+/- SEK 50/m <sup>3</sup>	80
Saw log cost for sawmills	+/- SEK 25/m <sup>3</sup> sub	80
Sawn timber production	+/- 50,000 m <sup>3</sup>	40
Oil price	+/- USD 10/barrel	6
Total salary cost	+/- 3%	71

**Profit effect of change in closing rate**

Variable	Change	Profit effect, SEK million
Trade receivables	USD +/- SEK 0.5	64
	EUR +/- SEK 0.5	33
	GBP +/- SEK 0.5	3
Trade creditors	USD +/- SEK 0.5	1
	EUR +/- SEK 0.5	11
	GBP +/- SEK 0.5	0

The effect on equity corresponds to the effect on profit.

## Note 23 | Other non-current investments

Parent Company	2018	2017
<b>Cost</b>		
At the beginning of the year	60	57
Investment	4	3
Divestment	-10	—
	<b>54</b>	<b>60</b>
<b>Impairment</b>		
At the beginning of the year	-40	-40
	-40	-40
<b>Carrying amount at the end of the year</b>	<b>14</b>	<b>20</b>

## Note 24 | Non-current financial receivables

Group	2018	2017
Other non-current financial receivables	—	—
<b>Total</b>	<b>—</b>	<b>—</b>

## Note 25 | Non-current operating receivables

	Group		Parent Company	
	2018	2017	2018	2017
Derivatives	9	—	—	—
Other non-current receivables	81	39	81	39
<b>Total</b>	<b>90</b>	<b>39</b>	<b>81</b>	<b>39</b>
<b>Parent Company</b>			<b>2018</b>	<b>2017</b>
At the beginning of the year			39	15
Additional			58	26
Utilised			-16	-2
<b>Carrying amount at the end of the year</b>			<b>81</b>	<b>39</b>

Non-current derivative instruments pertain to hedge-accounted net investment in foreign operations. The receivables primarily relate to promissory note receivables of SEK 55 million (26), deposits of SEK 0 million (7) and other commitments of SEK — million (5).

## Note 26 | Deferred tax assets/liabilities

	Deferred tax assets		Deferred tax liabilities		Net	
Group	2018	2017	2018	2017	2018	2017
Intangible assets	—	—	-55	-44	-55	-44
Property, plant and equipment	3	0	-1,460	-1,230	-1,457	-1,230
Biological assets	—	0	-38	-1	-38	-1
Inventories	2	0	12	11	14	11
Operating receivables	—	0	-2	0	-2	0
Current investments	—	—	2	1	2	1
Tax allocation reserves	—	—	-53	-53	-53	-53
Provisions for pensions	—	0	89	93	89	93
Non-current provisions	—	0	29	34	29	34
Operating liabilities	—	0	0	1	0	1
Other	—	7	-2	0	-2	7
<b>Deferred tax asset/liability</b>	<b>5</b>	<b>7</b>	<b>-1,478</b>	<b>-1,188</b>	<b>-1,473</b>	<b>-1,181</b>
<b>Parent Company</b>					<b>2018</b>	<b>2017</b>
Property, plant and equipment	13	14	—	—	13	14
Provisions for pensions	7	9	—	—	7	9
Non-current provisions	27	34	—	—	27	34
<b>Deferred tax asset/liability</b>	<b>47</b>	<b>57</b>	<b>—</b>	<b>—</b>	<b>47</b>	<b>57</b>

Of the Group's deferred tax liabilities, SEK 1,455 million (1,220) is attributable to depreciation and amortisation in excess of plan.





## Note 27 | Inventories

	Group		Parent Company	
	2018	2017	2018	2017
Raw materials and consumables	551	998	521	429
Goods under production	140	494	140	141
Finished goods and goods for resale	2,958	1,544	1,949	1,505
<b>Total</b>	<b>3,649</b>	<b>3,036</b>	<b>2,610</b>	<b>2,075</b>

### 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, inventories of allocated electricity certificates not deemed necessary to cover the Group's quota obligation had a market value of SEK 93 million (2017: 96, 2016: 206)

### EMISSION PERMITS

The value of permits not deemed necessary to cover actual emissions is recognised at zero and, at the balance-sheet date, had a market value of SEK 175 million (2017: 72, 2016: 56). No permits were sold on contract for future deliveries.

## Note 28 | Receivables from Group companies

### Interest-bearing receivables from Group companies

Parent Company	2018	2017
<b>Cost</b>		
At the beginning of the year	872	786
Additional items	147	190
Deductible items	-173	-104
<b>Carrying amount at the end of the period</b>	<b>846</b>	<b>872</b>

### Operating receivables from Group companies

Parent Company	2018	2017
<b>Cost</b>		
At the beginning of the year	180	73
Additional items	91	116
Deductible items	-89	-9
<b>Carrying amount at the end of the period</b>	<b>182</b>	<b>180</b>

## Note 29 | Current operating receivables

	Group		Parent Company	
	2018	2017	2018	2017
Current receivables from Group companies	—	—	182	180
Trade receivables	2,802	2,842	2,370	2,352
Derivatives	—	1	—	—
Customer contracts	—	0	—	—
Earned but not invoiced income	12	15	7	11
Other receivables	918	800	825	749
Prepaid expenses and accrued income	210	91	91	58
<b>Total</b>	<b>3,942</b>	<b>3,749</b>	<b>3,475</b>	<b>3,350</b>

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

Prepaid expenses and accrued income for the Parent Company includes prepaid rental charges of SEK 7 million (5), prepaid insurance premiums of SEK 9 million (7), accrued interest income of SEK 0 million (2), accrued income of SEK 11 million (16) and other prepaid expenses of SEK 64 million (28).

### 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. Södra calculates expected credit losses by grouping trade receivables according to type of credit risk and based on a calculation of the customer's payment history.

In transition to IFRS 9, the loan loss provision according to previous accounting standards was restated. No material effects were identified, which means that the opening balance for 2018 is identical to the closing balance for 2017.

Trade receivables	Group		Parent Company	
	2018	2017	2018	2017
Trade receivables gross	2,965	2,849	2,529	2,357
Provision for expected credit losses	-163	-7	-159	-5
<b>Total</b>	<b>2,802</b>	<b>2,842</b>	<b>2,370</b>	<b>2,352</b>

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

	Group		Parent Company	
	2018	2017	2018	2017
Trade receivables that are neither due nor impaired	2,257	2,405	1,909	2,028
Trade receivables that are due				
<30 days	626	413	562	309
30-90 days	65	23	49	17
90-180 days	2	4	1	2
>180 days	15	4	8	1
<b>Total exposure to credit risk</b>	<b>2,965</b>	<b>2,849</b>	<b>2,529</b>	<b>2,357</b>
Provision for expected credit losses	-163	-7	-159	-5
<b>Trade receivables</b>	<b>2,802</b>	<b>2,842</b>	<b>2,370</b>	<b>2,352</b>

### Provision for uncertain receivables

	Group		Parent Company	
	2018	2017	2018	2017
At the beginning of the year	-7	-18	-5	-11
Actual credit losses	2	6	1	1
Provision for expected credit losses	-159	-2	-155	0
Reversal of unutilised amount	1	7	—	5
<b>Carrying amount at the end of the year</b>	<b>-163</b>	<b>-7</b>	<b>-159</b>	<b>-5</b>

## Note 30 | Cash and cash equivalents

	Group		Parent Company	
	2018	2017	2018	2017
Current investments, equivalent to cash	873	1,042	742	866
Current investments, equivalent to cash	—	80	—	80
<b>Cash and cash equivalents according to cash flow statement</b>	<b>873</b>	<b>1,122</b>	<b>742</b>	<b>946</b>

## Note 31 | Equity

	Group		Parent Company	
	2018	2017	2018	2017
Paid-up contributed capital	1,555	1,439	1,555	1,439
Issued contributed capital	2,065	1,871	2,065	1,871
Other equity	12,391	9,574	6,187	4,844
<b>Total</b>	<b>16,011</b>	<b>12,884</b>	<b>9,807</b>	<b>8,154</b>

Board policy provides that the Group's financial objective is to have a strong financial position that contributes to retaining the confidence of members, creditors and the market and creating a foundation for ongoing development of the business, while also generating satisfactory long-term profit. Due to the cyclical risks that the Group's business areas are exposed to, the target for the minimum equity ratio for the Group is 55 percent. The profitability target is a return on capital employed of not less than 10 percent over a business cycle.

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

Södra has a credit agreement in the form of a club agreement, enabling Södra to borrow up to SEK 2,000 million over a period of just over five

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 2019, contribution repayments to members who had left the association by 31 December 2018 will amount to SEK 36 million (40).

## Note 32 | Untaxed reserves

Parent Company	2018	2017
Accumulated depreciation and amortisation in excess of plan		
– buildings	0	0
– machinery and equipment	6,953	5,447
Tax allocation reserve fiscal year 2014	36	36
Tax allocation reserve fiscal year 2015	195	195
<b>Total</b>	<b>7,184</b>	<b>5,678</b>

Deferred tax in the above untaxed provisions amounted to SEK 1,483 million (1,249), which has not been recognised in the Parent Company's balance sheet.

## Note 33 | Interest-bearing liabilities from Group companies

	Maturity						Total	
	Within 1 year		1–5 years		More than 5 years			
Parent Company	2018	2017	2018	2017	2018	2017	2018	2017
Group account – liabilities	182	132	—	—	—	—	182	132
Liabilities to Group companies	—	—	—	—	8	8	8	8
Total	182	132	—	—	8	8	190	140

## Note 34 | Interest-bearing liabilities

Group	Maturity						Total	
	Within 1 year		1–5 years		More than 5 years			
	2018	2017	2018	2017	2018	2017	2018	2017
Bond loans	—	—	1,000	1,000	—	—	1,000	1,000
Liabilities to credit institutions	143	—	536	536	321	464	1,000	1,000
Loans from members*	3,018	2,721	438	332	73	53	3,529	3,106
Other liabilities	4	19	97	97	—	—	101	116
Total	3,165	2,740	2,071	1,965	394	517	5,630	5,222

Parent Company	Maturity						Total	
	Within 1 year		1–5 years		More than 5 years			
	2018	2017	2018	2017	2018	2017	2018	2017
Bond loans	—	—	1,000	1,000	—	—	1,000	1,000
Liabilities to credit institutions	143	—	536	536	321	464	1,000	1,000
Loans from members*	3,018	2,721	438	332	73	53	3,529	3,106
Other liabilities	4	4	97	97	—	—	101	101
Total	3,165	2,725	2,071	1,965	394	517	5,630	5,207

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

	Group		Parent Company	
	2018	2017	2018	2017
At the beginning of the year	5,222	4,914	5,207	4,781
New loans	5	12	—	100
Member deposits	6,848	6,574	6,848	6,574
Loan repayment	–20	–30	—	1
Member deposits paid	–6,425	–6,250	–6,425	–6,250
<b>Carrying amount at the end of the period</b>	<b>5,630</b>	<b>5,222</b>	<b>5,630</b>	<b>5,207</b>



## 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	2018	2017
Defined-benefit plans		
Pension expenses accrued during the year	40	27
Net interest	5	7
Settlements	0	—
<b>Cost of defined-benefit plans in profit for the year</b>	<b>45</b>	<b>34</b>
Cost of defined-contribution plans	147	132
Special employer's contribution	46	43
<b>Pension cost in profit for the year</b>	<b>238</b>	<b>209</b>
Remeasurement recognised in other comprehensive income	99	78
<b>Pension cost in comprehensive income for the year</b>	<b>337</b>	<b>287</b>
Costs in the following line items are included in profit for the year:		
Employee expenses	233	202
Net financial items	5	7
<b>Costs recognised in profit for the year</b>	<b>238</b>	<b>209</b>
Other comprehensive income	99	78
<b>Pension cost recognised in comprehensive income for the year</b>	<b>337</b>	<b>287</b>
Return on plan assets		
Group	2018	2017
Actual return on plan assets	-15	64
Interest income on plan assets	-28	-27
<b>Actuarial result for plan assets during the period</b>	<b>-43</b>	<b>37</b>

### Obligations and plan assets for the defined-benefit plans

Group	2018	2017
Defined-benefit plans and value of plan assets		
Fully or partially funded obligations		
Present value of defined-benefit obligations	1,497	1,423
Fair value of plan assets	-1,110	-1,125
<b>Fully or partially funded obligations, net</b>	<b>387</b>	<b>298</b>
Present value of unfunded defined-benefit obligations	27	26
<b>Net obligations before adjustments</b>	<b>414</b>	<b>324</b>
Net amount is recognised in consolidated statement of financial position under the heading:		
Provisions for pensions	414	324
<b>Net amount in consolidated statement of financial position (obligation +, asset -)</b>	<b>414</b>	<b>324</b>
Net amount is allocated between plans in the following countries:		
Sweden	387	298
Germany	27	26
<b>Net amount in consolidated statement of financial position</b>	<b>414</b>	<b>324</b>

### Net amount in consolidated statement of financial position

	2018	2017
Net liability in consolidated statement of financial position at the beginning of the period	324	268
<b>Cost of defined-benefit plans</b>		
Net expense recognised in profit for the year	45	34
Payment of benefits	-56	-56
Actuarial gains and losses recognised in other comprehensive income	99	78
Curtailments and settlements	0	—
Exchange-rate difference	2	0
<b>Net liability in consolidated statement of financial position at the end of the period</b>	<b>414</b>	<b>324</b>

### Present value of defined-benefit obligations

Group	2018	2017
At the beginning of the year	1,449	1,329
Service expenses	40	27
Payment of benefits	-56	-56
Interest expense	33	32
Actuarial gains and losses*	55	116
Settlements	0	—
Exchange rate differences	1	1
<b>Carrying amount at the end of the period</b>	<b>1,522</b>	<b>1,449</b>

\* of which change in demographic assumptions amounted to a loss of SEK 8 million (loss: 45), financial to a gain of SEK 37 million (gain: 86), experience-based to a gain of SEK 8 million (gain: 58) and special employer's contribution to a gain of SEK 18 million (gain: 15).



> Note 35, cont.

#### Fair value of plan assets

Group	2018	2017
At the beginning of the year	1,125	1,061
Expected return on plan assets	28	27
Difference between expected and actual return	-43	37
Settlements	—	—
<b>Carrying amount at the end of the period</b>	<b>1,110</b>	<b>1,125</b>

#### Fair value of plan assets

Group	2018	2017
Equity instruments	465	528
Hedge funds and bonds	138	26
Other interest-bearing securities*	152	438
Cash and cash equivalents	355	133
<b>Carrying amount at the end of the period</b>	<b>1,110</b>	<b>1,125</b>

\* Debentures issued by Södra Skogsägarna ekonomisk förening SEK 100 million (100). 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	2018	2017
Discount rate, %	2.3	2.5
Expected return on plan assets, %	2.5	2.5
Future salary increases, %	2.5	2.5
Future pension increases, %	2.0	2.0
Employee turnover, %	6.0	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

	2018		2017	
	Women	Men	Women	Men
Active	165	439	178	481
Disability pensioners	6	4	7	3
Leavers	314	582	297	540
Retirees	301	1,023	295	1,051
<b>Total</b>	<b>786</b>	<b>2,048</b>	<b>777</b>	<b>2,075</b>
<b>Total commitments comprised by the obligation</b>	<b>2,834</b>		<b>2,852</b>	

The above table per category of person comprises the Swedish liability, which accounts for 93 percent of recognised pension liabilities.

#### Sensitivity analysis of the pension obligation

Assumption	Change	Change in liabilities, SEK million
Discount rate	+/- 0.5%	+163/-143
Inflation	+/- 0.25%	-56/+59
Life expectancy	-/+ 1 year	-72/+73

The sensitivity analysis is performed by changing one actuarial assumption, while the 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	2018	2017
Pension system run by Södra		
Cost for pensions accrued	21	16
Payment of benefits	54	54
Actual return on specific separate assets	-22	-17
Cost for pensions run by Södra excluding taxes	53	53
Pensions through insurance		
Insurance premiums or equivalent	128	111
Special employer's contribution	43	39
<b>Recognised net cost pertaining to pensions</b>	<b>224</b>	<b>203</b>

#### Provisions for pensions

Parent Company	2018	2017
Net present value of pension obligations*	960	942
Less plan assets in Pension Foundation	-924	-902
<b>Total</b>	<b>36</b>	<b>40</b>
Pension obligations secured through endowment insurance recognised under financial assets	-36	-40
<b>Net</b>	<b>—</b>	<b>—</b>
* Of which PRI pensions ITP2	774	747
* Credit insured via PRI Pensionsgaranti	924	902

Where plan assets exceed pension liabilities, the excess amount is not recognised. In 2018, the unrecognised surplus in the Pension Foundation was SEK 186 million (223).

#### Changes in net liability

Parent Company	2018	2017
At the beginning of the year	40	41
Expense recognised in profit or loss for pensions run by Södra excluding taxes	53	53
Pension payments	-54	-54
<b>Carrying amount at the end of the period</b>	<b>39</b>	<b>40</b>

Anticipated pension payments in 2018 amount to SEK 54 million (54).

#### Fair value of plan assets

Parent Company	2018	2017
Equity instruments	465	528
Hedge funds and bonds	138	26
Other interest-bearing securities*	152	438
Cash and cash equivalents	355	133
<b>Value of plan assets</b>	<b>1,110</b>	<b>1,125</b>
Surplus value	-186	-223
<b>Carrying amount at the end of the period</b>	<b>924</b>	<b>902</b>

\* Debentures issued by Södra Skogsägarna ekonomisk förening SEK 100 million (100).

#### Assumptions for defined-benefit obligations

Parent Company	2018	2017
ITP plan according to PRI grounds		
Discount rate, %	3.8	3.8



## Note 36 | Provisions

	Restructuring reserve	Other provisions	Total
<b>Group 2018</b>			
At the beginning of the year	15	160	175
Provisions made during the period	6	6	12
Utilised amount during the year	-15	-27	-42
<b>Carrying amount at the end of the year</b>	<b>6</b>	<b>139</b>	<b>145</b>
of which non-current provisions	2	139	141
<b>Group 2017</b>			
At the beginning of the year	—	180	180
Provisions made during the period	16	4	20
Utilised amount during the year	-1	-24	-25
<b>Carrying amount at the end of the year</b>	<b>15</b>	<b>160</b>	<b>175</b>
of which non-current provisions	—	160	160

### 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.

	Restructuring reserve	Other provisions	Total
<b>Parent Company 2018</b>			
At the beginning of the year	15	154	169
Provisions made during the period	—	5	5
Utilised amount during the year	-15	-27	-42
<b>Carrying amount at the end of the year</b>	<b>0</b>	<b>132</b>	<b>132</b>
of which non-current provisions	—	132	132
<b>Parent Company 2017</b>			
At the beginning of the year	—	175	175
Provisions made during the period	16	3	19
Utilised amount during the year	-1	-24	-25
<b>Carrying amount at the end of the year</b>	<b>15</b>	<b>154</b>	<b>169</b>
of which non-current provisions	—	154	154

### OTHER PROVISIONS

Other provisions described above also pertain to the Parent Company.

## Note 37 | Non-current operating liabilities

Group	2018	2017
Non-interest-bearing non-current liabilities	—	—
<b>Total</b>	<b>—</b>	<b>—</b>

## Note 38 | Current operating liabilities and provisions

	Group		Parent Company	
	2018	2017	2018	2017
Current liabilities from Group companies	—	—	72	58
Trade creditors	2,321	2,333	2,107	2,166
Derivatives	—	5	—	—
Customer contracts	—	1	—	—
Advances from customers	0	0	—	—
Value-added tax liability	31	27	—	—
Other operating liabilities	245	219	138	162
Provision for restructuring	4	15	—	15
Accrued expenses and prepaid income	728	713	642	610
<b>Total</b>	<b>3,329</b>	<b>3,313</b>	<b>2,959</b>	<b>3,011</b>

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

	Corp. ID no.	No. of	Share, %	Carrying amount	
				2018	2017
<b>Operational</b>					
Södra Cell GmbH	164312351	50	100	0	0
Södra Wood AS (formerly Södra Interiör AS)	971,646,799	20,000	100	110	112
Crown Timber Group (plc)	1284502	250,000	100	338	338
Södra Wood Limited	1789912	1	100		
Södra Wood AB	2571610-1	100	100		
Södra International Trading (Shanghai) Co Ltd			100	0	0
Södra Interiör A/S	73496314	2	100	0	0
Södra Latvia SIA	41203019726	106,025,646	100	3,074	—
SIA Fragaria	41203019711	16,784,658	100		
SIA Myrtillus	41203020212	82,212,308	100		
SIA Zilupe mezs	40003655631	3,274,785	100		
SIA Granmark	40103897578	3,000	100		
Södra Medlemsel AB	556070-5724	50,000	100	6	6
Södra Metsad OÜ	10944021	400	100	231	231
Södra Mezs SIA	50003871841	310,000	100	181	181
SIA Ruda	40003383543	2,377,823	100	249	—
Södra Trivselhus Holding AB	556552-6810	5,000	100	318	318
Trivselhus AB	556402-2977	12,000	100		
Trivselhus Norge AS	995,326,485	5,000	100		
Trivselhus Mark Holding AB	559098-6377	500	100		
Trivselhus Mark AB	556536-7520	5,000	100		
Trivselhus UK Ltd	9829008	1	100		
Södra Tofte AS	914,134,994	100	100	17	17
Södra Vind AB	556765-5716	1,000	100	25	25
<b>Non-operational</b>				12	10
<b>Total</b>				<b>4,561</b>	<b>1,238</b>

During the year, the Södra Skogsägarna economic association acquired Södra Latvia SIA and SIA Ruda in Latvia.

### Shares and participations in Group companies

Parent Company	2018	2017
<b>Cost</b>		
At the beginning of the year	1,238	1,251
Liquidation/Demerger	-2	—
Acquisitions	3,325	—
Divestments	—	-13
<b>Carrying amount at the end of the period</b>	<b>4,561</b>	<b>1,238</b>

## Note 40 | Pledged assets

	Group		Parent Company	
	2018	2017	2018	2017
Pledged assets for own liabilities and provisions	—	—	—	—
Other pledged collateral and securities				
Pulp price derivatives	—	12	—	12
Chattel mortgages	—	8	—	—
Financial assets*	39	43	36	40
<b>Total</b>	<b>39</b>	<b>63</b>	<b>36</b>	<b>52</b>

\* Endowment policies, see Note 35.





## Note 41 | Contingent liabilities

	Group		Parent Company	
	2018	2017	2018	2017
Other contingent liabilities	76	67	65	67
<b>Total</b>	<b>76</b>	<b>67</b>	<b>65</b>	<b>67</b>

### GROUP

#### Restoration obligations

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

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	
	2018	2017	2018	2017
<b>Financial items</b>				
Interest received during the year	4	4	13	10
Interest paid during the year	-64	-62	-57	-54
	<b>-60</b>	<b>-58</b>	<b>-44</b>	<b>-44</b>
Dividends received during the year	25	28	73	73
Capital gains	28	56	19	25
Capital losses	-16	-22	-16	-21
<b>Parent Company</b>				
Unsettled Group contributions	—	—	22	77

## 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 INTANGIBLE ASSETS

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 2018, the Group entered into agreements for SEK 251 million (247) pertaining to future acquisitions of property, plant and equipment.

### PARENT COMPANY

In 2018, the Parent Company entered into agreements for SEK 251 million (247) 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 2018	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost	Total carrying amount	Fair value
<b>Financial investments</b>					
Other shares and participations	14	—	—	14	14
Derivatives, non-current	—	9	—	9	9
	14	9	—	23	23
<b>Operating receivables</b>					
Trade receivables	—	—	2,802	2,802	2,802
Derivatives, current	0	—	—	0	0
	0	—	2,802	2,802	2,802
Current investments	199	—	—	199	199
Cash and cash equivalents	—	—	873	873	873
<b>Total assets, financial instruments</b>	<b>213</b>	<b>9</b>	<b>3,675</b>	<b>3,897</b>	<b>3,897</b>
Other assets, non-financial instruments				23,197	
<b>Total assets</b>				<b>27,094</b>	
<b>Non-current liabilities</b>					
Bond loans	—	—	1,000	1,000	1,035
Loans from banks and other credit institutions	—	—	954	954	1,011
Member deposits	—	—	511	511	529
	—	—	2,465	2,465	2,575
<b>Current liabilities</b>					
Loans from banks and other credit institutions	—	—	143	143	143
Member deposits	—	—	3,018	3,018	3,044
Other liabilities, current	—	—	4	4	4
	—	—	3,165	3,165	3,191
<b>Current operating liabilities</b>					
Trade creditors	—	—	2,321	2,321	2,321
Derivatives, current	—	—	—	—	—
LTFP*, current	0	—	0	0	0
	0	—	2,321	2,321	2,321
<b>Total liabilities, financial instruments</b>	<b>0</b>	<b>—</b>	<b>7,951</b>	<b>7,951</b>	<b>8,087</b>
Other liabilities, non-financial instruments				3,132	
<b>Total liabilities</b>				<b>11,083</b>	

\* Customer contracts tied to financial instruments.



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
<b>Financial investments</b>						
Other shares and participations	20	—	—	—	20	20
	20	—	—	—	20	20
<b>Operating receivables</b>						
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
<b>Total assets, financial instruments</b>	<b>299</b>	<b>1</b>	<b>3,884</b>	<b>—</b>	<b>4,184</b>	<b>4,184</b>
Other assets, non-financial instruments					18,920	
<b>Total assets</b>					<b>23,104</b>	
<b>Non-current liabilities</b>						
Bond loans	—	—	—	998	998	1,058
Loans from banks and other credit institutions	—	—	—	1,099	1,099	1,144
Member deposits	—	—	—	385	385	388
	—	—	—	2,482	2,482	2,590
<b>Current liabilities</b>						
Subordinated debentures	—	—	—	—	—	—
Member deposits	—	—	—	2,721	2,721	2,745
Other liabilities, current	—	—	—	19	19	19
	—	—	—	2,740	2,740	2,764
<b>Current operating liabilities</b>						
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
<b>Total liabilities, financial instruments</b>	<b>—</b>	<b>6</b>	<b>—</b>	<b>7,555</b>	<b>7,561</b>	<b>7,693</b>
Other liabilities, non-financial instruments					2,659	
<b>Total liabilities</b>					<b>10,220</b>	

\* Customer contracts tied to financial instruments.

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

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

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

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

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

#### SHARES AND PARTICIPATIONS AND CURRENT INVESTMENTS

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

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

#### DERIVATIVES

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

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.



> Note 45, cont.

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

\* Customer contracts tied to financial instruments.

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
<b>Total assets</b>	<b>1,042</b>	<b>279</b>	<b>21</b>	<b>1,342</b>
LTFP*, current	—	—	1	1
Derivatives, current	—	—	5	5
<b>Total liabilities</b>	<b>—</b>	<b>—</b>	<b>6</b>	<b>6</b>

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

\* Customer contracts tied to financial instruments.

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
<b>Carrying amount at the end of the period</b>	<b>20</b>	<b>1</b>	<b>0</b>	<b>5</b>	<b>1</b>

\* Customer contracts tied to financial instruments.

## Note 46 | Events after the balance-sheet date

The UK's withdrawal from the EU (Brexit), could have financial implications for Södra, mainly in relation to trade with sawn and planed timber where a hard Brexit could have a short-term impact on consolidated net sales and capital employed. While the impact of Brexit on Södra is difficult to predict, the preliminary assessment is that it will be relatively limited. Otherwise, there were no significant events after the end of the reporting period.



## 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, 3 percent (1) of purchases and 4 percent (5) 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
<b>Associates</b>					
2018	89	23	—	30	9
2017	45	36	—	39	—
<b>Parent Company</b>					
<b>Subsidiaries</b>					
2018	950	527	57	1,028	262
2017	870	141	51	872	138
<b>Associates</b>					
2018	89	23	25	30	9
2017	45	36	27	39	—

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 2018 consist of the Parent Company and its subsidiaries, jointly named the Group. The Group also includes shares owned in associates.



# Proposed appropriation of profits

The Board proposes that the profits at the disposal of Södra's AGM, an amount of SEK 4,773,373,227, be appropriated as follows:

Dividend to members of 10 percent of contributed capital, totalling	SEK 361,999,126
Dividend to members of 10 percent on wood deliveries, totalling	SEK 499,552,059
The dividend is calculated on members' wood deliveries from 1 January 2018 to 31 December 2018 and on all ranges, excluding sold standing forest	
To members' contribution capital accounts through a bonus issue	SEK 933,114,004
The bonus issue represents 60 percent of available paid-up contributed capital at 31 December 2018	
Amount carried forward	SEK 2,978,708,038
	SEK 4,773,373,227

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, 13 February 2019

Lena Ek  
*Chairman*

Paul Christensson  
*Vice Chairman*

Dan Andersson  
*Employee representative*

Karin Andersson  
*Board member*

Hans Berggren  
*Board member*

Pål Börjesson  
*Board member*

Ola Hildingsson  
*Board member*

Pontus Johansson  
*Employee representative*

Ulf Johansson  
*Board member*

Lars Nilsson  
*Employee representative*

Anders Roman  
*Board member*

Ylva op den Velde Hammargren  
*Board member*

Lars Idermark  
*President*

Our audit report was submitted on 13 February 2019

Martin Johansson      Madeleine Edberg  
*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 2018, except for the statutory sustainability report on pages 10–11 and 30–67. The annual accounts and consolidated accounts of the association are included on pages 68–123 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 2018 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 2018 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 10–11 and 30–67. 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.

### OUR AUDIT APPROACH

#### Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the group operates.

#### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

## KEY AUDIT MATTERS

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

### KEY AUDIT MATTER

### HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

#### **Valuation and reporting of intangible assets, property, plant and equipment & biological assets (refer to the group's accounting principles in Note 1, Significant assumptions in Note 16 and in Notes 16–20)**

In the consolidated statement of financial position as at 31 December 2018, intangible assets, property, plant and equipment & biological assets total MSEK 17,989 and MSEK 13,163 in the parent association's balance sheet. The valuation and reporting of property, plant and equipment comprised a Key Audit Matter in our audit due to the significance of the amounts in relation to the group's and parent association's financial position, and in consideration of the complexity of the investment projects within the industry.

The group's and parent association's investments in intangible assets, property, plant and equipment & biological assets during the financial year amounted to MSEK 4,387, respective MSEK 986. 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 2018 the association executing write-down tests regarding Södra Wood and Trivselhus. These write-down tests evidenced no existence of a write-down requirement.

In terms of biological assets, the valuation aims at establishing a market value in accordance with prevailing regulations. The calculation includes a number of assumptions and predictions about the discount factor to be used and the size of future cashflows.

In our audit, we have evaluated the association's processes for managing and controlling investments from the point of the Board decision through to implementation and commissioning. Based on randomly selected sample sizes, we have reviewed capitalized amounts against the established criteria for capitalization versus expensing. In addition, we have examined the disclosures provided in the Notes to the annual financial statements to ensure that they reflect the principles applied by the association in determining investment projects.

As regards impairment testing, we have evaluated the association's calculation models and reasonability of adopted assumptions. We have examined the process for identifying cash-generating units against established criteria and have compared this with the association's follow-up of the operations in order to verify that these agree. We have also assessed whether the disclosures presented in the annual financial statements provide a true and fair view of the association's work with impairment testing.

In terms of the valuation of biological assets, we have evaluated the models used by the association when calculating the values and assessed the reasonability in applied assumptions.

#### **Transactions with the association's members (refer to the group's accounting principles in Note 1 and Note 31)**

During financial year 2018, 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 1–9, 12–29 and 128–130. 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 Director's 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 2018 and the proposed appropriations of the association's profit or loss.

We recommend to the general meeting that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

### BASIS FOR OPINIONS

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent association and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

The Board of Directors is responsible for the proposal for appropriations of the association's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the association's and the group's type of operations, size and risks place on the size of the parent association's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the association's organization and the administration of the association's affairs. This includes among other things continuous assessment of the association's and the group's financial situation and ensuring that the association's organization is designed so that the accounting, management of assets and the association's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the association's accounting in accordance with law and handle the management of assets in a reassuring manner.

### AUDITOR'S RESPONSIBILITY

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the association, or
- in any other way has acted in contravention of the Co-operative Societies' Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the association's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Co-operative Societies' Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the association, or that the proposed appropriations of the association's profit or loss are not in accordance with the Co-operative Societies' Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the association's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the association's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the association's profit or loss we examined whether the proposal is in accordance with the Co-operative Societies' Act.

Martin Johansson och Madeleine Edberg c/o PwC 113 97 Stockholm, was appointed auditors of Södra Skogsägarna ekonomisk förening by the general meeting on the 23 May 2018 and has been the association's auditors since the 18 May 2017. Dick Stagmo was appointed auditor of Södra Skogsägarna ekonomisk förening by the general meeting on the 23 May 2018 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 23 May 2018 and has been the association's auditor since the 15 May 2013.

Växjö, 13 February 2019

Martin Johansson  
*Authorised Public Accountant*

Mats Löfgren  
*Member Representative Auditor*

Madeleine Edberg  
*Authorised Public Accountant*

Dick Stagmo  
*Member Representative Auditor*





# Corporate governance



A photograph of two men in a forest. The man on the left is older, with grey hair, wearing a dark jacket and pointing towards the trees. The man on the right is younger, with a beard, wearing a dark jacket and a beanie with 'SÖDRA' on it, holding a clipboard. They are standing on a mossy forest floor with many trees in the background.

# Members' interests in focus

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*Södra's overall assignment is to secure markets for its members' forest products and to promote the profitability of their forest estates.*

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## 52,000

Sweden's largest forest-owner association with nearly 52,000 members who jointly own approximately 2.6 million hectares of forest.

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## 80 years

Södra is founded on 80 years of cooperation and teamwork.

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## One member, one vote

Every member is entitled to one vote, regardless of contributed capital or the size of their forest estate.





# An anniversary year to be proud of

Södra works actively in many ways to stand up for individual members and family forestry. You are never alone in Södra – we work goal-oriented for the common good of our members and for Södra. That's what we have done for the past 80 years, and we will continue to do so.



## RECORD YEAR WITH MANY CHALLENGES

A strong association with dedicated members is Södra's backbone. 80 years ago, Södra was created to

- secure markets for forest owners under an obligation to receive deliveries,
- to process the wood raw material in the associations own mills and not least,
- to promote family forestry by actively influencing business policy.

These issues were equally as important in 1938 as they are today. Our anniversary year of 2018 was a year of record results with a proposed profit distribution of SEK 1,795 million. But the year was not without its challenges. The year started with a very wet winter that created problems for harvesters and haulers. This was followed by an extremely dry summer with severe fire danger that also prevented many forestry measures and meant that customer con-

tracts, transportation and logistics had to be replanned. By joining forces with forestry contractors and carriers, the association handled the situation commendably and our pulp mills received their wood raw material, even though there were some temporary production losses in the sawmills. The severe drought also led to various regeneration-related problems with plant losses and not least, a widespread outbreak of spruce bark beetles in Södra's area. The infestation has had a major economic impact and will require special efforts to prevent further spread of the beetle in the coming year.

## ENHANCED BUSINESS POLICY INITIATIVES

We also faced several business policy challenges and this assignment from our members has become increasingly extensive in terms of work at both local level in Sweden and in the EU. We work together here with



Our anniversary year of 2018 was also a year of record results – despite extreme weather-related challenges.



the Federation of Swedish Farmers (LRF) and other forest-owner associations. We continue to focus on all of the issues that are current and have therefore further strengthened Södra's organisation. One example is the mobilisation of forest-owner associations prior to the Swedish parliamentary election. One of our most important issues is ownership rights, which is closely aligned with user rights. We have encountered some remarkable proposals to change ownership rights. The starting point for ownership rights is that any interventions or restrictions must take place democratically and be fully transparent. It must be possible to appeal a decision, and in the event that state interests override those of private citizens, adequate compensation must be paid.

The current Swedish Forestry Act is effective, and there is no reason to ruin a well-functioning system. By managing forests responsibly, both mandatory and voluntary nature conservation considerations will help to increase biodiversity. Unfortunately, many of our members feel vulnerable today when it comes to using their forests under the banner of freedom with responsibilities. A typical example is the "capercaillie case," in which Södra assisted the landowner (a Södra member) and appealed the decision that banned harvesting. A few days before Christmas, the Land and Environmental Court ruled in favour of the Swedish Forest Agency's right to restrict harvesting. Throughout the entire case, the Swedish Forest Agency argued

that the restrictions do not confer any right to financial compensation from the state. However, the Land and Environmental Court ruled that the landowners are entitled to reimbursement, but that the court could not review this matter within the framework of the case. For the landowners, this could have a substantial impact on the value of their wood. We firmly believe it unreasonable that a landowner, after two legal processes, should need to sue the state to have his fundamental rights respected. In its current form, the Species Protection Ordinance is a major source of legal uncertainty and may eventually lead to devastating consequences not only for private forest owners, but for the forest industry as a whole.

Another key issue for business policy is wildlife browsing. Södra has now adopted an action plan for 2021 to reduce wildlife browsing damage and increase the proportion of pine. It is gratifying that both the Swedish Forest Agency and the Swedish Environmental Protection Agency are now taking action on this matter. Nor can I refrain from mentioning the report presented by the Expert Group on Public Economics (ESO) during the year, which had no basis whatsoever in current research.

#### FORESTRY RESEARCH IN PRACTICE

Södra is not only a successful industrial group. The company is also a major learning organisation and knowledge bank, in which research related to forest management and growth is rapidly translated into daily routines – in the green forest management plans and the advisory services provided by forest inspectors. The Södra School conveys knowledge and provides training for both new and experienced members. Access to the latest and best knowledge is key to developing the profitability of forest estates and for protecting forestry, nature conservation and cultural values.

#### CLIMATE-CHANGE CHALLENGES AND THE TRIPLE WIN OF FORESTS

Not only do forests create growth, prosperity and employment, they also offer solutions to many national and global climate-related problems. We are all familiar with how growing forests can absorb CO<sub>2</sub>. Forest products are now helping to improve public health in the form of hygiene products made from our paper pulp. The popularity of dissolving pulp is rising as the clothing industry moves towards a more



**Södra's active efforts to influence business policy were focused on ownership rights and wildlife browsing.**



sustainable approach. We are working actively to promote timber as a construction material. But that is not all that forests can offer. We are highly optimistic about the creation of added value for forest owners by investing in research and development to increase the processing of forest products and the residue flows of our industry. These include liquid biofuels, textiles, green chemicals, cross-laminated timber and so forth. New product development is enabling the substitution of fossil-based products with forest-based alternatives and contributing to the development of a bioeconomy.

The meritorious efforts of members, employees and others who supports Södra helped us deal with the challenges we faced during the year. Södra's record-high result and favourable profit distribution are testament to this fact. We should all feel very proud. Södra stands strong, and our well-invested, well-managed industrial facilities have a strong underlying earning capacity. That is vital, not least in times of slower economic growth. We can now continue our joint efforts to build a strong and successful Södra in 2019.

Forests are the future!

**Lena Ek**  
Chairman of the Board



**Continued investment in research and development to increase the processing of forest products will create added value for forest owners.**







# 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 a secure and appropriate market for its members' forest products at market prices, to promote high-quality and valuable forest production with respect for nature conservation and cultural values, to support and develop private forestry and to protect ownership rights.

## STRUCTURE AND ORGANISATION

Södra Skogsägarna ekonomisk förening is a forest industry group that offers forestry services, sawn timber and pulp for the pulp market. In 2018, 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 117.

## BOTH OWNER AND MEMBER

Södra is owned by nearly 52,000 forest owners in southern Sweden. The owners are members of the economic association, and contribute capital comprising at least one contribution for each hectare of forest land, although more than 200 contributions are voluntary. One contribution is equal to SEK 600.

A member must own, or lease, at least five hectares of forest land in the association's membership area, which mainly comprises Götaland.

Every member is entitled to one vote, regardless of contributed capital or the size of their forest estate. In 2018, the number of members grew by 628 (238) to 51,637 (51,009).

## FORESTRY DISTRICTS AND LOCAL ANNUAL MEETINGS

Södra's members are organised into 36 forestry districts, and the opportunity for individual influence is greatest in their own forestry district. In other contexts, issues are raised through elected representatives. Each forestry district appoints a district

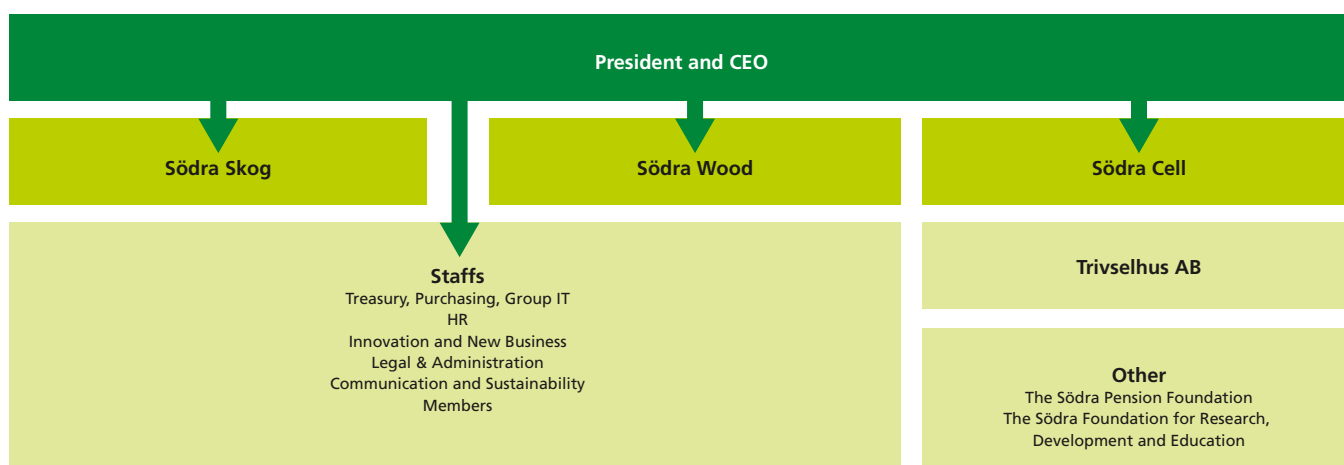
council of about twelve members, as well as a Nomination Committee, at the local annual meeting. The local annual meetings also appoint delegates to the Annual General Meeting (AGM).

Members are entitled to submit motions to the local annual meeting, which may decide to submit the motion to the Board or to the AGM. Members may also request that motions be submitted directly to the AGM. All members are entitled to submit motions and proposals directly to the district council or to the Board of Directors. At the local annual meeting, the district council reviews the activities of the past year and presents a new business plan for the current year.

The annual meeting of the forestry district is held not later than three months after the end of the financial year. Notice of the local annual meeting or an extraordinary meeting is to be in writing, and issued not later than one week prior to the meeting, and each district council is responsible for giving notice.

## DISTRICT COUNCIL

At the local annual meeting, each forestry district elects a district council that is responsible for the co-operative activities





of the forestry district. These include monitoring local business policy, and organising training programmes and member activities. Members of the district council play a key role in dialogue with individual members. The district council must have at least five and not more than twelve members. More members may be elected in larger forestry districts, but not more than 15.

Each district council determines the number of ordinary meetings in its operations planning. The issues relate to financial and social activities affecting the general interests and ownership rights of Södra's members, and the management of their forest estates. The frequency of the meetings varies between the forestry districts. Normally, there are six meetings per year.

#### ADMINISTRATIVE COUNCIL

The 36 chairs of the district councils form the Administrative Council, which is an advisory body to the Board and the AGM. The Administrative Council is also tasked with working to establish member backing for Södra's strategic objectives and decisions. The Administrative Council does this in several ways, including issuing statements on various matters.

The Administrative Council held four scheduled meetings in 2018. The agendas included reports on the business situation and current business policy matters. During the first meeting of the year, matters are normally raised prior to the annual meetings of the forestry districts. Similarly, the meeting prior to the AGM focuses on matters to be addressed at the AGM.

#### ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) is Södra's supreme decision-making body. The meeting consists of the 200 delegates elected at the local annual meetings, who each have one vote. Members of the Administrative Council are also included in the 200 delegates. The AGM adopts the financial statements and appropriation of profits, and appoints Board members, auditors and the Nomination Committee. Board members, the President and auditors are entitled to participate in the Meeting's discussions and present proposals.

The AGM is held not later than six months after the end of the financial year. Written notice shall be sent to each delegate not less than four weeks, and not later than two weeks, before an Ordinary General Meeting, and not later than one week before an Extraordinary Meeting.

The 2018 AGM was held on 23 May in Norrköping. The Meeting resolved on the appropriation of profits and dealt with 11 motions including issues related to an availability premium for wood delivery contracts, raised forestry knowledge at Södra and more secure wood supplies – an issue for the future. The number of elected Board members decreased from ten to nine.

#### NOMINATION COMMITTEE

The AGM's Nomination Committee submits proposals regarding Board members, auditors and Södra representatives to the meeting of the National Board of the Federation of Swedish Farmers (LRF). In addition, the Nomination Committee proposes

fees for members of the Board and the Administrative Council, AGM delegates, elected representatives and auditors. The Nomination Committee is to consist of five to seven members and its composition should reflect the association's membership and, if possible, the entire member area.

The Nomination Committee anticipates the association's future development and requirements. It remains informed about the performance of the Board by engaging in discussions with the Chairman and the President, by conducting interviews with existing Board members and by examining the results of the Board's evaluation and the Chairman's performance appraisal. Any need for changes in the Board's composition, as well as other elections or remuneration are analysed. New candidates are interviewed. The Nomination Committee's proposals to the AGM are documented in a Nomination Committee report, which is sent to delegates together with the meeting documentation.

At the 2018 AGM, 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





The AGM addresses motions received and makes decisions regarding the appropriation of profits. The 200 delegates are elected at the annual meetings of the Forestry Districts.

submit regular proposals to the Nomination Committee regarding candidates for the Board and auditors. Normally, the Administrative Council is encouraged to discuss matters in district councils in early autumn and submit proposals for both members and external candidates.

The Nomination Committee interviews the candidates deemed suitably qualified for the mix of expertise required by the Board.

#### **THE BOARD'S COMPOSITION**

The Board has 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 control and risk management are adequate, and is responsible for ensuring that the organisation of the company is appropriate. In order to perform the

# Board members as of the Annual General Meeting in May 2018

Board members	Function	Elected	Attendance	Fees paid (SEK 000s)	Contributed capital At 31 Dec 2018	Committee
Lena Ek	Chairman	2015	13/13	1,251	87,503	Finance, Fees and Benefits
Paul Christensson	Vice Chairman	2010	12/13	649	263,981	Audit
Karin Andersson	Board member	2014	13/13	357	352,259	Audit
Hans Berggren	Board member	2015	13/13	338	279,488	Audit
Pål Börjesson	Board member	2017	12/13	353	911,290	
Ola Hildingsson	Board member	2013	10/13	336	—	Finance, Fees and Benefits
Ulf Johansson	Board member	2014	13/13	422	682,663	Fees and Benefits
Ylva op den Velde Hammargren	Board member	2017	12/13	329	—	
Anders Roman	Board member	2014	13/13	403	1,474,407	
<b>Employee representatives</b>						
Dan Andersson	Employee representative (PTK)	2014	12/13	—	731,035	—
Pontus Johansson	Employee representative (LO)	2017	12/13	—	—	—
Lars Nilsson*	Employee representative (LO)	2018	12/13	—	—	—

\* Former alternate, Board member since 2018.

## December

- Business situation
- Strategic development opportunities
- Determination of the business plan and financial plan 2019/2020
- Determination of Investment plan with investment framework, Investment Policy, Financial Policy, Conduct and Supplier Code and Sustainability Policy
- CLT progress report
- Follow-up of investment in Värö

## October

- Business situation
- The Group's risk management
- In-depth analysis of:
  - Acquisition of Bergvik's forests in Latvia
  - Södra Cell Mönsterås
  - A more sustainable Södra
- Quarterly report

## September

- Business situation
- In-depth analysis of:
  - FSC/certification
  - Innovation

## July

- Quarterly report

## February

- Business situation
- Annual Report, annual accounts and appropriation of profits
- Focus area:
  - Macroeconomy

## April

- Business situation
- Focus area:
  - GDPR
  - CLT
  - Wildlife
- Quarterly report

## May

- Statutory meeting (after the AGM)

## June

- Strategy meeting
- Business situation
- Presentation of Bergviks Skog
- Timber strategy
- Application of legal and policy decisions – a risk assessment
- Focus area:
  - Digitisation and its change in business model
  - Södra's Group strategy 2020 and development



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 2018, the Board held 13 meetings, including one statutory meeting, two decisions per capsulam and four 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. Strategic issues are addressed at the June meeting. The December meeting addresses the business plan for the coming year, as well as targets and Group policies. HR issues are a special item at each Board meeting.

## COMMITTEE

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 2018, the Committee consisted of Paul Christensson, Karin Andersson and Hans Berggren. The Committee held six meetings.

The Finance Committee represents the Board in respect of financial risk exposure and financial policy compliance. In 2018, 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 the application of the remuneration principles and guidelines and other terms of employment determined by the Board, and the company's remuneration structures and levels. In 2018, the Committee consisted of Lena Ek, Ola Hildingsson and Ulf Johansson. The Committee held three meetings.

#### GROUP SENIOR MANAGEMENT

Group Senior Management consists of the President, business area presidents and staff directors and normally meets once a month. Finance, market and HR issues matters are recurring agenda items. The President is responsible for the ongoing management in accordance with the Board's guidelines and instructions.

#### AUDITORS

Auditors are appointed by the AGM. The Auditors' overall responsibility is to examine the annual financial statements, the consolidated financial statements and accounting, and the management of the

Board and the President. Two of the four ordinary auditors are member representative auditors.

At the 2018 AGM, Martin Johansson and Madeleine Edberg 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 control function and reports to the Audit Committee and the Group's CFO. The function works to develop, improve and secure the Group's internal control over financial reporting, both pro-actively by focusing on the internal control environment, and by examining the effectiveness of internal control.

Risk assessment related to Södra's financial reporting aims to identify and evaluate the most significant risks, including the risk of fraud, and the risk of significant changes affecting the internal control of financial reporting in the Group's companies, business areas and processes. The risk assessment results in control targets to ensure that the basic requirements for external financial reporting are met, and forms a basis for determining how risks should be managed through various control structures. The risk assessment is updated annually under the leadership of the Group Accounts and Internal Control function and the results are reported to the Audit Committee.

## Important regulatory frameworks

#### EXTERNAL:

- The Co-operative Societies' Act
- The Companies Act
- The Annual Accounts Act
- The Swedish Corporate Governance Code (the "Code")
- Regulation (EU) No 596/2014 on market abuse



#### INTERNAL

- The association's Articles of Association
- Annual General Meeting
- Rules of Procedure for the Board
- Instructions regarding the division of tasks and responsibilities between the Board and the President
- Instructions regarding financial reporting to the Board
- Policies and guidelines
- Code of Conduct



# Auditor's statement on the Corporate Governance Report

To the general meeting of Södra Skogsägarna ekonomisk förening, corporate identity number 729500-3789

## ENGAGEMENT AND RESPONSIBILITY

The Board is responsible for the 2018 Corporate Governance Report on pages 132–136.

## FOCUS AND SCOPE OF THE REVIEW

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 2018.

Växjö, 13 February 2019



Martin Johansson  
*Authorised Public Accountant*

Madeleine Edberg  
*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, Board member of Sparbankernas Riksförbund, the Royal Swedish Academy of Sciences and the Royal Swedish Academy of Agriculture and Forestry. Chairman of the Forest-based Sector Technology Platform.

**Previous experience:** Includes Deputy Mayor, Chairman of several national research projects, Board member of the Royal Institute of Technology, Board member of the University of Gothenburg, Government Offices coordinator of negotiations related to European Spallation Source (ESS) in Lund, Board member of the Riksdag's Committee on Finance, Board member of the European Parliament Committee on Industry, Research and Energy, Swedish Minister for the Environment. Board member of Södra 2000–2010.

**Forest holding:** 171 hectares of productive forest land (jointly owned 50 percent). Total contributed capital in Södra: SEK 87,503. (Generational change is ongoing.)



## 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 263,981.



## Pål Börjesson

Born 1962.

Board member since 2017. Term of office expires in 2019. Agronomist and professor of environmental and energy systems at the Faculty of Engineering at Lund University.

**Forest holding:** 126 hectares of productive forest land. Total contributed capital in Södra: SEK 911,290.



## Karin Andersson

Born 1957.

Board member since 2014. Term of office expires in 2018. Agronomist, SLU Uppsala, 1986. MSc, Springfield College, USA, 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 352,259.



## 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 SilviLao AB and Silvestica Green Forest AB. Chairman of SilviPar AB.

**Forest holding:** 100 hectares of productive forest land (50 percent jointly owned, not in Södra's membership area).



## Hans Berggren

Born 1956.

Board member since 2015. Term of office expires in 2019. Agronomist. President of the economic 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 279,488.



## 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.

Holding of total contributed capital pertains to conditions on 31 December 2018.





## 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 forest land. Total contributed capital in Södra: SEK 682,663.

## 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 forest land. Total contributed capital in Södra: SEK 1,474,407.

## Dan Andersson

Born 1961.

Alternate in 2014, Board member since 2015. Employee representative for the Swedish Federation of Salaried Employees in Industry and Services (PTK). Chairman of SSF-Ledarna at Södra Skog. Member of the Södra Group Council.

Total contributed capital in Södra: SEK 731,035.

## Lars Nilsson

Born 1961.

Alternate in 2017, Board member since 2018. Employee representative of the Swedish Trade Union Confederation (LO). Chairman of the Swedish Pulp and Paper Workers' Union at Södra Cell Mönsterås. Member of the Södra Group Council.

Total contributed capital in Södra: 0.

## Pontus Johansson

Born 1980.

Alternate in 2015, Board member since 2017. Employee representative of the Swedish Trade Union Confederation (LO). Chairman of the GS club at Södra Wood in Mönsterås. Member of the Södra Group Council.

Total contributed capital in Södra: 0.

## Changes during the year

At the 2018 AGM, Kjell Andersson stepped down from Board.

The number of elected Board members therefore decreased from ten to nine.

Lars Nilsson replaced Nils-Eric Andersson as employee representative on the Board.

Peter Nilsson replaced Lars Nilsson as alternate – employee representative.

### ALTERNATES – EMPLOYEE REPRESENTATIVES

## Teddy Hedlund

Born 1968.

Alternate since 2015. Employee representative for the Swedish Federation of Salaried Employees in Industry and Services (PTK). Chairman of Unionen trade union at Södra Cell Mörrum. 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.

## Per Nilsson

Born 1965.

Alternate since 2018. Employee representative of the Swedish Trade Union Confederation (LO). Chairman of division 9 of the Swedish Pulp and Paper Workers' Union at Södra Cell Värö.



# Group Senior Management



## Lars Idermark

President and CEO. Born 1957.

Agronomist and MBA. Employed 2013. Chairman of the management team since 2013.

**Previous experience:** President and CEO of PostNord AB and Kooperativa Förbundet. President of Second AP Fund. Acting President and CEO of Capio AB. Vice President and Acting President and CEO, Förenings-Sparbanken AB (Swedbank). CFO and Vice President, Föreningsbanken AB. President and CEO, the Federation of Swedish Farmers (LRF) Holding AB.

**Other assignments:** Chairman of Swedbank. Chairman of the Swedish Forest Industries Federation.

Total contributed capital in Södra: SEK 483,020.



## 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.

**Other assignments:** Board member of Mycronic AB and NOTE AB.

Total contributed capital in Södra: 0



## Cristian Brolin

Chief Digital Officer (CDO). Born 1976.

Computer Scientist. Employed 2017. Member of Group management from 2019.

**Previous experience:** Various senior positions in IT, including CIO/CISO at Bossmedia AB and IST AB. Worked as Director of Global Data Centre Operations at IGT and Lottomatica, stationed in Växjö, Stockholm, Rome and Montreal.

**Other assignments:** Board member of Vindro AB.

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 Pulp 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 290,843.



## 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

Holding of total contributed capital pertains to conditions on 31 December 2018.



### Anica Kabbenäs

Secretary and Executive Assistant.  
Born 1956.

Employed 1972.



### Jörgen Lindquist

President of Södra Wood business area.  
Born 1965.

MBA. Employed 2015. Member of Group management since 2015.

**Previous experience:** CFO of Södra, CFO and Acting President of the industrial division of Swedspan, Head of IKEA's establishment 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. Board member of Linnaeus University.

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.

Total contributed capital in Södra: 0

### Changes during the year

Director of Strategy Håkan Larsson left Södra on 1 March 2018.

Chief Data Officer Cristian Brolin joined Group Senior Management on 1 January 2019.

CFO Anna Belfrage will step down from her position on 31 May 2019.



### Peter Karlsson

Peter Karlsson has been appointed new CFO as of 1 March 2019. Peter Karlsson has previously served as business controller and Interim CFO, and led changes in the interior wood business in Södra Wood.





# Södra's ABC – words and expressions

## Bioeconomy

Bioeconomy refers to all economic activity derived from knowledge of biological processes and biotechnology, with the aim of achieving a sustainable way of living without depleting the earth's finite resources.

## Biofuel

Biofuels can be solid, liquid and gaseous. Solid biofuels include firewood, woodchips, pellets and briquettes. Liquid biofuels include ethanol, methanol, biodiesel and bio-oil. Gaseous biofuels include biogas, dimethyl ether and biomethane.

## Biomass

According to the EU Renewable Energy Directive (2009/28/EC), biomass means the biodegradable fraction of products, waste and residues from biological origin from agriculture (including vegetal and animal substances), forestry and related industries including fisheries and aquaculture, as well as the biodegradable fraction of industrial and municipal waste.

## Blue driving license

Operations performed in aquatic environments require a blue driving license to ensure consideration for environmental impacts.

## Blue management targets

Blue management targets mean that the value of watercourses is assessed, and that the consideration ambition for aquatic environments is indicated with management targets.

## By-products

By-products from Södra's mills are used in construction materials, as biofuels and for liquid biofuel production, and as raw material for the chemical industry. Tall oil and turpentine are by-products of pulp production.

## Carbon dioxide equivalents

A standard unit for measuring greenhouse gas emissions. Each type of greenhouse gas has a different effect on the climate. When emissions are indicated in carbon dioxide equivalents, all greenhouse gases are included as if they were carbon dioxide.

## Carbon sink

Uptake of carbon dioxide – in a growing forest, for example.

## Chemicals

A general term for the chemical products used in Södra's operations.

## Contributed capital

Capital contributed by the association's members.

## Controlled wood

The FSC® Controlled Wood standard is a complement to the FSC Chain of Custody standard. Developed to address problems related to the production of products containing only FSC-certified raw material (100 percent). In many cases, wood products use fibres from a variety of sources.

## Cooking chemicals

Chemicals used in the digester at pulp mills to dissolve the lignin in the wood.

## Dissolving pulp

Dissolving pulp is mainly made from birch wood and used for textile applications, such as viscose and lyocell production. Dissolving pulp is made by separating the cellulose fibres from the other wood components.

## Electricity certificates

The electricity certificate system is a market-based support scheme for the cost-effective expansion of electricity generation from renewable sources.

## Energy units

1 Terawatt hour (TWh) = 1,000 Gigawatt hours (GWh) = 1,000,000 Megawatt hours (MWh) = 1,000,000,000 kilowatt hours (kWh).

## eNPS

Employee Net Promoter Score. Measures the likelihood that a company's employees would be willing to recommend their employer to a friend. The result divides the employees into three groups: promoters, passively satisfied and detractors, where the eNPS is calculated by subtracting the percentage of detractors from the percentage of promoters.

## Forest residues

Branches, treetops, twigs and foliage – harvesting residue that can be used. Used as biofuel for power plants, for example.

## Forestry impact assessment (SKA)

In collaboration with the Swedish University of Agricultural Sciences, the Swedish Forest Agency conducts regular forestry impact assessments. Based on a range of different scenarios, in which Swedish forests are utilised and managed in various ways, the subsequent impacts of these scenarios in 100 years from now are assessed. The assessments provide detailed information about forest conditions. The information can then be used for decisions related to the long-term use of forests. The most recent forestry impact assessment (SKA 15) was conducted in 2015.

## Fossil fuels

Unlike renewable fuels, fossil fuels, such as coal, oil and natural gas, are formed slowly.

## FSC®

The Forest Stewardship Council is an independent, international membership organisation that promotes an environmentally appropriate, socially beneficial and economically viable management of the world's forests and has developed principles for forest management certification.

## Global Reporting Initiative (GRI)

GRI develops globally applicable "Sustainability Reporting Guidelines" 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 regeneration harvesting and thinning operations, respectively, have complied with PEFC™ and FSC® forest certification system requirements for the application of general environmental considerations in regeneration harvesting and thinning operations, and with Södra's own policies and procedures for environmental considerations. Included as one of Södra's sustainability targets.

**Green bond**

A bond loan for which the proceeds are earmarked for funding sustainable investments. Södra's green bond finances climate-friendly and environmental investments.

**Green electricity**

In everyday language, electricity produced from renewable sources such as biofuels, 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 carbon dioxide, methane and nitrous oxide.

**Guarantee of Origin certificates**

Guarantee of Origin certificates are issued by the Swedish government and show the energy source of the electricity generation. Guarantee of Origin certificates can then be sold by electricity generators on the open market.

**ha**

Hectare. An area of 10,000 square metres.

**ISO 14001**

An international standard 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. Valuable by-product of pulp production. Research is conducted to commercialise lignin-based carbon fibre for the production of lightweight materials that can be used to replace traditional heavyweight materials in, for example, cars.

**Liquid biofuels**

Vehicle fuels produced from renewable biomass, such as biodiesel, HVO biodiesel.

**LTA**

Lost-time-accident. Occupational injury with absence.

**LTA<sub>R</sub>**

Lost-time-accident rate. The number of occupational injuries with absence per million hours worked.

**m<sup>3</sup>f**

Cubic metres of felled volume. Refers to the outer dimensions of the material and used for woodchips, for example.

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

Forest cubic metres. Refers to the volume of the entire trunk above the stump, including tops and bark, but excluding branches. Generally used as a measure of standing timber.

**m<sup>3</sup>sub**

Cubic metres solid volume underbark. The volume of 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.

**Rotation-forestry system**

A forestry method with several stages, from planting/sowing to harvesting via regeneration, cleaning, thinning and regeneration harvesting.

**Secondary heating**

Secondary heating is residual heat from the process.

**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.

**Wooded wasteland**

Low-productive land.



# Financial information

## REPORTING CALENDAR

Quarterly reports will be published on the following dates:

Q1	25 April 2019
Q2	16 July 2019
Q3	24 October 2019
Q4/Year-end Report	February 2020

The Annual General Meeting for the 2018 financial year will be held on 23 May 2019 in Värnamo, and in May 2020 for the 2019 financial year.

The reports, as well as other information about Södra, are available at [sodra.com](http://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](http://sodra.com).

## SÖDRA SKOGSÄGARNAS EKONOMISK FÖRENING

Skogsudden  
SE-351 89 Växjö, Sweden  
+46 (0)470 890 00

Södra's member support  
+46 (0)470-891 00  
[medlemservice@sodra.com](mailto:medlemservice@sodra.com)

## SÖDRA SKOG

Skogsudden  
SE-351 89 Växjö, Sweden  
+46 (0)470 890 00

## Region Syd

Södra Skog  
SE-375 86 Mörrum, Sweden  
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## 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  
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SE-383 25 Mönsterås, Sweden  
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## Forestry operations areas

Mönsterås	+46 (0)10-471 61 80
Vetlanda	+46 (0)10-471 62 10
Vimmerby	+46 (0)10-471 62 40
Tranås	+46 (0)10-471 62 70
Åtvidaberg	+46 (0)10-471 63 00
Linköping	+46 (0)10-471 63 30

## Region Väst

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## Forestry operations areas

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Sollebrunn	+46 (0)10-471 64 80
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## Other contacts, Södra Skog

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## Sawmills

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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 Wood, US	+1 503 855 3032
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Södra Cell Mönsterås	+46 (0)499-150 00
Södra Cell International	+46 (0)470 890 00
Södra Cell GmbH, Germany	+49 (0)898 906 760 00
Södra Tofte AS, Norway	+47 (0)70-646 33 37

## OTHER COMPANIES

Trivselhus	+46 (0)383-208 00
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If you have any questions about Södra's Annual Report with Sustainability Report, please contact:  
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# This is Södra

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Södra Skogsägarna ekonomisk förening

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Founded in 1938, Södra is Sweden's largest forest-owner association, with nearly 52,000 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 2018, the wood volume was 16.5 million m<sup>3</sup>sub, sales amounted to SEK 24 billion and employees totalled just over 3,100.