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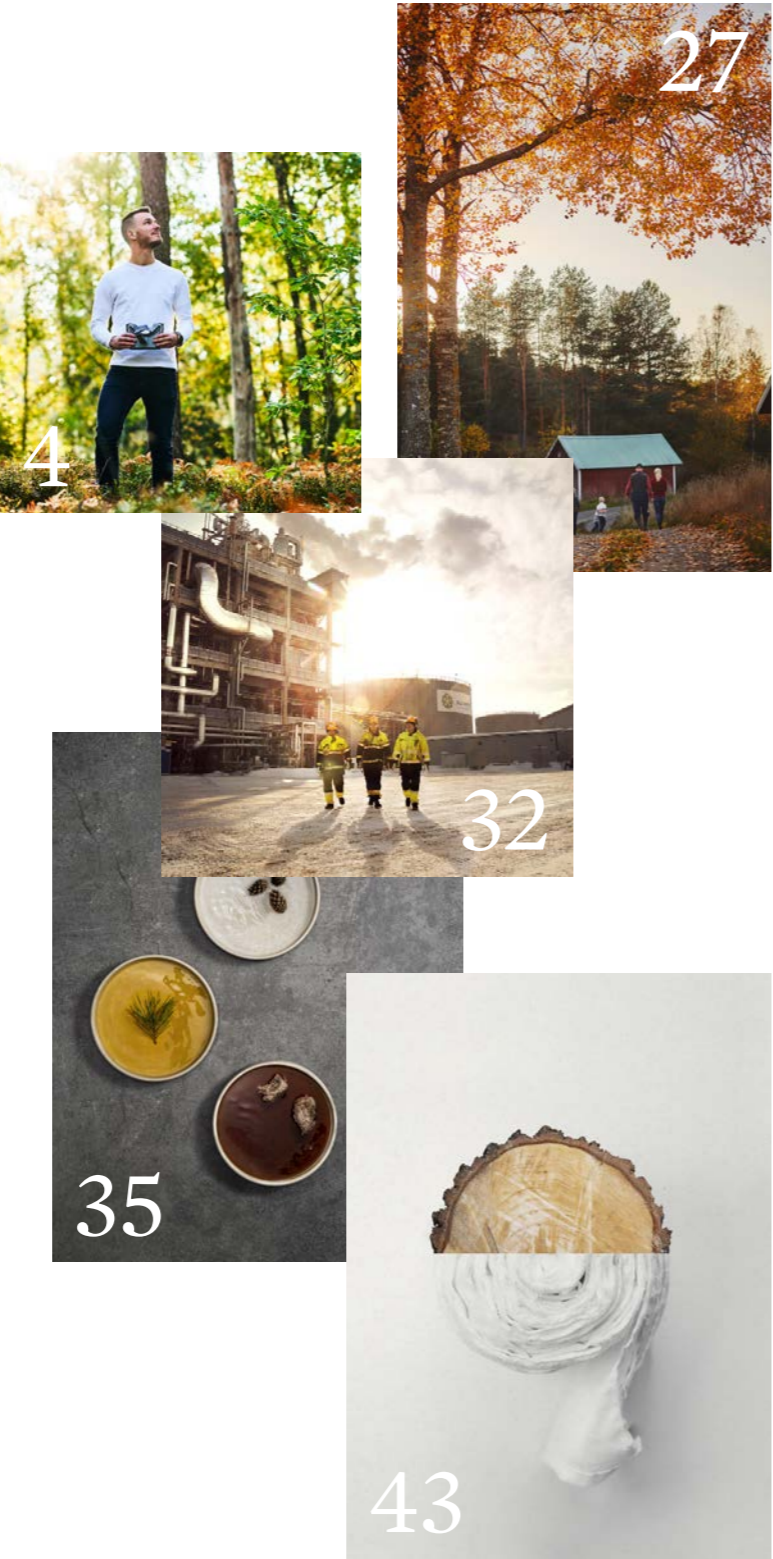
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The Board of Directors and President of Södra Skogsägarna ekonomisk förening (corporate identity number 729500-3789) hereby submit the 2020 Annual Report for the Group and the Parent Company. The audited annual report comprises pages 44–105. The consolidated income statement and balance sheet and the Parent Company income statement and balance sheet will be presented to the Annual General Meeting on 1 June 2021 for adoption. The Sustainability Report comprises pages 16–21, 26–27, 34–39, 42–43 and 110–137. The scope of the statutory sustainability report is presented on page 136. The Corporate Governance Report comprises pages 142–146.

This is a translation of the annual report. This translation does not replace the original annual report. In the event of any lack of clarity or disparity between this translation and the annual report, the annual report will always take precedence

SÖDRA

Södra is Sweden’s largest forest-owner association with 53,000 forest owners as its members.

We process the forest raw material from our members’ responsibly managed forests into renewable and climate-smart products and solutions.

Forest

We purchase wood raw material and deliver it to our own mills, mainly from our members’ forests, but also from other suppliers. We also provide forestry services and digital tools for our members.

Timber

Structural timber, cladding and pressure-treated products are made from timber from our own sawmills. We sell them via the building materials trade, industry and construction companies to both professional builders and DIY enthusiasts.

Building systems

Our climate-smart structural components from cross-laminated timber are enabling the construction of sustainable high-rise buildings in timber for residential, industrial and public use.

Pulp

Our pulp mills at Värö, Mörrum and Mönsterås make us one of the world’s leading producers of paper and dissolving pulp from the most sustainable source of raw materials – the forest.

Bioproducts

Our bioproducts ensure that no part of the tree is wasted. Södra’s bio-methanol, tall oil and turpentine come from sustainably managed forests. They are liquid forest from Sweden.

Energy

We convert the residue from our sawing, pulp and bioproduct processes into a range of energy products, including green electricity, pellets, shavings and wood chips.

The year in figures

Here we show our most important figures and key indicators as an introduction to the annual report for 2020. Every section is presented and explained in more detail on the next pages.

20 10 891

SEK billion Net sales

million tonnes CO₂ equivalents –
Södra's positive net effect on the climate

SEK million Operating profit

598 6.4

SEK million, the Board's
proposed profit distribution

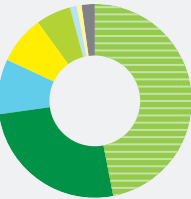
m³fo – the annual rate of forest growth per
hectare in Södra's members' forests according
to the National Forest Inventory

2 14

% return on
capital employed

SEK billion Export value

The effect of assets held for sale is presented in the Consolidated statement of comprehensive income and Consolidated statement of financial position. The effect of assets held for sale is not included in the Consolidated statement of cash flows nor is it taken into account in calculated key indicators, which is not directly apparent from the income statement and balance sheet presented, since Södra uses these factors to manage all of its operations. Comparative figures for prior years have not been restated for the above-mentioned effect (from 2019 and earlier), but are reconcilable with historical reports.



Net sales per revenue category.



Sales per business area. SEK 20,351 million
in total, excluding internal deliveries.



Employees per business area.
3,141 employees in total.

Södra's production units

- Pulp mill
- Sawmill
- Pressure treatment plant
- Grinding facility
- Further processing
- Pellets factory
- Nurseries
- House manufacturing
- Head office

Refers to production units
at 31 Dec 2020.

3,141

No. of employees

3

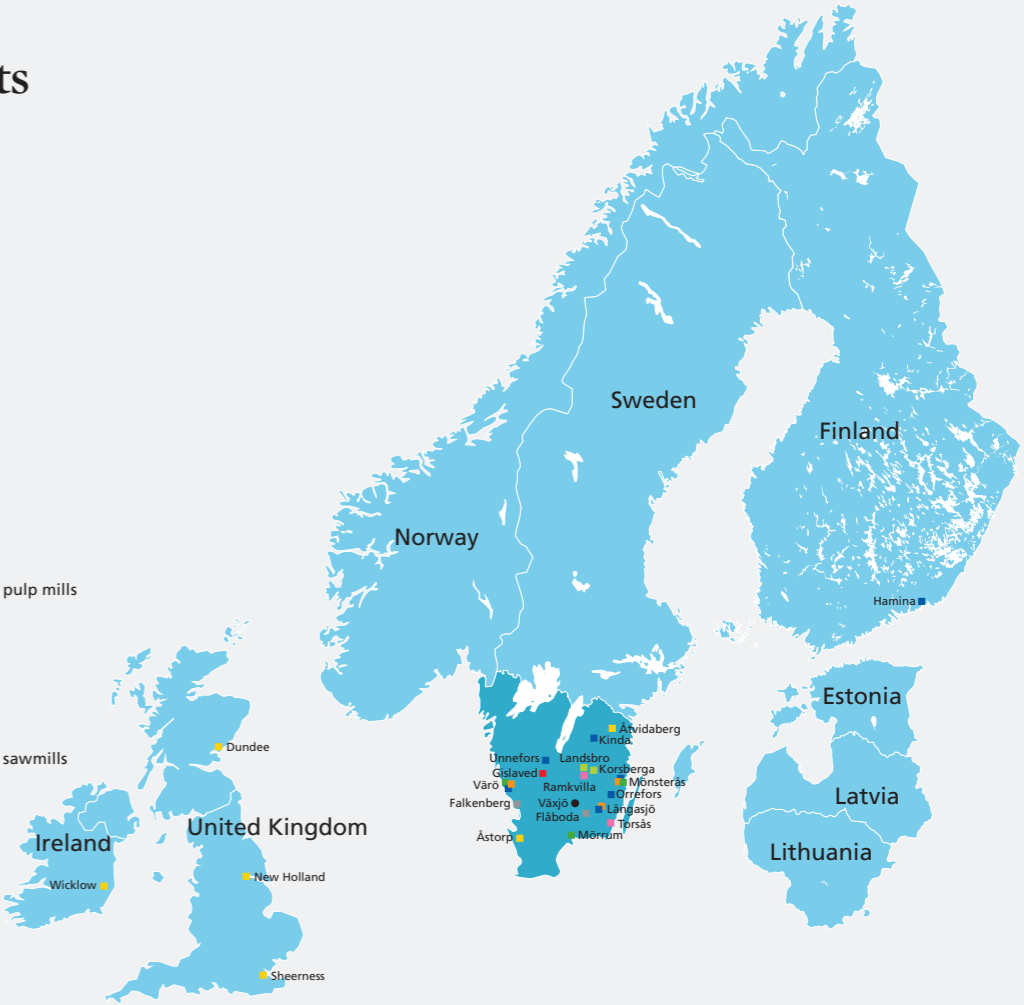
No. of pulp mills

19

No. of forestry
operations areas
in Götaland

7

No. of sawmills



| Key indicators | 2020 ¹⁾ | 2019 ²⁾ | 2018 | 2017 | 2016 |
|--|--------------------|--------------------|--------|--------|--------|
| Net sales, SEK million | 20,351 | 23,183 | 24,230 | 20,518 | 18,482 |
| Operating profit before depreciation, amortisation and impairment, SEK million | 2,164 | 3,897 | 5,654 | 3,009 | 1,887 |
| Operating profit, SEK million | 891 | 2,582 | 4,508 | 1,917 | 979 |
| Profit before tax, SEK million | 746 | 2,495 | 4,431 | 1,830 | 913 |
| Return on capital employed, % | 2 | 12 | 24 | 12 | 7 |
| Equity ratio, % | 57 | 59 | 59 | 56 | 54 |
| Cash flow after investments, SEK million | 646 | 2,227 | -142 | 356 | -1,581 |
| Profit distribution, SEK million | 598 ³⁾ | 1,068 | 1,795 | 868 | 602 |
| Affiliated forest area, 1,000 ha | 2,696 | 2,637 | 2,591 | 2,517 | 2,481 |
| Wood volume, million m ³ sub | 17.4 | 17.1 | 16.5 | 15.9 | 15.0 |
| No. of employees | 3,141 | 3,150 | 3,141 | 3,402 | 3,594 |
| Fossil CO ₂ from production, ktonnes | 70 | 70 | 103 | 81 | 99 |
| Fossil CO ₂ from transportation, ktonnes | 227 | 207 | 196 | 191 | 199 |
| Rate of forest growth, m ³ fo/ha and year | 6.4 | 6.3 | 7.6 | 6.9 | 7.5 |
| Lost-time-accidents (LTA) ⁴⁾ , no. | 47 | 62 | 77 | 94 | 94 |
| Lost-time-accident rate (LTAR) ⁵⁾ | 9 | 12 | 15 | 17 | 16 |

¹⁾ The effect of assets held for sale is presented in the Consolidated statement of comprehensive income and Consolidated statement of financial position. The effect of assets held for sale is not included in the Consolidated statement of cash flows nor is it taken into account in calculated key indicators, which is not directly apparent from the income statement and balance sheet presented, since Södra uses these factors to manage all of its operations. Comparative figures for prior years have not been restated for the above-mentioned effect (from 2019 and earlier), but are reconcilable with historical reports.

²⁾ IFRS 16 Leases has been applied since 2019, which means that leases are now recognised as assets and liabilities, instead of Other expenses. This has impacted income statements and balance sheets, as well as key indicators.

³⁾ Proposed profit distribution.

⁴⁾ LTA (lost-time-accident): occupational injury with absence.

⁵⁾ LTAR (lost-time-accident rate): the number of occupational injuries with absence per million hours worked.

The year in brief

Södra is building a new CLT facility

Södra is investing in another cross-laminated timber (CLT) facility at Värö and aims to be one of the leading operators in the Nordic region. CLT production is about to revolutionise the construction market. On-site installation is faster, and using timber to construct multi-storey buildings can halve carbon dioxide emissions compared with other material. The residents also feel that timber contributes to a better indoor climate.

Virtual AGM promotes democratic values

Södra's AGM was held remotely due to the COVID-19 pandemic. It was streamed from Växjö and delegates were set up in small local groups to connect via the meeting's online tools. Four remote motion meetings were also arranged in the week prior to the meeting. According to the participants, this was one of the most democratic AGMs they had ever attended.



2.0

Värö Expansion 2.0

To increase production, Södra has decided to make a new investment in the state-of-the-art pulp mill facility at the bio-based combined plant at Värö so that we can grow together with our customers. This is a major first step in reaching a production level of 850,000 tonnes per year. The expansion will increase the need for raw material and ensure that Södra's members have markets for their forest.



Södra 360 Experience is raising awareness of forests

Södra has launched a site with virtual reality (VR) to raise awareness of the vital role that forests play, both today and in the future. Through sight and sound, visitors can learn more about topics ranging from our members' forests to everyday applications for our products. They can explore the value chain and learn more about sustainable forestry and the positive effects it has on both our daily life and the climate.

sodraexperience.com

Södra's highest priority during the COVID-19 pandemic has been to safeguard the safety and security of its employees and members, while also accepting its corporate social responsibility to prevent the number of cases from rising.

Despite COVID-19, we have maintained our production output and deliveries to meet the high market demand for pulp and sawn timber.

300,000 m³sub

Continued widespread spruce bark beetle outbreak

In October, Södra's inventory of spruce bark beetle damage on 330 surveillance estates showed that more than 1.4 million m³sub of spruce forest on members' estates was spruce bark beetle-impacted. That is about 25 percent, or 300,000 m³sub, more than shown by the inventory in August. Södra's members, employees and contractors are all working together to reduce the damage.



The 'beetle battle' is helping to preserve the value of members' wood

Södra was also focused on fighting the spruce bark beetle this year, and we mobilised our entire chain – from member to customer – to preserve the value of the wood in our members' forests. Our sawmills and pulp mills worked hard to adapt their production processes, which secured sales for the damaged wood from Södra's members for the entire year.



The world's first fossil-free biomethanol plant

The transition to a bioeconomy means that all raw materials must be used efficiently. Inauguration of the world's first fossil-free biomethanol plant at Mönsterås has given Södra a leading position. The investment is totally in line with the European Green Deal, which is aimed at drastically reducing our carbon footprint and greenhouse gas emissions.

Liquid Forest™ – forest in liquid form

Södra's liquid forest products are gathered under the Liquid Forest™ brand. Biomethanol, tall oil and turpentine are derived from the same sustainably managed forests as our pulp and sawn timber. These bioproducts are replacing fossil-based raw materials and playing a vital role in the transition to climate-smart products and a more sustainable society.



Södra shows the way to a more sustainable future

The global pandemic created extraordinary conditions in 2020. It led to a sharp decline in economic activity and currency fluctuations all over the world. The sawn timber market gained traction during the year and reached a record high by year-end. However, price levels for market pulp were weak. The uncertainty surrounding the development and impact of the pandemic remains high.

In such a situation, our clear and long-term strategic direction – with a focus on sustainable growth, profitability and efficiency – combined with Södra's financial stability, is a real asset. It creates optimism.

We will continue to focus on what we can influence by strengthening family forestry and processing wood raw material into climate-smart products and solutions.



Peter Karlsson
CFO, former Interim
President and CEO

Lotta Lyrå
President and CEO

COVID-19 changed everything

In 2020, COVID-19 was the new word on everyone's lips and the pandemic is still far from over. Health and safety is obviously our top priority and we are extremely grateful for how we all pulled together – employees, members, contractors and customers – to prevent the spread of the virus during the year. Due to everyone's fantastic efforts, we have been able to maintain business continuity, from seed to customer. And by adapting, we also managed to keep our co-operative spirit alive – all of our members' meeting, local annual meetings and the AGM were hosted on virtual platforms.

Stable trend, but result impacted by depressed pulp prices

In the first half-year, the global economy contracted rapidly due to COVID-19, but a recovery emerged in the second half.

The global economy was also affected by a series of political events, including the US presidential election, the US-China trade war and Brexit. The outlook for global economic growth is highly uncertain, but expansionary economic policy is supporting the recovery. Vaccines are also being rolled out now. The most important thing is obviously to reduce the spread of the virus, but that will also give greater certainty to the global economy. Södra is affected by all of these things.

The turbulent and uncertain macro-economic environment has created major challenges for us. As always, we are focused on what we can influence to create as much shareholder value as possible, under the prevailing circumstances.

Operating profit was SEK 891 million. The lower result was mainly attributable to lower price levels for Södra's core products. During the year, average prices for market pulp declined 14 percent.

Average prices for sawn timber also decreased by several percent.

Profit distribution

Despite an unprecedented tough financial position, demand for our core products is favourable and production output remained high and stable throughout the year. Södra has retained its strong financial position, as shown by the Board's proposed profit distribution of SEK 598 million to our members and owners. This is considered well-balanced in light of our result and long-term targets.

Group strategy for profitable and sustainable growth

The focus of Södra's Group strategy until 2025+ is to create profitable and sustainable growth in an ever-changing world. We will continue to develop our

existing products and markets, but also increase our focus on further processing and innovation. The aim of everything we do is to increase value-generation and strengthen the Södra brand. To succeed, we have to work effectively and take advantage of the opportunities presented by digitisation. One result of this strategy, to increase the focus on our core business, was the decision to divest the Trivselhus subsidiary. We are convinced that Trivselhus will have better conditions to strengthen its market position and profitability under a new owner, while we can further strengthen our focus on our core products.

We are pleased to see a positive shift in our sustainability efforts, clear targets have led to a greater focus on sustainability topics during the period. Södra has essentially climate-positive operations due to the growing raw material base and the positive effects of using our

products to replace fossil-based options. In 2020, Södra became a signatory to the UN Global Compact. We have committed to the Ten Principles for corporate sustainability and will report our sustainability performance every year.

Other initiatives with a focus on sustainable development:

- » We inaugurated the world's first biomethanol plant at Mönsterås during the year.
- » In partnership with Statkraft, we are building a research facility to develop liquid biofuels for the future from wood raw material.
- » In 2020, we took a giant step forward in our efforts to recycle mixed textiles in dissolving pulp production. We can now make our OnceMore® pulp with up to 20 percent textile waste.

- » We are building a new production facility for cross-laminated timber at Värö. High-rise timber buildings have a lower carbon footprint than other building materials and the market is growing.

The future is made of trees

The coming year will be challenging, but demand for forest-based products will gradually increase as the bioeconomy grows. We will continue to focus on what we can influence by strengthening family forestry and processing wood raw material into climate-smart products and solutions.

We would like to conclude by thanking our dedicated employees for their hard work and efforts during the year, and our members for their commitment and confidence in Södra.

Vision and objectives

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

- » In February 2020, the Board adopted the new Group strategy and objective: By 2025+, Södra shall be a more sustainable, profitable, innovative and resource-efficient growth company – read more on pages 10–11.
- » During the year, we created new sustainability targets that will be approved in early 2021.

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 shows what it means to be a next-generation forest company.

Objective

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



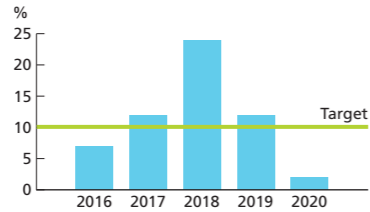
FINANCIAL TARGETS

- » The aim is to generate value for our owners by realising the strategy. Realisation of the strategy will lead to higher cost and capital efficiency. The long-term consolidated return on capital employed should be at least 10 percent.
- » The financial position should be strong enough to provide the flexibility for making long-term business decisions. The long-term equity ratio should be at least 55 percent.
- » Decisions on profit distribution should be based on 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.

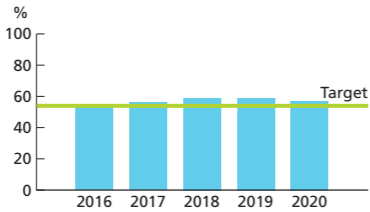


Return on capital employed was 2 percent (including assets held for sale). The average return on capital employed for the past five-year period was 11 percent.

EQUITY RATIO

55%

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

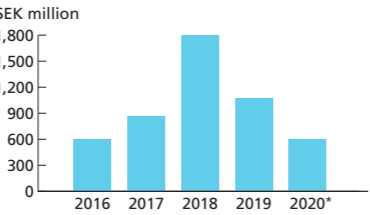


The balance sheet remains strong. The equity ratio was 57 percent, which exceeded the financial target. The average equity ratio for the past five-year period was 57 percent.

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.



For 2020, the Board proposes a profit distribution of SEK 598 million, corresponding to 80 percent of profit before tax. The profit distribution for the past five years is 47 percent.

* Proposed profit distribution.

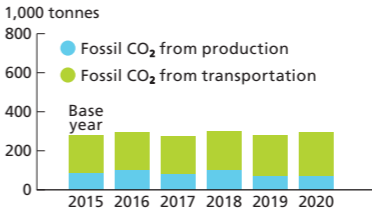
SUSTAINABILITY TARGETS

- » 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.
- » Workplace health and safety initiatives are preventive, and conducted systematically. Södra has a zero accident vision and the lost-time-accident rate (LTAR) will decrease 15 percent per year until 2020.

FOSSIL-FUEL FREE

0

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



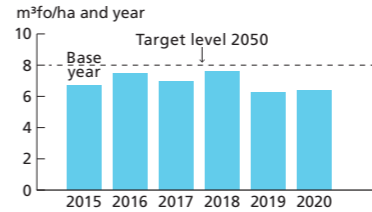
Fossil carbon dioxide emissions from production, operational machinery and internal transportation were 70 tonnes, 20 percent lower compared with 2015. Due to the COVID-19 pandemic, investments that would have enabled the pulp mills to run without fossil fuel oil, even during start-up and operational disruptions, were postponed. Fossil carbon dioxide emissions from transportation were 227 tonnes, 18 percent higher compared with 2015.

* The production target includes emissions from production, operational machinery (including external harvesting contractors who work on Södra's behalf) and internal transportation. The transportation target includes emissions from 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.



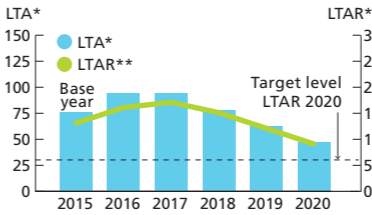
The annual rate of forest growth in forests owned by Södra's members was 6.4 m³fo/ha, 5 percent lower compared with 2015. The annual growth rate usually ranges from 0.5–1.0 percent. The variation between years can be great and a longer observation series is required to read trends.

* 2020 relates to average growth during the 2014–2018 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 lost-time-accidents was 47, down 24 percent, and the lost-time-accident rate was 9, down 25 percent compared with 2019. These results are attributable to Södra's systematic and long-term efforts to reduce occupational injuries and achieve the company's zero-accident vision.

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

Sustainable Group strategy 2025+

Profitable and sustainable growth in an ever-changing world

The focus of Södra's Group strategy until 2025 is to create profitable and sustainable growth in an ever-changing world. We will continue to develop our existing products and markets, but also increase our focus on further processing and innovation with a greater customer and market focus. To succeed with this goal, we must work resource-efficiently and take advantage of the opportunities presented by digitisation.

Sustainability and profitability go hand in hand when we develop climate-smart solutions along the entire value chain – from forest to customer.

The aim of the strategy is to strengthen the profitability of forest estates by investing in the future, and by making Södra more efficient every day.

Lotta Lyrå
President and CEO



Sustainable and resource-efficient

Sustainability permeates the entire strategy and must be considered in every business decision. We can create even more value from forest raw material by working more resource-efficiently with the residue flows from forest management and in our mills, and through circular value chains. During the strategy period, efforts to improve our resource efficiency will intensify.

Innovative

Södra's product portfolio mainly comprises high-volume products, such as pulp and sawn timber. In order to develop our customer offering, innovations and a higher level of processing in our existing product categories are important. We also need innovations that develop totally new ways to use the forest raw material.

During the period, we will intensify our commitment to the commercialisation of new products and to strengthening our position in the bioeconomy.

World-class efficiency

Efficiency means using your resources and assets in the best possible way – doing the right things in the right way. At the same time, whatever we do should also create value for the company and for society. For a capital-intensive operation like ours, working with internal efficiency and continuous improvements is important. It is a linchpin for profitable growth. During the strategy period, we will be focused on improving internal efficiency across the entire operations.

Digital

Digitisation is creating opportunities for profitable growth and flexibility in a ever-changing world. We can use digital technologies to make interaction with our customers, members and employees simpler and faster. During the strategy period, we will be working actively with digitisation as a tool for further increasing the Group's productivity and strengthening our competitiveness.

Flexible and robust

To remain profitable in a rapidly changing business environment, the organisation must be both robust and flexible. Robust in order to control the impact of external factors. Flexible in order to further adapt and manage adverse changes in the business environment and to take advantage of positive trends. Södra is already a stable company, and during the strategy period we will strive to become even more robust and flexible.

Focus on profitable growth

Growth is essential for long-term value creation. Södra needs to grow in order to evolve and be competitive, but not at the expense of profitability. The responsible forest management activities of our owners is increasing their growing stock. Södra therefore has access to a large supply of raw material that requires markets. At the same time, demand for our existing products is growing in the global market. A key element of improved profitability is increased efficiency and better use of our joint resources.

How Södra generates value

Assets and resources

- » Natural resources
- » Employees & competence
- » Financial structures
- » Mills & facilities
- » Partnerships & relationships
- » Brands

2.8

Million hectares
of forest land

The members' forest holdings
and Södra's own forests.

Our operations and what we create

Södra is Sweden's largest forest-owner association with 53,000 forest owners as its members. We process the forest raw material from our members' sustainably managed forests into renewable and climate-smart products and solutions.

Thriving forests in harmony with animals & nature

- » Responsible forest management
- » Advisory and forestry services for forest owners
- » Active nature conservation

Sustainable solutions from the forest

- » Sawn timber
- » Building systems
- » Paper and dissolving pulp
- » Bioproducts
- » Energy

80

About 80 percent
is exported.

Value for society and the environment

Customers

- » Sustainable products and services

Suppliers

- » Purchased goods and services

Employees

- » Jobs
- » Personal and professional development
- » Salaries and benefits

Society & cooperation

- » Tax revenue
- » Research & innovation
- » Infrastructure
- » Local and global community engagement
- » Partnerships with stakeholders, academia and other parts of society

Environment

- » Positive climate effect
- » General environmental considerations in all measures
- » Voluntary set-asides of forest land, and management measures to protect and promote biodiversity, and cultural and social values.

Members/owners

- » Profit distribution
- » Favourable conditions for active and sustainable forestry
- » Market for wood raw material

1.8

million m³
sawn timber

1.9

million
tonnes pulp

4,500

GWh energy

39

ktonnes of
bioproducts

1,248

SEK per hectare Model
estate's net forest income
& profit distribution

The model estate

A typical forest estate where members deliver all of their wood to Södra. Net forest income: The forest estate's income less costs.

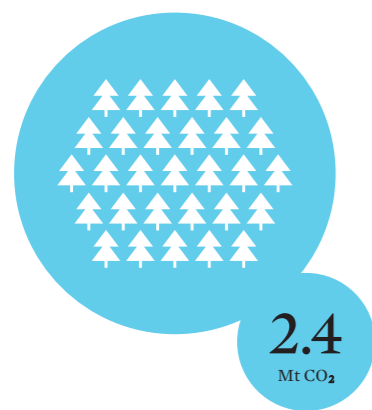
10

million tonnes CO₂
equivalents in positive net
effect on the climate

Climate effect

Södra's positive net effect on the climate corresponds to more than 20 percent of Sweden's total carbon dioxide emissions.

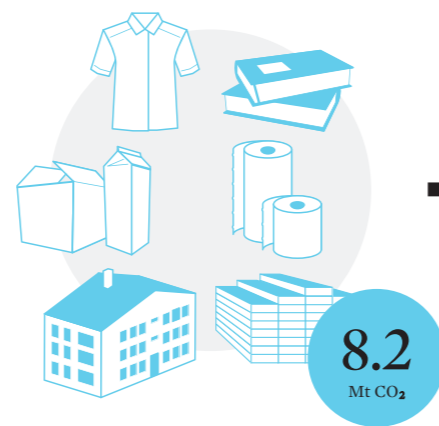
Read more on pages 14–15.



FOREST CARBON STOCKS

The trees in our members' forests absorb and store carbon dioxide from the atmosphere.

+



SUBSTITUTION EFFECTS

A positive substitution effect is achieved when our renewable wood-based products are used to replace products with a higher climate impact.

-



SUPPLY CHAIN EMISSIONS

There are still some greenhouse gas emissions in our supply chain.

=



SÖDRA'S TOTAL CLIMATE EFFECT

Carbon stocks in the forest plus the use of our wood-based products to replace fossil materials, but minus our greenhouse gas emissions, gives us Södra's total climate effect.

Forests are helping to combat climate change

Södra's climate effect has been studied in depth and measured for the second time. As in last year's report, the main message is clear: forests create far more climate benefits when they are used than when they merely serve as a carbon stock.

Read more about Södra's climate effect in the report at www.sodra.com/climateeffect

The climate benefits of forests are often reduced to the fact that growing trees absorb large amounts of carbon dioxide. But far less attention has been paid to a major climate benefits of forests – the substitution effect.

As forests grow, we use every part of the tree and forest-based products are now being used on a large scale to replace products with higher climate impact. That is nothing new, but more and more researchers have recently become interested in how this effect can be measured.

Biogenic carbon dioxide is part of a natural carbon cycle in which emissions are constantly reabsorbed by growing trees and other vegetation, while burning fossil fuels releases emissions into the atmosphere.

Substitution therefore creates climate benefits when renewable forest-based products drive back products with a higher climate impact, such as steel, concrete, plastic and fossil fuels.

Södra's climate effect in figures

- » In 2020, the forests owned by Södra members and the Group formed a carbon sink corresponding to 2.4 million tonnes of carbon dioxide equivalents. That is the net carbon dioxide storage attributable to the increase in growing stocks in these forests.
- » In 2020, Södra's reduction of fossil emissions due to substitution amounted to 8.2 million tonnes of carbon dioxide equivalents.
- » In 2020, Södra's fossil carbon dioxide emissions amounted to 0.6 million tonnes of carbon dioxide equivalents, mainly from the production of input products and from the transportation of raw materials to industry and products to customers. The calculations also include fossil carbon dioxide emissions from forestry operations and industrial processes. Other fossil carbon dioxide emissions in the supply chain are not included.
- » In 2020, Södra's positive climate effect amounted to 10 million tonnes of carbon dioxide equivalents.

A Sustainable Södra

Sustainable business development is a key element of Södra's Group strategy and we are focused on the following six areas:

- » climate-positive operations
- » sustainable forestry
- » resource efficiency
- » responsible employer and committed employees
- » responsible business
- » sustainable innovation

We have 15 ambitious sustainability targets within these areas, of which three – fossil-free production and transportation, forest growth and a zero accident vision – are prioritised and have the same status as the financial targets.

Sustainability has three main pillars: environmental, social and economic. Our focus areas, sustainability targets and activities are based on the most important topics for Södra and our stakeholders.

We work actively to achieve our sustainability targets, which are incorporated into our business and action plans, and follow our outcomes closely. Despite a positive shift in all areas, we did not achieve all of our targets in 2020.

These efforts will continue, and new and ambitious sustainability targets will be set in 2021 as part of Södra's 2025+ Group strategy.

The 2030 Agenda and Södra's sustainability targets

We are well-positioned to contribute to the achievement of several Sustainable Development Goals, but also have a negative impact on some of them. In recent years, we have mapped how our activities can help to achieve the Sustainable Development Goals and selected seven goals where our efforts can have the biggest impact.

The entire supply chain must be involved to make the 2030 Agenda Södra's own agenda. In 2020, we continued our efforts to integrate the Sustainable Development Goals across our entire operations. This requires an understanding of what we must do to reduce the risk of negative impacts and what we must scale-up to increase our positive contributions to achievement of the goals. In 2021, we will set new sustainability targets that will also be linked to the 2030 Agenda.

HIGHER LEVEL OF IMPACT

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

LOWER LEVEL OF IMPACT

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

INDIRECT IMPACT

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

THE UN SUSTAINABLE DEVELOPMENT GOALS



AFFORDABLE AND CLEAN ENERGY

- » Climate-positive operations
- » Resource efficiency
- » Responsible business
- » Sustainable innovation

IMPACT AND CONTRIBUTION

- + Renewable energy delivery, page 125.
- + Systematic efforts to reduce electricity and heating consumption, page 124.
- Energy-intensive industrial processes and transportation, pages 124–125.



DECENT WORK AND ECONOMIC GROWTH

- » Resource efficiency
- » Responsible employer and committed employees
- » Responsible business
- » Sustainable innovation

- + Zero accident vision – a focus on preventive measures, page 37.
- + Supplier risk assessment and audit with a focus on working conditions, etc, page 130.
- + Continued investments and focus on innovation to strengthen Sweden's strong forest industry position, page 43.
- Occupational health and safety risks in the operations and supply chain, pages 128 and 130.



INDUSTRY, INNOVATION AND INFRASTRUCTURE

- » Climate-positive operations
- » Resource efficiency
- » Sustainable innovation

- + Effective use of wood raw material, page 34.
- + Production of new, sustainable products and services for a bio-based society, pages 42–43.
- + Collaborative business development and innovation, pages 42–43.



SUSTAINABLE CITIES AND COMMUNITIES

- » Climate-positive operations
- » Resource efficiency
- » Sustainable innovation

- + Development of timber building systems, pages 28–29.
- Risk of negative impact on urban forests if Södra deviates from its procedures, pages 26–27 and 114–115.



RESPONSIBLE CONSUMPTION AND PRODUCTION

- » Resource efficiency
- » Responsible business

- + Systematic efforts to reduce effluents and emissions from industrial activities, pages 35 and 126.
- + New applications for Södra's products, pages 34–35 and 43.
- Risk of negative environmental impacts of effluents and emissions from industrial activities, pages 35 and 126.



CLIMATE ACTION

- » Climate-positive operations
- » Sustainable forestry
- » Resource efficiency
- » Responsible business

- + Long and short-term initiatives to achieve fossil-free production and fossil-free transportation, pages 20–21 and 120.
- + Increased forest growth leads to more carbon sequestration, pages 20 and 120.
- Industrial processes and transportation use fossil fuels, pages 120–121.



LIFE ON LAND

- » Climate-positive operations
- » Sustainable forestry
- » Responsible business

- + Sustainable forestry – balance between production and environmental considerations, page 26.
- + Protected areas to promote biodiversity, page 123.
- Risk of negative impacts on ecosystems and biodiversity if Södra deviates from its procedures, pages 26–27 and 114–115.



Climate-positive operations

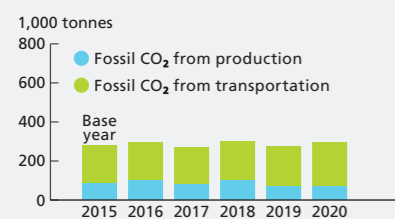
TARGET

- » 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 2020

- » Fossil carbon dioxide from production: 70 ktonnes, 20 percent lower compared with base year 2015.
- » Fossil carbon dioxide from transportation: 227 ktonnes, up 18 percent compared with base year 2015.
- » Forest growth: 6.4 m³fo/ha and year, 5 percent lower compared with 2015.

FOSSIL-FUEL FREE



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

FOREST GROWTH



2020 refers to the average growth rate during the 2014–2018 period, the most recent value available. The forest growth rate is based on the National Forest Inventory's data for land owned by Södra members.

Read more about targets, outcomes and activities for climate-positive operations on pages 20–21 and 120–121.



Sustainable forestry

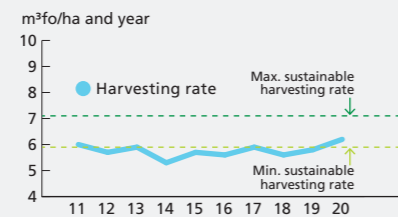
TARGET

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

OUTCOMES 2020

- » The harvest rate was 6.2 m³fo/ha per year, 7 percent higher compared with 2019 and within the sustainable harvest rate.
- » The proportion of approved regeneration harvest tracts in the Green Balance Sheet was 79 percent, down 15 percent compared with 2019.
- » The area in which nature-conservation measures were performed was 1,636 ha, unchanged compared with 2019.

SUSTAINABLE HARVEST RATE



2020 refers to the mean for 2016–2018, in the same way as for other years. The sustainable harvest rate is based on the forestry impact assessment carried out by the Swedish Forest Agency and Swedish University of Agricultural Sciences in 2015. The harvest rate is based on the National Forest Inventory's data for Götaland.

CONSIDERATIONS IN REGENERATION HARVESTING



* The proportion of approved regeneration harvest tracts in the Green Balance Sheet.

NATURE CONSERVATION MEASURES



Read more about targets, outcomes and activities for sustainable forestry on pages 26–27 and 122–123.



Resource efficiency

TARGET

- » 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 2020

- » Electricity and heating consumption for pulp was 7 percent (electricity) and 15 percent (heating) lower, respectively, compared with base year 2015.
- » Electricity and heating consumption for sawn timber was 5 percent (electricity) and 14 percent (heating) lower, respectively, compared with base year 2015.
- » Electricity generation exceeded electricity consumption – net delivery was 530 GWh.

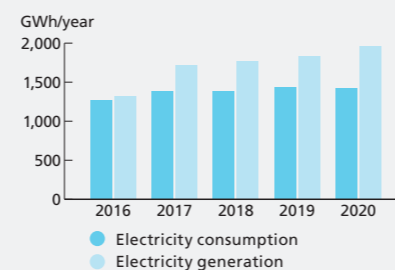
ELECTRICITY AND HEATING CONSUMPTION – PULP

| kWh/tonnes of pulp | Target level | 2025 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|--------------------|--------------|-------|-------|-------|-------|-------|-------|------|
| Electricity | 672 | 698 | 699 | 701 | 727 | 792 | 747 | |
| Heating | 3,175 | 3,002 | 3,172 | 3,105 | 3,261 | 3,572 | 3,528 | |

ELECTRICITY AND HEATING CONSUMPTION – SAWN TIMBER

| kWh/m³ sawn timber | Target level | 2025 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|--------------------|--------------|------|------|------|------|------|------|------|
| Electricity | 57 | 60 | 62 | 63 | 64 | 65 | 64 | |
| Heating | 236 | 225 | 224 | 241 | 248 | 251 | 262 | |

ELECTRICITY CONSUMPTION AND ELECTRICITY GENERATION



Read more about targets, outcomes and activities for resource efficiency on pages 34–35 and 124–127.



Responsible employer and committed employees

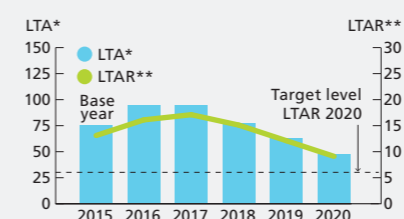
TARGETS

- » 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's employees will be women.
- » Södra's employees would be willing to recommend Södra as an employer, eNPS of 60 or higher by 2020.

OUTCOMES 2020

- » Sickness absence: 3.8 percent, up 14 percent compared with 2019.
- » Lost-time-accidents (LTA): 47, down 24 percent compared with 2019.
- » Lost-time-accident rate (LTAR): 9, down 25 percent compared with 2019.
- » Percentage of women employees: 23 percent, unchanged compared with 2019.
- » eNPS: 13, 7 percent lower compared with 2018 (employee satisfaction survey is carried out every other year).

OCCUPATIONAL INJURIES



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

Read more about targets, outcomes and activities for responsible employer and committed employees on pages 36–37 and 128–129.



Responsible business

TARGETS

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

OUTCOMES 2020

- » Percentage of suppliers that have signed the Södra Supplier Code: 77% (79).
- » Percentage of Södra's purchasing value for which suppliers had signed the Supplier Code: 97% (97).
- » Percentage of Södra's purchasing value for which a risk assessment of suppliers was performed: 95% (95).
- » The risk assessment resulted in a prioritised classification for 67 (67) suppliers.
- » Percentage of prioritised suppliers that completed a supplier self-assessment: 87% (63).
- » Percentage of prioritised suppliers that were monitored on site (sustainability audit): 10% (18).
- » Group-wide efforts with the target for using sustainability-related criteria as a basis for investments and transactions have commenced and will continue during the coming strategy period.

Read more about targets, outcomes and activities for responsible business on pages 38–39 and 130–131.



Sustainable innovation

TARGETS

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

OUTCOMES 2020

- » In 2020, five new products with a better sustainability performance than today's options were commercialised: fossil-free biomethanol, OnceMore® dissolving pulp, paper pulp for wet-press moulded packaging, the 'Min skogsgård' app and the plant breded Söregårde spruce seedlings. A total of ten new products with a better sustainability performance than today's options were commercialised during the target period. Sustainability performance is assessed using a model that identifies the positive and negative impacts for a number of sustainability aspects. Both the direct impact of Södra's operations and the indirect impact of Södra's supply chain are assessed.

Read more about targets, outcomes and activities for sustainable innovation on pages 42–43 and 131.

Södra's sustainability targets

We are helping to combat climate change



TARGET

- » 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 2020

- » Fossil CO₂ from production: 70 ktonnes.
- » Fossil CO₂ from transportation: 227 ktonnes.
- » Forest growth: 6.4 m³fo/ha and year.

For more information about Climate-positive operations, refer to Sustainability notes on pages 110–131.

Climate change is one of the biggest challenges of our time, and is creating both risks and opportunities for Södra. Our climate-smart products are part of the solution, but we will also need to adapt our activities, both forestry and industrial, to climate change.

Higher rate of forest growth

Growing forests absorb carbon dioxide, especially when they are managed responsibly. The long-term trend in Sweden is that forest growth is increasing and we now have more forest than ever before. For every tree harvested, Södra's members plant at least three seedlings and they choose tree species in order to increase diversity.

Södra's has introduced several initiatives to increase forest growth responsibly:

- » Produce and improve seedlings, develop low-impact management methods and other measures such as nutrient recycling with bio-ash.
- » Advisory services for members, where effective methods for wildlife damage and control are key elements.
- » Supporting research into forestry and forest management methods.
- » Wildlife initiatives with the target that browsing damage will reach acceptable levels in at least half of the moose management areas by 2021.

Fossil-free production

Södra's production processes are now almost fossil-free and mostly powered by biofuels. Our own operational machinery and internal transportation mainly runs on HVO fuel, a bio-based alternative to petrodiesel, and we are working to increase the electrification of, for example, forklifts. The remaining emissions from Södra's industries are derived from fossil fuel oil which is mainly used when starting up, but also from the use of chemicals in the pulp mills. In forests, emissions are derived from harvesting and other forestry operations, but harvesting under Södra's own management is fossil-free.

In 2020, there was no improvement for the fossil-free production and transportation targets. Due to the COVID-19 pandemic, investments that would have enabled the pulp mills to run without fossil fuel oil, even during start-up and operational disruptions, were postponed. Emissions from transportation rose due to an increase in the total number of transports with a lower percentage of renewable fuels. We carried out several activities during the year that will reduce greenhouse gas emissions from Södra and in Södra's supply chain in both the short and long term.

Fossil-free transportation

Transportation is the main source of Södra's greenhouse gas emissions and we are working to achieve fossil-free transportation by 2030. HVO fuel is available at all filling stations at Södra's mills and is also offered to external transportation companies.

Through various partnerships, we are working actively to reduce carbon dioxide emissions from freight transport by, for example, using rail freight instead of road haulage, and to stimulate technological advances.

We have been actively involved in the Fossil Free Sweden initiative for some time, and business policy lobbying is important.

To promote commuting with electric vehicles, more than 100 charging points have now been installed on our sites. Biomethanol production and investments in new biofuel development through Silva Green Fuel and SunPine are helping to increase fossil-free alternatives.

Forest products are helping to develop the bioeconomy

Södra's mill operations process the forest raw material into paper and dissolving pulp, sawn timber, building systems and renewable energy. These products have very low carbon dioxide emissions. Through innovation and by processing our products, we are meeting the growing demand for sustainable and climate-smart products in the evolving circular bioeconomy.



Trends and social development

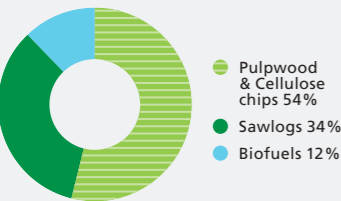
The COVID-19 pandemic has driven digitisation and e-commerce trends. Other global trends that are showing no signs of abatement are continued strong demand for climate-smart products and increased urbanisation. Södra's products and solutions are valuable in all these areas.

| Trend → | Increased digitisation | Increased focus on climate change | Demographic changes | Increased e-commerce and global transactions |
|--------------------------|---|--|---|---|
| What this means | Increased digitisation and use of new technologies. This trend has been driven by COVID-19 over the past 12 months. | The focus on climate change is growing. We see a move towards low-carbon consumption behaviour and increased demand for sustainable and bio-based products. | A growing and ageing population, with more people living in cities. Developing economies are growing and an emerging middle class is increasing consumption. | E-commerce is growing, as well as cross-border commerce. We see new business and distribution models. The trend has been strengthened during the COVID-19 pandemic. |
| Possible impact on Södra | <ul style="list-style-type: none"> » Lower demand for publications, newsprint and office paper is affecting demand for some types of paper pulp. » We are running digitisation projects that create added value in: <ul style="list-style-type: none"> – Customer support & customer experience – Efficient internal processes and data-driven analysis – Efficient industrial processes – New business models & products. | <ul style="list-style-type: none"> » Södra's climate-positive effects – the members' forests absorb carbon dioxide and we are replacing fossil-based products with forest-based products. » Our members' forests are managed sustainably and with a long-term approach, but climate change could affect growth and levels of damage. » We follow the tree along the entire value chain – from seed to customer – enabling traceability and assurance. » We produce renewable electricity and heat for the local community in our mills. » Growing demand for climate-smart products that can replace fossil-based products is creating market advantages. » Emerging opportunities with circular products and business models. » We support relevant research in the area and promote innovation to develop new sustainable and climate-smart products. | <ul style="list-style-type: none"> » Overall, urbanisation has had a positive impact on demand for our products – paper and dissolving pulp, sawn timber, timber building systems, renewable packaging materials, liquid biofuels and renewable electricity and heat. » Increased demand for high-rise timber buildings is creating opportunities for cross-laminated timber. » Increased demand for pulp-based hygiene products such as nappies and toilet paper. | <ul style="list-style-type: none"> » Increased demand for transport packaging materials. » Demand for liquid biofuels is growing due to increased transportation. » A global shortage of fresh fibre – Södra's members are creating secure supplies of raw material for our mills. » Favourable conditions for increased exports and strategic initiatives in emerging markets. |

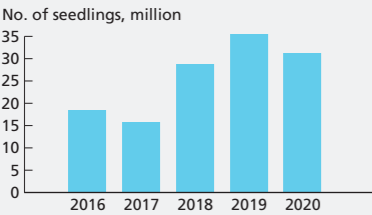
Forest management in the wake of the spruce bark beetle and COVID-19

During the COVID-19 pandemic, forests and forest management continued to play an important role in society. Due to growing demand for sustainable products, demand for forest raw material is expected to increase even more in the coming years. The spruce bark beetle remains a threat to our operations. During the year, we mobilised against the effects of spruce bark beetle damage together with our entire supply chain.

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



SEEDLING SALES
Total sales of seedlings declined to 34 million (38). Nearly all of these were coated with mechanical plant protection.



Did you know that:

In the 'Min skogsgård' app, which is available to all of Södra's members, forest owners always have access to their forest management plan and can make notes and save photos of their forest stands.

Wood to our mills and forestry services

Södra purchases forest raw material and delivers it primarily to its own mills, where the raw material is processed into sustainable products that are sold all over the world. Most of the wood comes from our members' forests, but some is sourced from other suppliers. By offering forestry services and digital tools, we are helping our members conduct responsible and profitable family forestry.

Mobilisation against the spruce bark beetle

In 2020, the widespread spruce bark beetle outbreaks continued. While the situation was less serious than in prior years, the estimated damage for Södra's members is 1.4 million m³. By engaging our entire supply chain, from forest owners and contractors to employees and industry, we prevented substantial economic losses from damaged wood.

We have created a special range for spruce bark beetle-damaged wood and as our pulp mills and sawmills have adapted their production processes, we have continued to deliver large volumes to our various markets.

Forest growth and secure wood supplies

The transition to a bioeconomy is increasing demand for forest raw material. We are working for sustainable forest growth combined with environmental and social consideration to secure future wood supplies. Some example are:

- » We are developing a new planting machine that can achieve better regeneration results, cause less damage to soil and improve the quality of planting.
- » Production of seedlings with higher plant growth and stress resistance, which is particularly important since climate change could increase outbreaks of both known and new pests, such as fungi and insects.
- » Higher percentage of pine. Pine seedling sales hit record levels in 2020. Planting the right tree in the right place increases forest resilience and promotes forest growth. At the same time, the focus on wildlife control has intensified which will hopefully protect pine seedlings from browsing damage.
- » Inventory of forest roads. Together with Biometria and other forest industry companies, we are classifying more than 100,000 km of forest road in Götaland. The aim is to improve road conditions for the hauliers, and to help forest owners improve the standard of their own forest roads. We have also produced a series of training videos in the subject.



The best part of my job is being close to forests and nature.

Jennifer Lönngqvist
Log truck driver



More digital services in the 'Min skogsgård' app

The COVID-19 pandemic has strengthened the trend towards virtual meetings. For our members, the 'Min skogsgård' app provides an efficient method for communicating with Södra and for planning work on their forest estates with their forest management plan. During the year, we updated the app with a range of new services.

The future & forward focus

Despite a sharp drop in global economic activity during the COVID-19 pandemic, the forest industry's major demand for forest raw material continued. In the long term, it is expected to continue growing in pace with increasing customer demands for climate-smart and more sustainable products. In the short term, we will continue to work together to handle and process spruce bark beetle-damaged wood.

Our long-term efforts to promote forest growth will continue in our members' forests, and in Södra's own forests in Sweden and the Baltics.

SÖDRA SKOG

| Key indicators | 2020 | 2019 |
|--|--------|--------|
| Net sales, SEK million | 11,510 | 11,980 |
| of which to own industry | 6,932 | 7,415 |
| Operating profit, SEK million | 445 | 298 |
| Operating profit, excl. changes in biological assets | 97 | 173 |
| Return on operating capital, % | 9 | 6 |
| Investments, SEK million | 126 | 145 |
| No. of employees | 601 | 602 |

| Acquisition of wood | 2020 | 2019 |
|-----------------------------|------|------|
| Total, million m³fub | 17.1 | 17.4 |
| From members, total | 10.6 | 10.4 |
| – as wood deliveries | 1.7 | 1.7 |
| – as harvesting assignments | 8.9 | 8.7 |
| Imports | 0.8 | 1.3 |
| Other (including woodchips) | 5.8 | 5.7 |

Wood volumes acquired from members rose 6 percent year-on-year. Total wood raw material purchased includes inventory changes of –0.3 million m³sub.

| Forestry services | 2020 | 2019 |
|-----------------------------------|--------|--------|
| Harvesting, million m³sub | 9.1 | 8.9 |
| Site preparation, ha | 11,500 | 11,900 |
| Cleaning, ha | 21,300 | 15,600 |
| Forest management plans, 1,000 ha | 133 | 131 |
| Seedling sales, million | 34 | 38 |

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

| Growth in Södra's forests 2020, million m³fo | Sweden | Baltics | Total |
|--|--------|---------|-------|
| Opening volume 2020 | 1.0 | 14.2 | 15.2 |
| Net growth | 0.04 | 0.7 | 0.7 |
| Acquisitions/divestments | — | 0.3 | 0.3 |
| Harvesting/forest management | –0.02 | –0.5 | –0.5 |
| Closing volume 2020 | 1.0 | 14.7 | 15.7 |

Generating more value together



TARGET

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

OUTCOMES 2020

- » The harvest rate was 6.2 m³/ha and year, within the sustainable harvest rate.
- » The proportion of approved regeneration harvest sites in the Green Balance Sheet was 79 percent.
- » The area in which nature-conservation measures were performed was 1,636 ha.

For more information about Sustainable forestry, refer to Sustainability notes on pages 110–131. The Green Balance Sheet report is available at sodra.com

Responsible forest management comes naturally for Södra's members. A common denominator is the desire to hand over something with even more value than it has today – not only financial value, but also natural, cultural and social value.

Responsible forest management generates value for future generations

Södra's foundation is based on cooperation. Most of Södra's members are small forest owners with a range of different goals and ambitions for their forest estates, at the same time as production, environmental and social considerations must be harmonised. This creates diversity and variation in forest management. A common denominator for the forest owners is their desire to hand over something to the next generation with more value than it has today. They manage their forests, use them responsibly and ensure that all forest values grow.

Södra's green forest management plan with blue management targets for aquatic environments, the joint environmental objectives and forest management certification are key instruments for preserving all forest values for the future. Maintaining the harvest rate within the long-term production capacity of the forest is fundamental.

Management promotes biodiversity and aesthetic values

Many forest values have arisen from how forests have been managed historically. To preserve and develop these values, we need to continue managing our forests responsibly. By adopting a holistic approach, where we are always trying to combine production with environmental objectives and social values as far as possible, we can create a win-win situation for forests, forest owners and society. Examples include management of hardwood-dominated stands or conservation set-asides where spruce must be controlled in order to preserve and develop environmental and social values. Areas where these types of nature-conservation measures are applied need to increase.

Higher percentage of pine and more mixed coniferous stands

Increasing the percentage of pine and mixed coniferous forests in Götaland is important. This relates to production,

NEW FSC® FOREST MANAGEMENT STANDARD

In 2020, FSC® adopted a new forest management standard entailing that, in addition to setting aside 5 percent of objects for conservation measures, management practices must be adapted on an additional 5 percent of the forest land based on environmental and social criteria. The new standard also entails a greater focus on the social values of forests.

Approximately two-thirds of Södra's affiliated forest area is certified under Södra's group certification. Södra holds both PEFC (PEFC/05-22-11) and FSC® (FSC-C014930) certification.

nature conservation and enhancing the social values of forests, while we are also creating forest stands that can adapt to climate change. This also includes increasing the proportion of rowan, aspen, sallow and oak in young forests and allowing them to develop into fully grown trees. The measures must go hand in hand with a wildlife population adapted to the availability of food. 'The right tree in the right place' and having a range of forestry measures is also important for meeting the challenges of climate change.

Green Balance Sheet – confirmation of management and regeneration

Every year, Södra compiles a Green Balance Sheet where forest management auditors review and determine whether regeneration harvests, thinning, nature-conservation measures and regeneration operations have met the requirements for sustainable forestry.

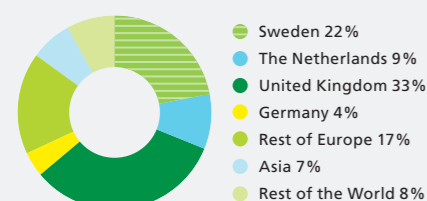
The outcome was lower in 2020 due to shortcomings in cultural environment considerations and not leaving stumps around cultural heritage sites. Nor did we meet our own targets for leaving forest residue (branches and treetops). This measure is intended to increase the amount of dead wood in managed forests. The follow-up of cultural heritage stumps and forest residue has recently been added to the Green Balance Sheet and in 2021, we will be working actively to achieve a better result.



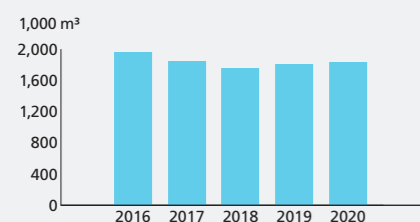
Timber construction is getting wider and higher

Due to a high degree of flexibility, we were able to meet the sharp increase in demand for sawn timber during the second half of the year. Wood Solutions has also enabled us to broaden our offering to meet new demands for comprehensive solutions and customisation.

SALES PER MARKET



SAWN TIMBER PRODUCTION



Did you know that:

Södra is supplying cross-laminated timber for the construction of Hoppet preschool in Gothenburg, which has a clear sustainability profile. The construction project's carbon dioxide emissions are 70 percent lower than any other newly constructed and comparable preschool in Gothenburg. The frame comes from Södra's CLT facility at Värö, and the wood comes from responsibly managed forests.

Trees are the future

Södra offers sawn and processed wood from its own facilities in Sweden and Finland to:

- » the building trade
- » construction, packaging and wood processing industries

With building systems for timber-framed building structures in cross-laminated timber (CLT), we are creating opportunities for large-scale timber construction. Most the wood raw material comes from our members' responsibly managed forests. We process the wood that is not used for sawn timber into wood-based products, such as shavings or wood pellets.

Strong sawn timber market

The year opened weakly with profitability strain and major uncertainty due to COVID-19, which forced us to furlough employees in Sweden, Finland and the UK. This uncertainty was rapidly replaced by a sharp increase in demand, especially from the building trade in Sweden, which periodically rose to 30–40 percent above normal. Demand also grew in our export markets, especially in the US. In Asia, primarily China, the rate of improvement was slower.

Stocks were low across our entire supply chain throughout most of the year. This led to real price hikes for sawn timber from mid-year.

High-rise timber-framed buildings using cross-laminated timber

CLT offers huge potential for growth as timber-frame construction increases. Our CLT facility at Värö is already supplying more and more building systems for high-rise timber-framed structures. During the year, we continued to invest in our new CLT facility, which will have a production capacity of approximately 100,000 m³ and is scheduled to start up in the first half of 2022.



We usually say that the future is made of trees, and I would like to be part of that future.

Ida Lagergren
Process technician



Wood Solutions – customised service packages

While our physical wood products are often quite similar, the needs of our customers and the challenges they face in their respective markets vary. Small builders' merchants require on-time deliveries of smaller volumes. At the same time, the construction industry requires large volumes of advanced façade products, for example. Our CLT building systems are customised for every construction project, enabling faster installation and efficient construction processes. With our services in Wood Solutions, we are taking a holistic approach and deepening our customer relationships with new customised service packages and logistics and transportation solutions. We create added value at all stages – for our customers, suppliers and owners.

The future & forward focus

The positive trend in 2020 will probably continue and we expect demand for sawn timber and building systems to remain favourable in the first part of 2021. Long-term, the climate transition and demand for sustainable timber-frame construction will continue to drive demand for both sawn timber and processed wood products.

SÖDRA WOOD

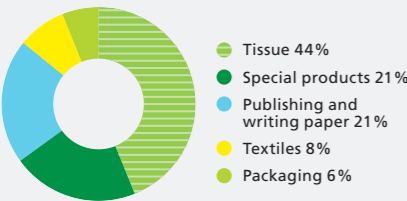
| Key indicators | 2020 | 2019 |
|----------------------------------|-------|-------|
| Net sales, SEK million | 6,220 | 5,756 |
| Operating profit, SEK million | 416 | 262 |
| Return on operating capital, % | 13 | 8 |
| Investments, SEK million | 292 | 384 |
| No. of employees | 928 | 910 |
| Production, 1,000 m³ | 1,834 | 1,809 |
| Saw log consumption, 1,000 m³sub | 3,622 | 3,582 |

Biomethanol, more textile recycling and more efficient pulp production

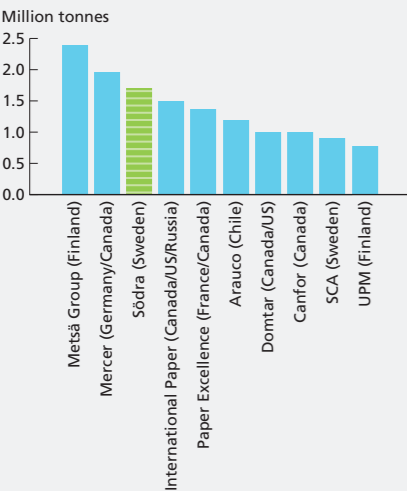
Despite declining global growth in the shadow of COVID-19, we managed to streamline our production and increase delivery volumes from our pulp mills. During the year, we also inaugurated the world's first fossil-free biomethanol plant and increased the amount of recycled material in our OnceMore® dissolving pulp.

APPLICATIONS FOR SÖDRA'S PULP

Sales to the tissue paper segment account for most of Södra Cell's pulp deliveries.



LEADING GLOBAL PRODUCERS OF BLEACHED SOFTWOOD SULPHATE PULP



State-of-the-art pulp mill produces sustainable pulp and bioproducts

Södra has three pulp mills in Sweden (at Värö, Mönsterås and Mörrum), all of which produce paper pulp and are close to fossil-free. At Mörrum, we also produce dissolving pulp and the unique OnceMore® pulp from textile waste mixed with forest raw material. In addition to paper pulp, all of our pulp mills produce bioproducts and supply their local communities with large quantities of green energy.

Increased market share despite the pandemic

Global growth contracted sharply due to COVID-19. However, we succeeded in growing our market share in Europe and retaining our strategic position in Asia, especially in China, with both higher production and delivery volumes than in 2019. Pulp prices were low, but rose slightly during the year.

By adapting the production process at Mönsterås, we were able to process spruce bark beetle-infested wood into high grade pulp while preventing substantial economic losses from damaged wood for our members.

At the year's planned maintenance shutdown at the mills, we took special protective measures to help prevent the spread of COVID-19.

Expansion 2.0 is increasing capacity and process quality at Värö

We have invested heavily in Värö in recent years, and are now taking the next step. Expansion 2.0 means that we will gradually increase production capacity from the current level of 720,000 tonnes to 780,000 tonnes, and eventually to 850,000 tonnes. At the same time, we are developing the fossil-free production processes. Expansion at the Värö mill will help us meet the growing demand for sustainable products.

Liquid Forest™ – sustainable bioproducts

Bioproducts are an emerging product category. Bioproducts such as tall oil, turpentine and biomethanol are gathered under the Liquid Forest™ brand.

In October, the Swedish Minister for Enterprise, Ibrahim Baylan, inaugurated the world's first fossil-free biomethanol plant at the pulp mill in Mönsterås. Biomethanol is produced from forest raw material during the pulp production process. It is an important additive in many products – and a fuel of the future.



The best thing about this job, apart from my colleagues, is the opportunity to develop.

Kasiraporn Mahanil
Maintenance engineer



OnceMore® – circularity in the textile value chain

OnceMore® is a ground-breaking technique for the large-scale production of dissolving pulp from textile waste that we launched in 2019. During the year, we increased the proportion of textile waste in the mix to 20 percent. The target is 50 percent and we are planning to increase our production capacity to 25,000 tonnes of textile waste by 2025. While Södra is driving this innovation, other parts of the textile supply chain must also develop their business models so that the circular bioeconomy can grow.

The future & forward focus

Despite the COVID-19 pandemic, 2020 was the second-best year after the record year of 2019 in terms of demand for long-fibre pulp. We noted continued growth in demand for packaging, tissue and speciality products, but a sustained decline for publishing and writing paper. Demand for pulp is expected to continue in the coming years with price stability at a higher level. Our investments in further processing of bioproducts and textile waste are increasing future business potential.

Did you know that:

Under the Liquid Forest™ brand, we are producing more and more from every tree in liquid form and making:

Biomethanol – a fuel and basic chemical in manufacturing processes.

Tall oil – used to produce biofuels, cosmetics and cleaning agents.

Turpentine – used as a dilutive agent and solvent in paints and fragrances.

SÖDRA CELL

| Key indicators | 2020 | 2019 |
|----------------------------------|--------|--------|
| Net sales, SEK million | 10,227 | 12,594 |
| Operating profit, SEK million | 317 | 2,511 |
| Return on operating capital, % | 2 | 19 |
| Investments, SEK million | 1,001 | 684 |
| No. of employees | 1,193 | 1,185 |
| Production, 1,000 tonnes | 1,864 | 1,869 |
| – softwood sulphate pulp | 1,604 | 1,568 |
| – hardwood sulphate pulp | 122 | 145 |
| – dissolving pulp | 138 | 156 |
| Fibre consumption, million m³sub | 8.9 | 8.9 |
| – of which softwood fibre | 7.7 | 7.6 |

| Production | 1,000 tonnes | 2020 | 2019 |
|------------|-------------------|-------|-------|
| Mörrum | | 393 | 434 |
| of which | softwood sulphate | 255 | 278 |
| | dissolving pulp | 138 | 156 |
| Värö | softwood sulphate | 725 | 675 |
| Mönsterås | | 746 | 760 |
| of which | softwood sulphate | 624 | 615 |
| | hardwood sulphate | 122 | 145 |
| Total | | 1,864 | 1,869 |

We also create benefits outside forests

Our core business revolves around forests and forest products, but Södra is also showing the way towards a sustainable future with sustainable innovations and efficient use of forest raw material in more applications. Renewable green energy and bioproducts are two examples.



Renewable wind energy and pulp mills

Södra Vind AB is a subsidiary that operates six wind turbines directly adjacent the pulp mill at Mönsterås. In 2020, the wind turbines generated 36 GWh (32).

Södra Medlems AB is a subsidiary that offers green electricity from the pulp mills and wind turbines to members, employees and partners. In 2020, the number of customers was 5,338 and the sales volume was 80 GWh (82).

Resource-efficient and smart bioproduct initiatives

SunPine AB is a world-leading biorefinery owned 25 percent by Södra. The company produces second-generation renewable fuels and green chemicals from crude tall oil, which is a by-product of the pulp production process. SunPine also converts crude tall oil into bio-oil, an alternative to fossil heating oils for industry, rosin, which among other things is used to produce printing inks and adhesives, and turpentine, which is used in the perfume industry. In 2020, SunPine produced 101 ktonnes of crude tall diesel and 17 ktonnes of rosin. Södra's share of SunPine's profit was SEK 3 million (9). The other owners of SunPine are Preem, Sveaskog and Lawter.

Södra Silva Holding AB is a wholly owned subsidiary that owns 49 percent of Silva Green Fuel. The remaining 51 percent is owned by Norwegian Statkraft. Silva Green Fuel's mission is to develop a cost-efficient technology for the large-scale production of second-generation liquid biofuels based on by-products, such as wood, shavings and bark. Södra and Statkraft have made a joint investment of about SEK 500 million in a demo facility at Tofte in Norway. Construction commenced in 2020 and the facility is expected to reach a production capacity of about 4,000 litres of liquid biofuels per day. Production is scheduled to commence in 2021.



Trivselhus divested

In December, Södra divested Trivselhus to Svensk Husproduktion and ownership will be transferred on 1 March 2021.

Swedish wood – a global product

Södra is one of the largest forest industry groups in Europe and we export pulp and sawn timber all over the world.

Our core markets are in Europe and Asia. Exports account for about 80 percent of our sales.

One of the largest pulp producers in the world

Our pulp mills at Mönsterås, Mörrum and Värö are close to fossil-free and produce softwood sulphate, hardwood and dissolving pulp. We are one of the leading global producers of bleached softwood sulphate pulp.

Our customers are mainly European tissue, specialty paper, packaging and publishing paper manufacturers. The tissue paper market is growing in Asia, especially in China.

A leader in sawn timber

At our seven sawmills and planing mills in Sweden and Finland, we produce sawn timber, processed wood and construction products. Customers include the building trade, and construction, packaging and wood processing industries. Demand for CLT building systems is growing as timber frame construction increases.

Södra is one of the leading producers of sawn timber in Europe and mainly conducts sales in northern Europe, where the UK is the largest market.

We make more from every tree

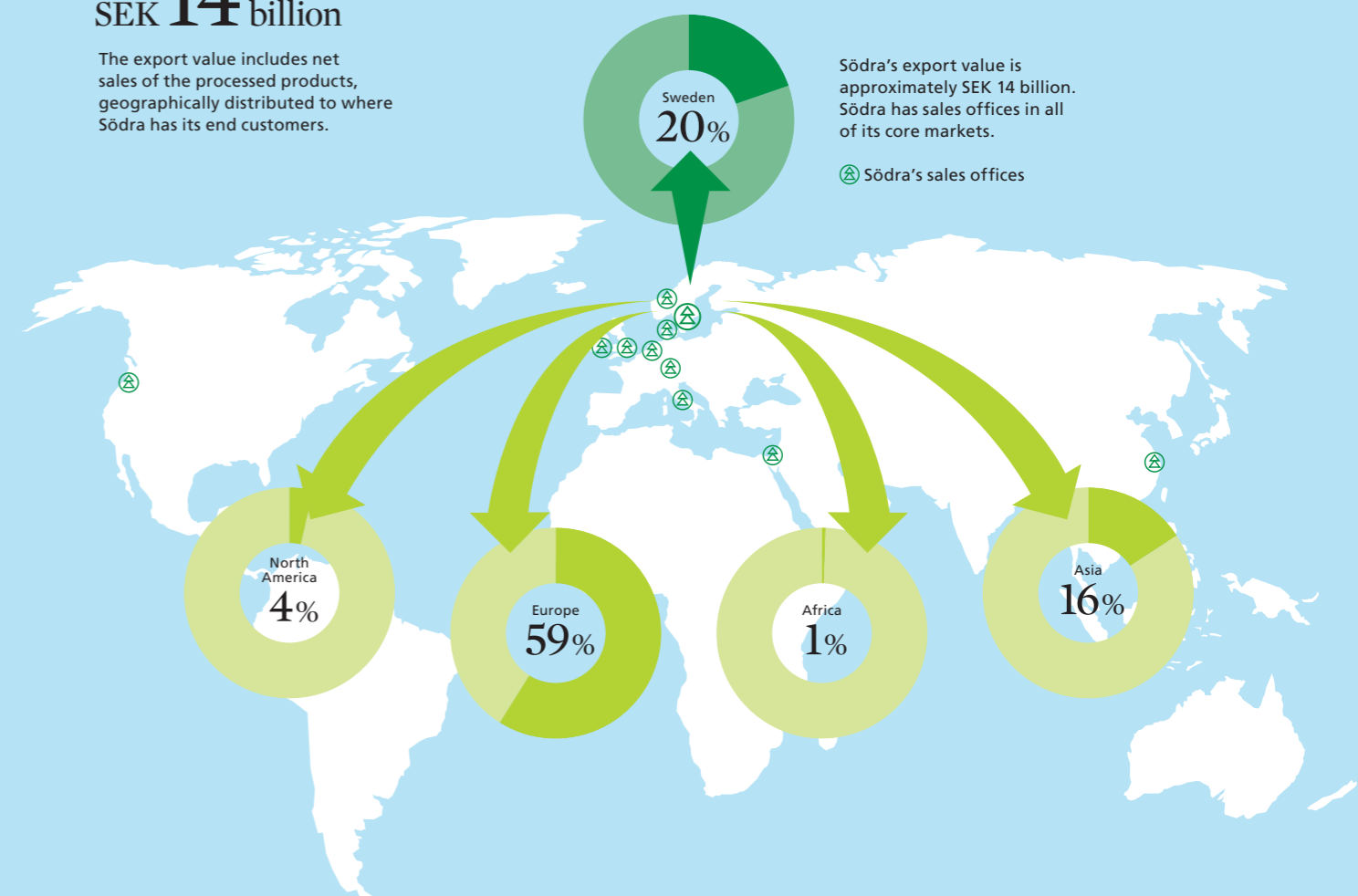
Södra is also developing new sustainable and climate-smart products based on forest raw material, such as biofuels, green electricity, district heating, liquid biofuels and bioproducts, and biomethanol is also exported to Denmark.

1.9+1.8

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

SEK 14 billion

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



Resource utilisation benefits everyone



TARGET

- » 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 2020

- » Electricity and heating consumption for pulp was 7 percent (electricity) and 15 percent (heating) lower, respectively, compared with base year 2015.
- » Electricity and heating consumption for sawn timber was 5 percent (electricity) and 14 percent (heating) lower, respectively, compared with base year 2015.
- » Electricity generation exceeded electricity consumption – net delivery was 530 GWh.

For more information about Resource efficiency, refer to Sustainability notes on pages 110–131.

By optimising the way we use our resources, we are reducing our own environmental impact and creating demand for alternatives to fossil-based products. That will also strengthen our competitiveness, efficiency and profitability.

More products from the raw material

The main resources used in the production processes at our mills are:

- » wood raw material
- » sawn timber
- » chemicals
- » packaging materials
- » water

Efficient use of wood raw material and chemicals reduces our environmental impact, lowers costs and strengthens profitability. This area is therefore important if we want to become more competitive. Several research and development projects are currently taking place to help us become even better at using every fibre from a material and energy perspective in both existing and future production processes.

Water efficiency

Water supply and consumption is a key issue for Södra. Water is a strategic resource and will receive a greater focus moving forward. To optimise the efficiency of our water consumption, the pulp mills use a range of water-conservation measures when washing pulp. Nearly all of our sawmills recirculate the water used for wetting down logs. We also make sure to save water by using efficient irrigation systems that adjust the amount of water to the evaporation rate.

Södra acquired the Karlshammar power plant to gain better control of the water flow to the pulp mill at Mönsterås. The fish passage past the power plant has been inadequate for several decades, but the new fauna passage inaugurated last autumn makes it easier for fish to swim both upstream and downstream in the Emån River.

Value generation from new products and circular flows

In addition to pulp and sawn timber, Södra's mills produce a range of other products. They are used in construction materials, as biofuels, for the production of liquid biofuels and as raw materials in the chemical industry. One example is biomethanol which, as of this year, will be produced from crude methanol, a by-product of the pulping process at the pulp mill in Mönsterås. Crude methanol was previously used as an internal fuel for energy generation.

Another notable example of Södra's innovation capabilities when it comes to new materials and processes for the circular bioeconomy is OnceMore,[®] which enables large-scale recycling of textiles that would otherwise become waste and using them to produce new textiles instead.

Large-scale production of renewable energy

Södra is almost self-sufficient in renewable energy for its own industrial processes. The energy is generated in our pulp mills and sawmills and mainly derived from wood raw material. If needed, energy requirements are supplemented by purchasing biofuels and, to a limited extent, fossil fuels.

Our various industrial operations also generate large amounts of excess green energy that is delivered to external customers in the form of renewable electricity, district heating and biofuels. By continuing to focus on energy efficiencies, our green energy deliveries will increase as we move forward.

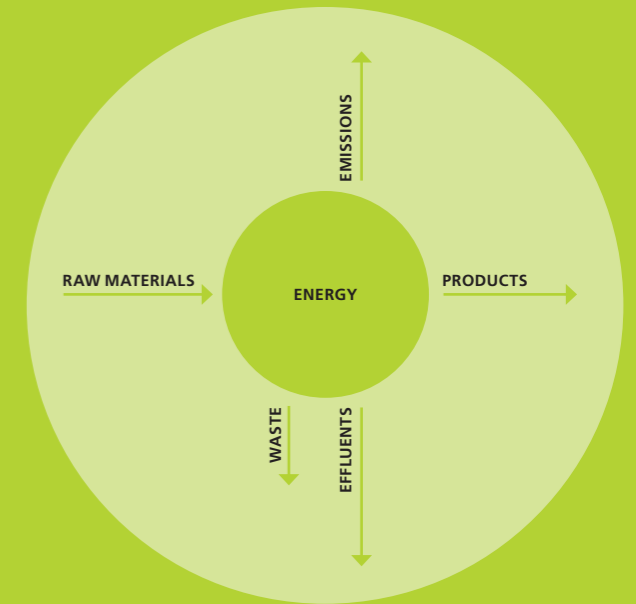
In 2020, electricity generation exceeded electricity consumption, allowing us to deliver large amounts of electricity to the local community. We also met the 2025 heating consumption targets for pulp and wood products. Electricity consumption remained unchanged for pulp, but improved year-on-year for sawn timber.

We are minimising our effluents, emissions and waste

Resource efficiency requires determined efforts to consistently reduce the emissions, effluents and waste generated by our operations. Emissions are mainly derived from our pulp mills and transportation. Effluents are mainly attributable to the pulp mills and are treated in the mills' internal wastewater treatment systems.

Surrounding areas may be affected by odours, dust and noise from our industrial and forestry operations.

By creating new solutions for material and energy recovery, we are reducing our waste volumes. Bio-ash from the pulping process at the mills is recycled in a sustainable ecosystem approach by using the nutrient-rich ashes to promote forest growth.



There has been an Environmental Product Declaration (EPD) for Södra's cross-laminated timber (CLT) since 2020. The EPD communicates the environmental performance or impact of a product or material over its lifetime. Knowledge about raw material and energy consumption, effluents, emissions and waste are key parameters. Södra's EPD for CLT shows that the carbon dioxide emissions of a timber frame can be up to 80 percent lower than a standard concrete frame.

We owe our success to commitment and responsibility



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's employees will be women.
- » Södra's employees would be willing to recommend Södra as an employer, eNPS of 60 or higher by 2020.

OUTCOMES 2020

- » Sickness absence: 3.8%
- » Lost-time-accidents (LTA): 47
- » Lost-time-accident rate (LTAR): 9
- » Percentage of women employees: 23%
- » eNPS: 13

For more information about Responsible employer and committed employees, refer to Sustainability Notes on pages 110–131.

Committed employees are the key to Södra's success as an attractive and responsible employer. Together we are all responsible for a safe, stimulating and inclusive workplace, where all employees can help to create value.

Strong set of values and inclusive organisational culture

All efforts to develop Södra into a next-generation innovative forest company are based on Södra's set of values – value-generating relationships, a long-term approach. We respect the right of every employee to be valued and treated fairly, and have the same rights and obligations regardless of sex, gender identity or expression, ethnic affiliation, religion or other faith, disability, age or sexual orientation.

Unfortunately, our efforts to improve gender equality did not have the desired effect during the target period and we therefore need to step up our efforts in this area.

Specific measures during the pandemic

The health and safety of our employees is a top priority. In 2020, the COVID-19 pandemic had a major impact on the work situation for our employees. To minimise the risk of spreading the virus, we continued to follow the Swedish Public Health Agency's recommendations and adapted

the way we work to keep our business running. The pandemic has changed our day-to-day routines and led to more remote working, virtual collaboration tools and restrictions on visits and travel. At the same time, we have expanded our training programme with a higher proportion of online courses, which will also be useful after the pandemic. To support managers and leaders, we created the 'Leda på distans' (Remote management) training programme during the autumn. While leadership is affected by remote working, it has not undergone any fundamental changes. We are also involved in 'Beredskapslyftet' (the Skill Shift Initiative), which has enabled employees with care experience to be a resource for the healthcare system.

While sickness absence partly reflected the pandemic in 2020, our initiatives to contain the spread of the virus were effective.

Zero accident vision

Södra shall offer a safe and secure workplace for employees and contractors, with a zero accident vision. The number

FOCUS AREAS FOR EMPLOYEES AND ORGANISATION:

- » Teams and teamwork: Effective teams, teamwork and diversity.
- » Sustainable leadership: Inclusive, responsive, stimulating and coaching leadership.
- » Culture and set of values: Clear, collective action and behaviour pave the way for a shared, safe and attractive culture.
- » Learning and change: Curiosity and an ability to change create conditions for learning and the right competence.



of occupational injuries is falling rapidly in line with systematic occupational health and safety (OHS) management and proactive measures. The foundation is a holistic approach to training, a safety mindset and risk assessments for all aspects of the work environment.

We invested heavily to increase safety, in the form of better safety equipment and technical solutions, with a greater focus on preventive safety measures.

Our 'Säkrare mottagningsplatser' (Safer delivery sites) project takes a holistic approach, ranging from signage to training, in an effort to create Sweden's best delivery sites in the forest industry. The project has involved both Södra's employees and contractors.

During the year, the Interim President and HR Director conducted 'Safety walks' at most of Södra's units to focus on systematic OHS management at local level.

Developing competencies for continuous improvement at all stages

The forest industry is becoming increasingly knowledge-intensive and we are

continuously working to support our employees, managers and contractors by offering competency development. Combined with continuous improvement, this enhances efficiency and provides opportunities for personal development. We also want to offer our employees new and interesting challenges.

Community involvement strengthens Södra's role as an employer

We are working to break down traditional cultural barriers by increasing gender equality and diversity in several ways, including community involvement and partnerships with schools and universities. During the year, we entered into a strategic educational partnership with IKEA and Linnaeus University, focused on a combined forestry and innovation Master's degree programme. The aim is to gather expertise in a shared interdisciplinary arena with active exchange activities between academia and industry.

We also want to encourage young people to take an interest in science,

technology and maths and are therefore participating in IGE Day (Introduce a Girl to Engineering Day), Tekniskprången (engineering internships) and a pilot project within the scope of Maker Tour – Towards New Heights. By helping to build bridges between the business sector and schools, we are strengthening our long-term skills pipeline.

We are working in various ways to raise awareness of Södra as an attractive employer, such as posting videos on social media featuring employee portraits from various parts of our operations. In the Randstad Employer Brand Research, the most representative and inclusive employer brand research in the world that measures the attractiveness of Sweden's top 150 employers, we were ranked second in the 'Work-life balance' category and third in 'Gives back to society.' Our high rankings in these categories show that potential employees perceive Södra as a sustainable company.

The results of the employee satisfaction survey show that Södra is perceived as an attractive employer, but that we need to improve our employee offering.



TARGETS

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

OUTCOMES 2020

- » Percentage of suppliers that have signed the Södra Supplier Code: 77%.
- » Percentage of Södra's purchasing value for which suppliers had signed the Supplier Code: 97%.
- » Percentage of Södra's purchasing value for which a risk assessment of suppliers was performed: 95%.
- » The risk assessment resulted in a prioritised classification for 67 suppliers.
- » Percentage of prioritised suppliers that completed a supplier self-assessment: 87%.
- » Percentage of prioritised suppliers that were monitored on site (sustainability audit): 10%.
- » Group-wide efforts with the target for using sustainability-related criteria as a basis for investments and transactions have commenced and will continue during the coming strategy period.

For more information about Responsible business, refer to Sustainability notes on pages 110–131.

Everyone has to take responsibility

Södra prioritises sustainability in every aspect of its operations. The fact that we demand responsibility from our suppliers and employees is therefore natural and obvious. Our sustainability efforts also extend to the local community and its development.

Responsibility throughout the entire supply chain

Our success is based on the correct behaviour – in terms of high ethical standards and integrity – of our employees and partners, both locally and internationally. Södra's set of values – value-generating relationships, a long-term approach – mean that we take responsibility throughout the entire supply chain. Certification attests to the origin of wood raw material and products.

Committed employees and suppliers

The Södra Code of Conduct contains guidelines and rules for how employees and anyone representing Södra should behave.

We place high demands on our suppliers and the Södra Supplier Code contains guidelines for how they should act in order for our partnership to work. The target is that the Supplier Code will be included in all supplier agreements.

We risk assess and evaluate all suppliers, and classify them using a number of sustainability criteria. We request that prioritised suppliers complete a self-assessment. We can also review their

operations by following up documentation or performing on-site audits. Most of our suppliers and contractors are based in Sweden or the EU, which makes evaluation and control easier.

Even though most of our suppliers have signed the Supplier Code, we did not meet our target, which is that all suppliers will have signed the Code. We have been developing tools and processes for assessing and evaluating compliance with our Supplier Code since 2015. In 2020, nearly all prioritised suppliers were evaluated. They were either audited, completed a self-assessment or both. Our efforts to include the Supplier Code in agreements, to assess and monitor suppliers, and to incorporate sustainability criteria into business decisions will continue.

Responsible forest management and traceable products

Södra purchases large volumes of wood raw material from its members. Because they are private forest owners, their deliveries are not covered by the Supplier Code. Nor are harvesting assignments or wood delivery contracts. Suppliers of wood raw material are reviewed instead on the basis of their compliance with

FSC® AND PEFC

- » FSC® and PEFC are global and international certification systems for forest management and forest products
- » FSC® = Forest Stewardship Council
- » PEFC = Programme for the Endorsement of Forest Certification

Forest management certification is a tool for responsible forest management. Customers are requesting products made from raw materials from certified forests.



FSC® and PEFC standards. This applies to both certified and non-certified members who have delivered wood to Södra during the year.

More and more consumers are demanding traceability and raw material from responsible forest management. Knowing the origin of the wood raw material has therefore become increasingly important in our contact with both suppliers and customers. Södra offers certified forest products with Chain of Custody certification from FSC® or PEFC.

Social responsibility is only natural for us

Södra is a major player in southern Sweden and we contribute to the local community in many ways. We process the forest raw material from our members' responsibly managed forests into socially beneficial and climate-smart products and services. We create jobs, sponsor local clubs and associations, deliver green energy and district heating and other added value, especially in small towns and rural areas. Södra's employees visit schools to speak about Södra as a company, and to spread knowledge about sustainable forestry and the climate benefits and values of forests. We arrange forest camps for children and young people and offer field trips, summer jobs, internships and degree projects.

For the third consecutive year, French company EcoVadis, which conducts Corporate Social Responsibility (CSR) assessments of companies, awarded Södra a top rating in the packaging, pulp and paper sector.



The future is made of trees



We prefer to do our own cleaning and thinning, but usually ask Södra for help when its time to harvest older forest. That feels safe.

Jiri and Helena Holasek
Södra's members

Södra is Sweden's largest forest-owner association with 53,000 forest owners as its members and owners. Every day, we work to process the forest raw material from our members' responsibly managed forests into renewable, climate-smart products and solutions that are exported worldwide.

The long-term profitability of forest estates and family forestry are central. Södra's members share the economic profits, but membership also offers a range of other benefits:

- » Advisory services, professional forestry services
- » Market for wood raw material
- » Support in forest policy issues
- » Local forest association meetings

We are working together to build a strong Södra and helping each other through ups and downs – from managing spruce bark beetles and storms to bringing successful innovations to the world.

Environmental and nature conservation values

The trees in our members' forests absorb and store carbon dioxide from the atmosphere. Forests are helping to combat climate change, all day, every day. And when renewable forest-based products are then used to replace products with a higher climate impact, forests are continuing to benefit the environment.

But forests do more than produce raw material for climate-smart products. Södra's members combine general environmental considerations with all forestry measures and set aside a proportion of their forest land voluntarily to protect and promote biodiversity and the social values of forests.



Society and cooperation

Södra's members have deep roots in the local community, often with many generations of forest ownership before them, and see it as their duty to engage actively with the local community, such as schools and associations. Both Södra and individual employees are active in various networks, and we work together with our customers in many parts of society, both in Sweden and internationally. Support for research and partnerships with universities and colleges is important to us and we offer work placements and internships for undergraduate students.

Employees

Södra has about 3,140 employees with a diversity of skills and competencies. As an employee, Södra offers many opportunities for development at both personal and professional level.

Customers & suppliers

Södra's customers and suppliers are both Swedish and international – approximately 80 percent of our production is exported. This means that the products and services we create from forest raw material can generate value all the way from Swedish forest estates, via our pulp, timber, bio and energy product customers, to end-consumers all over the world, and enable them to make a conscious choice to purchase sustainable products.

Never-ending opportunities



TARGETS

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

OUTCOMES 2020

- » In 2020, five new products with a better sustainability performance than today's options were commercialised: fossil-free biomethanol, OnceMore® dissolving pulp, paper pulp for wet-press moulded packaging, the 'Min skogsgård' app and the plant breded Söregårde spruce seedlings.

For more information about Sustainable innovations, refer to Sustainability notes on pages 110–131.

Forests play a key role in the transition to a bio-based society and our innovations are driving the emergence of a bioeconomy – where society is based on the use of renewable resources.

The target is to develop sustainable and profitable alternatives to today's fossil-based options, and to move forest products further up the value chain.

Substitution = replacing fossil-based raw materials

Using renewable forest-based products as a substitute for products from fossil raw materials is helping to reduce climate impact. This improves our sustainability performance while strengthening Södra's competitiveness.

New by-products that are strengthening our business

We invest in product and process development to improve our business competitiveness, but also to develop new methods for increasing forest growth. This process includes optimising the use of wood fibres and developing by-products, such as district heating, biofuel, green electricity, methanol, tall oil, pellets and green chemicals.

Swedish and international partnerships

Södra drives innovation both internally and through exciting partnerships with customers, or via networks with universities, research institutes and companies at the forefront. The external research projects that Södra participates in are often partially funded by national and international research programmes. In Sweden, for example, these include the Tresearch collaboration platform and the BioInnovation research programme with the vision 'that Sweden has a bio-based economy by 2050.' In Europe, we are involved in a consortium with the joint industry vision of 'The circular bio-society in 2050.'

Research focused on sustainability

In 2020, Södra invested SEK 193 million in research and development, corresponding to 1 percent of net sales. Several projects are linked to Södra's sustainability targets for fossil-free production and transportation.

Higher rate of forest growth

A higher rate of forest growth is one of Södra's prioritised sustainability targets. When we meet global climate change with an emerging bioeconomy, demand for forest raw material will grow. Södra is driving both internal and joint projects to increase forest growth, including:

- » Research into clonal propagation and reproduction of plants with somatic embryogenesis (SE)
- » A concept for mechanical planting and site preparation with better results than current methods, with no adverse effects on working conditions for contractors.

Liquid biofuels and the world's first biomethanol plant

The development of liquid biofuels is also a response to the transition required by global climate change. The biofuels market is growing, and liquid biofuels will increasingly replace fossil fuels. At the world's first fossil-free biomethanol plant at Mönsterås, we are converting residues from the pulping process into biomethanol. Södra's associate company SunPine produces tall oil which is used to make biodiesel. Another liquid biofuel project has begun within the framework of Silva Green Fuel, a joint venture between Södra and Statkraft. During the year, we invested in a demo facility at Tofte in Norway where wood by-products, such as shavings and bark, are used to make bio-oil, which can be upgraded to biodiesel.

OnceMore® is helping to build a more sustainable fashion industry

The ground-breaking OnceMore® technology was launched in 2019 with a 3-percent mix of textile waste in the dissolving pulp used to produce textile fibres. We have worked hard to increase the percentage of textile waste and OnceMore® now comprises 20 percent recycled textiles. Södra is driving this transition of the textile sector, but other parts of the textile supply chain must also transition to accelerate the circular bioeconomy.

OUR AREAS OF INNOVATION

- » Forest
- » Wood products
- » Paper
- » Textiles
- » Chemicals
- » Energy

THE SÖDRA FOUNDATION FOR RESEARCH, DEVELOPMENT AND EDUCATION.

We support basic research in forestry. Every year, the Södra Foundation for Research, Development and Education awards grants for research projects and training programmes that promote forest management and forest industry operations in southern Sweden. The Foundation has received SEK 300 million since it was founded in 1995. More than SEK 245 million has now been awarded to 200 projects.



Financial statements

Operating profit of SEK 891 million in challenging times

Södra posted operating profit of SEK 891 million (2,582) for 2020. This reflects the market conditions during the year, with a global pandemic, sharply contracted growth and a weak price trend for market pulp. Net sales amounted to SEK 20,351 million. The proposed profit distribution is SEK 598 million.

57%

Södra's equity ratio remained stable at 57 percent, which exceeds the long-term target of 55 percent.

2%

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

SEK 598 million

The proposed profit distribution is 80 percent of profit before tax.

The effect of assets held for sale is presented in the Consolidated statement of comprehensive income and Consolidated statement of financial position. The effect of assets held for sale is not included in the Consolidated statement of cash flows nor is it taken into account in calculated key indicators, which is not directly apparent from the income statement and balance sheet presented, since Södra uses these factors to manage all of its operations. Comparative figures for prior years have not been restated for the above-mentioned effect (from 2019 and earlier), but are reconcilable with historical reports.

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Multi-year summary

| | 2020 ¹⁾ | 2019 ²⁾ | 2018 | 2017 | 2016 ³⁾ | 2015 | 2014 | 2013 | 2012 | 2011 |
|--|--------------------|--------------------|--------|--------|--------------------|--------|--------|--------|--------|--------|
| RESULT | | | | | | | | | | |
| Net sales, SEK million | 20,351 | 23,183 | 24,230 | 20,518 | 18,482 | 18,267 | 17,339 | 16,580 | 16,807 | 18,191 |
| Net sales, change in % | –9 | –4 | 18 | 11 | 1 | 5 | 5 | –1 | –8 | –8 |
| Operating profit before depreciation, amortisation and impairment, SEK million | 2,164 | 3,897 | 5,654 | 3,009 | 1,887 | 3,146 | 2,552 | 937 | 145 | 2,183 |
| Depreciation, amortisation and impairment of assets, SEK million | –1,273 | –1,315 | –1,146 | –1,092 | –908 | –984 | –1,036 | –1,354 | –1,074 | –1,177 |
| Operating profit, SEK million | 891 | 2,582 | 4,508 | 1,917 | 979 | 2,162 | 1,516 | –417 | –929 | 1,005 |
| Operating margin, % | 2 | 11 | 19 | 9 | 5 | 12 | 9 | neg. | neg. | 6 |
| Financial income and expenses, SEK million | –145 | –87 | –77 | –87 | –66 | –90 | –56 | –33 | 10 | –122 |
| Profit before tax, SEK million | 746 | 2,495 | 4,431 | 1,830 | 913 | 2,072 | 1,460 | –450 | –919 | 883 |
| FINANCIAL POSITION | | | | | | | | | | |
| Non-current assets, SEK million | 19,150 | 18,805 | 18,408 | 14,932 | 14,413 | 11,948 | 10,044 | 9,230 | 9,770 | 9,170 |
| Inventories, SEK million | 3,364 | 3,835 | 3,649 | 3,036 | 3,097 | 2,801 | 2,615 | 2,570 | 3,073 | 3,409 |
| Equity, SEK million | 16,759 | 17,382 | 16,011 | 12,884 | 11,766 | 11,945 | 10,524 | 9,495 | 10,242 | 11,101 |
| Return on equity, % | 1 | 12 | 24 | 12 | 6 | 14 | 11 | neg. | neg. | 6 |
| Net debt, SEK million | 3,651 | 3,415 | 4,558 | 3,901 | 3,879 | 1,290 | 1,050 | 1,048 | 1,291 | 252 |
| Debt/equity ratio, times | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 |
| Average capital employed, SEK million | 21,039 | 21,104 | 19,029 | 16,493 | 14,600 | 12,639 | 11,349 | 11,434 | 11,909 | 11,026 |
| Return on capital employed, % | 2 | 12 | 24 | 12 | 7 | 17 | 13 | neg. | neg. | 9 |
| Total assets, SEK million | 29,253 | 29,337 | 27,094 | 23,104 | 21,671 | 19,248 | 17,229 | 15,998 | 16,874 | 18,262 |
| Equity ratio, % | 57 | 59 | 59 | 56 | 54 | 62 | 61 | 59 | 61 | 61 |
| CASH FLOW | | | | | | | | | | |
| Cash flow from operating activities, SEK million | 2,317 | 3,343 | 4,270 | 1,915 | 2,315 | 3,123 | 1,988 | 1,455 | 770 | 918 |
| Investments, SEK million | 1,549 | 1,128 | 4,380 | 1,606 | 4,256 | 2,959 | 2,046 | 952 | 1,708 | 1,738 |
| Cash flow after investments, SEK million | 646 | 2,227 | –142 | 356 | –1,581 | 218 | 267 | 597 | –815 | –793 |
| VOLUMES | | | | | | | | | | |
| Wood volume, million m³sub | 17.4 | 17.1 | 16.5 | 15.9 | 15.0 | 15.1 | 15.3 | 15.0 | 15.6 | 17.0 |
| Deliveries of biofuels, 1,000 m³l | 4,593 | 5,077 | 4,630 | 4,393 | 4,632 | 4,678 | 4,758 | 4,997 | 4,337 | 5,071 |
| Sawn timber production, 1,000 m³ | 1,834 | 1,809 | 1,761 | 1,841 | 1,955 | 2,031 | 1,932 | 1,624 | 1,451 | 1,381 |
| Pulp production, 1,000 tonnes | 1,865 | 1,869 | 1,786 | 1,712 | 1,429 | 1,512 | 1,521 | 1,774 | 1,782 | 1,912 |
| Electricity generation, GWh | 1,956 | 1,830 | 1,772 | 1,719 | 1,326 | 1,379 | 1,419 | 1,664 | 1,625 | 1,701 |
| SUSTAINABILITY ⁴⁾ | | | | | | | | | | |
| Fossil CO₂ from production, ktonnes | 70 | 70 | 103 | 81 | 99 | 87 | 131 | 185 | 233 | — |
| Fossil CO₂ from transportation, ktonnes | 227 | 207 | 196 | 191 | 199 | 193 | 210 | 235 | 281 | — |
| Rate of forest growth, m³fo/ha and year | 6.4 | 6.3 | 7.6 | 6.9 | 7.5 | 6.7 | 6.5 | 7.5 | 6.0 | — |
| Lost-time accidents (LTA) ⁵⁾ , no. | 47 | 62 | 77 | 94 | 94 | 75 | 104 | 89 | 81 | — |
| Lost-time-accident rate (LTAR) ⁶⁾ | 9 | 12 | 15 | 17 | 16 | 13 | 18 | 15 | 12 | — |
| OTHER | | | | | | | | | | |
| Profit distribution, SEK million | 598 ⁷⁾ | 1,068 | 1,795 | 868 | 602 | 1,002 | 553 | 281 | 295 | 436 |
| No. of members | 52,921 | 52,192 | 51,637 | 51,009 | 50,771 | 50,360 | 50,227 | 50,296 | 50,888 | 51,247 |
| Affiliated forest area, 1,000 ha | 2,696 | 2,637 | 2,591 | 2,517 | 2,481 | 2,440 | 2,392 | 2,368 | 2,362 | 2,373 |
| Members’ wood deliveries, million m³sub | 10.6 | 10.4 | 9.8 | 9.7 | 9.4 | 9.4 | 9.0 | 8.1 | 8.2 | 8.8 |
| No. of employees | 3,141 | 3,150 | 3,141 | 3,402 | 3,594 | 3,599 | 3,524 | 3,776 | 3,821 | 3,830 |
| USD/SEK (average rate) | 9.21 | 9.46 | 8.69 | 8.55 | 8.56 | 8.43 | 6.86 | 6.51 | 6.77 | 6.49 |
| EUR/SEK (average rate) | 10.49 | 10.59 | 10.26 | 9.64 | 9.47 | 9.35 | 9.10 | 8.65 | 8.71 | 9.03 |
| NBSK (average rate, USD/tonne) | 844 | 983 | 1,166 | 881 | 802 | 856 | 925 | 857 | 814 | 960 |

¹⁾ The effect of assets held for sale is presented in the Consolidated statement of comprehensive income and Consolidated statement of financial position. The effect of assets held for sale is not included in the Consolidated statement of cash flows nor is it taken into account in calculated key indicators, which is not directly apparent from the income statement and balance sheet presented, since Södra uses these factors to manage all of its operations.

Comparative figures for prior years have not been restated for the above-mentioned effect (from 2019 and earlier), but are reconcilable with historical reports.

²⁾ IFRS 16 Leases has been applied since 2019, which means that leases are now recognised as assets, instead of Other expenses. This has impacted income statements and balance sheets, as well as key indicators.

³⁾ 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 2011–2015 are reconcilable with historical financial statements.

⁴⁾ There are also comparative figures for 2011 but these have not been audited and are not therefore presented.

⁵⁾ LTA (lost-time-accident): occupational injury with absence.

⁶⁾ LTAR (lost-time-accident rate): the number of occupational injuries with absence per million hours worked.

⁷⁾ 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. The effect of assets held for sale is presented in the Consolidated statement of comprehensive income and Consolidated statement of financial position. The effect of assets held for sale is not included in the Consolidated statement of cash flows nor is it taken into account in calculated key indicators, which is not directly apparent from the income statement and balance sheet presented, since Södra uses these factors to manage all of its operations. Comparative figures for prior years have not been restated for the above-mentioned effect (from 2019 and earlier), but are reconcilable with historical reports.

NET SALES, CHANGE IN %

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|------------------------------------|--------|--------|--------|--------|--------|
| Opening | 23,183 | 24,230 | 20,518 | 18,482 | 18,267 |
| Closing | 20,351 | 23,183 | 24,230 | 20,518 | 18,482 |
| Assets held for sale | 679 | — | — | — | — |
| Closing incl. assets held for sale | 21,030 | 23,183 | 24,230 | 20,518 | 18,482 |
| Change | −9 | −4 | 18 | 11 | 1 |

Explanation

Shows Södra's growth.

Definition

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

| OPERATING PROFIT BEFORE DEPRECIATION, AMORTISATION AND IMPAIRMENT, SEK MILLION | | | | | |
|---|-------|-------|-------|-------|--------------------|
| | 2020 | 2019 | 2018 | 2017 | 2016 ¹⁾ |
| Operating profit | 891 | 2,582 | 4,508 | 1,917 | 979 |
| Assets held for sale | −537 | — | — | — | — |
| Operating profit incl. assets held for sale | 354 | 2,582 | 4,508 | 1,917 | 979 |
| Depreciation, amortisation and impairment of assets | 1,273 | 1,315 | 1,146 | 1,092 | 908 |
| Assets held for sale | 341 | — | — | — | — |
| Depreciation, amortisation and impairment incl. assets held for sale | 1,614 | 1,315 | 1,146 | 1,092 | 908 |
| Operating profit/loss before depreciation, amortisation and impairment incl. assets held for sale | 1,968 | 3,897 | 5,654 | 3,009 | 1,887 |

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, %

| | 2020 | 2019 | 2018 | 2017 | 2016 ¹⁾ |
|--|--------|--------|--------|--------|--------------------|
| Operating profit/loss before depreciation, amortisation and impairment | 1,968 | 3,897 | 5,654 | 3,009 | 1,887 |
| Net sales | 21,030 | 23,183 | 24,230 | 20,518 | 18,482 |
| EBITDA margin | 9 | 17 | 23 | 15 | 10 |

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

| | 2020 | 2019 | 2018 | 2017 | 2016 ¹⁾ |
|---|---------|---------|---------|---------|--------------------|
| Net sales | 20,351 | 23,183 | 24,230 | 20,518 | 18,482 |
| Other revenue | 486 | 319 | 372 | 190 | 213 |
| Operating expenses | −18,673 | −19,605 | −18,948 | −17,699 | −16,808 |
| Depreciation, amortisation and impairment of assets | −1,273 | −1,315 | −1,146 | −1,092 | −908 |
| Assets held for sale | −537 | — | — | — | — |
| Operating profit incl. assets held for sale | 354 | 2,582 | 4,508 | 1,917 | 979 |

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, %

| | 2020 | 2019 | 2018 | 2017 | 2016 ¹⁾ |
|----------------------|--------|--------|--------|--------|--------------------|
| Equity OB | 17,382 | 16,011 | 12,884 | 11,766 | 11,806 |
| Equity CB | 16,759 | 17,382 | 16,011 | 12,884 | 11,766 |
| Average equity | 17,071 | 16,697 | 14,448 | 12,325 | 11,786 |
| Result before tax | 746 | 2,495 | 4,431 | 1,830 | 913 |
| Assets held for sale | −537 | — | — | — | — |
| Standard tax | −45 | −534 | −975 | −403 | −201 |
| Return | 1 | 12 | 24 | 12 | 6 |

Explanation

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

Definition

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

OPERATING MARGIN, %

| | 2020 | 2019 | 2018 | 2017 | 2016 ¹⁾ |
|------------------|--------|--------|--------|--------|--------------------|
| Operating profit | 354 | 2,582 | 4,508 | 1,917 | 979 |
| Net sales | 21,030 | 23,183 | 24,230 | 20,518 | 18,482 |
| Operating margin | 2 | 11 | 19 | 9 | 5 |

Explanation

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

Definition

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

NET DEBT, SEK MILLION

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|--------|--------|--------|--------|--------|
| Interest-bearing provisions | — | — | — | — | — |
| Interest-bearing liabilities | 6,838 | 6,425 | 5,630 | 5,222 | 4,914 |
| Financial receivables | 0 | — | — | — | −1 |
| Current investments and cash and cash equivalents | −3,187 | −3,010 | −1,072 | −1,321 | −1,034 |
| Net debt | 3,651 | 3,415 | 4,558 | 3,901 | 3,879 |

Explanation

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

Definition

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

DEBT/EQUITY RATIO, TIMES

| | 2020 | 2019 | 2018 | 2017 | 2016 ¹⁾ |
|-------------------|--------|--------|--------|--------|--------------------|
| Net debt | 3,651 | 3,415 | 4,558 | 3,901 | 3,879 |
| Equity | 16,759 | 17,382 | 16,011 | 12,884 | 11,766 |
| Debt/equity ratio | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 |

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

| | 2020 | 2019 | 2018 | 2017 | 2016 ¹⁾ |
|----------------------------|--------|--------|--------|--------|--------------------|
| Assets | 29,253 | 29,337 | 27,094 | 23,104 | 21,671 |
| − Financial assets | −3,220 | −3,046 | −1,086 | −1,341 | −1,052 |
| − Provisions ²⁾ | −100 | −143 | −141 | −160 | −180 |
| − Income tax ²⁾ | −1,639 | −1,566 | −1,569 | −1,201 | −1,038 |
| − Operating liabilities | −3,154 | −3,344 | −3,329 | −3,313 | −3,505 |
| Assets held for sale | −300 | — | — | — | — |
| Capital employed | 20,840 | 21,238 | 20,969 | 17,089 | 15,896 |
| Average | 21,039 | 21,104 | 19,029 | 16,493 | 14,600 |

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.

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, %

| | 2020 | 2019 | 2018 | 2017 | 2016 ¹⁾ |
|---|--------|--------|--------|--------|--------------------|
| Average capital employed | 21,039 | 21,104 | 19,029 | 16,493 | 14,600 |
| Operating profit | 891 | 2,582 | 4,508 | 1,917 | 979 |
| Assets held for sale | −537 | — | — | — | — |
| Operating profit incl. assets held for sale | 354 | 2,582 | 4,508 | 1,917 | 979 |
| Return | 2 | 12 | 24 | 12 | 7 |

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, %

| | 2020 | 2019 | 2018 | 2017 | 2016 ¹⁾ |
|--------------|--------|--------|--------|--------|--------------------|
| Equity | 16,759 | 17,382 | 16,011 | 12,884 | 11,766 |
| Assets | 29,253 | 29,337 | 27,094 | 23,104 | 21,671 |
| Equity ratio | 57 | 59 | 59 | 56 | 54 |

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.

Dividends

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

Goodwill

Goodwill represents the difference between the cost of a business combination and the fair value of acquired identifiable assets, assumed liabilities and contingent liabilities. Goodwill impairment does not affect the statement of cash flows.

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

²⁾ Not considered in the calculation of Operating capital.

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

Directors’ Report

The Board of Directors and President of Södra Skogsägarna ekonomisk förening (corporate identity number 729500-3789) hereby submit the 2020 Annual Report for the Group and the Parent Company.

Södra generates shareholder value in challenging market conditions

The turbulent and uncertain macroeconomic environment with a pandemic, shrinking global growth and widespread spruce bark beetle outbreaks brought major challenges in 2020. Net sales amounted to SEK 20,351 million (23,183) and operating profit totalled SEK 891 million (2,582). The equity ratio was 57 percent (59).

ABOUT SÖDRA

Södra is a global, member-owned forest industry group and with more than 53,000 members, is the largest forest-owner association in Sweden. Södra is also an international forest industry group, and almost 80 percent of Södra's processed products are exported.

Södra's overall assignment is to secure markets for its members' forest raw material 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 pulp. Södra has one of the largest sawmill operations in Europe, and is one of the biggest European suppliers of softwood sulphate pulp. Dissolving pulp is also produced from hardwood. Södra also generates more than 1.8 TWh of electricity at its pulp mills and wind turbines, and supplies other energy producers with raw material.

MARKET TREND

The year was characterised by favourable demand for Södra's core products. However, average prices for pulp were considerably lower year-on-year. Average prices for sawn timber were also lower. Södra's well-invested facilities continued to deliver stable volumes with high quality, and outbound deliveries of both pulp and sawn timber increased year-on-year.

After a sustained period of strong demand and positive price growth for Södra's core products, economic growth deteriorated for forestry during the year. Conditions were challenging in 2020 due to the global pandemic, which led to a sharp decline in economic growth and high volatility in foreign exchange markets, which in turn contributed to low pulp prices (PIX). The average price of softwood sulphate pulp weakened from USD 983 per tonne in 2019 to USD 844 per tonne in 2020, down 14 percent. The average price for sawn timber also weakened during the year, from SEK 2,101/m³sw to SEK 2,048/m³sw.

At the end of the financial year, Södra's total fresh fibre inventory was well-balanced.

Uncertainty surrounding the economic forecast and future price trends is great. Demand for Södra's core products is expected to remain favourable throughout the coming year. The price formation for market pulp is expected to show an upward trend in the first half of 2021, driven by growing demand for pulp. The sawn timber market is expected to remain favourable in the short term.

Despite the turmoil surrounding the pandemic, US households and companies remained optimistic throughout most of 2020. At year-end however, small business confidence in the US fell to the lowest level since May 2020. The labour market recovery lost tempo, bringing another sign of weakness. From the rising number of permanent vacancies, it appears that companies are adapting to post-pandemic changes in the demand scenario. The new US President, Joe Biden, has taken office in a country burdened by both internal and external challenges, where a 'divided America' and the trade war with China are just two of the complex issues facing the country. The Federal Reserve responded fast to the pandemic by slashing interest rates, reversing all rate hikes over the past five years.

Due to signs of an economic slowdown, the outlook for China's economic growth in 2020 was not optimistic. Despite the pandemic and harsh restrictions, however, China's productivity was sustained and GDP growth was positive at year-end. Peking was relatively restrained in terms of policy stimulus in 2020 to avoid a sudden rise in national debt.

Europe's economic growth was already shrinking before the pandemic and due to the sharp rise in coronavirus cases in 2020, the economic outlook continued to worsen. While the Eurozone accounted for the sharpest decline in GDP, there were major differences between the countries. Household consumption, the service sector and tourism make up a large share of GDP in southern European countries, which explains some of the relative differences. A glimmer of hope for Europe was that the EU and the UK finally reached a Brexit trade deal. Many issues remain, and the consequences and long-term effects of the EU withdrawal are still difficult to predict.

Compared with the rest of Europe, the Nordic countries handled the pandemic relatively well from an economic perspective. Strong consumer demand supported the Norwegian economy, which continued to recover

> Directors' Report, cont.

following a difficult start to the year with tumbling oil prices and the pandemic. Denmark followed a similar pattern of economic recovery but ended the year with a rise in coronavirus cases and new restrictions. At the end of 2020, industrial production recovered in other European countries, but weakened in Finland. While the Finnish lockdowns helped to suppress transmission of the virus, the economy was hard hit and recovery has been sluggish.

Following the outbreak of the pandemic and the subsequent turmoil in both financial and foreign exchange markets, the interest rates set by central banks converged to low levels. The weak trend for the USD was also accentuated by the fact that the Federal Reserve was the only large central bank with an interest rate that could be lowered.

The SEK was one of the currencies that strengthened most in 2020 which, all other things being equal, is unfavourable for the Swedish export industry. The SEK strengthened substantially against the USD, GBP and EUR. The currency trend represented a certain headwind for Södra since USD rates are relevant for pulp prices, while GBP rates have a major effect for the sawmill operations, since the UK is Södra's largest export market for sawn timber.

NET SALES

Net sales amounted to SEK 20,351 million (23,183). The decline in sales was mainly related to lower price levels for Södra's core products and an effect of SEK -679 million associated with assets held for sale.

RESULT

Operating profit totalled SEK 891 million (2,582). The earnings trend was mainly attributable to lower prices for pulp. Tax expense for the year was SEK 67 million (323). The Group's net financial items amounted to an expense of SEK -145 million (-87). Return on capital employed was 2 percent (12).

BUSINESS AREAS

Södra Skog's operating profit totalled SEK 97 million (173), excluding remeasurement of biological assets. Including an effect of SEK 348 million (125) from the remeasurement of biological assets, operating profit for the business area totalled SEK 445 million (298). Lower margins had a negative effect on the earnings trend. The major challenges posed by spruce bark beetle outbreaks also had a negative impact on the result.

Södra Wood's operating profit totalled SEK 416 million (262). The earnings improvement was mainly due to a 9-percent increase in delivery volume for sawn timber, and lower raw material costs. The result was adversely impacted by a lower price formation year-on-year and the negative effects of a stronger SEK.

Södra Cell's operating profit totalled SEK 317 million (2,511). The lower result was attributable to considerably lower price levels for softwood sulphate pulp, in particular. The USD/SEK exchange rate also had a negative impact on the result. The result was positively impacted by volume growth of 2 percent and lower raw material costs.

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

OTHER SEGMENTS

Cumulative operating loss for Other segments amounted to SEK -90 million (-52), of which Trivselhus' operating profit totalled SEK 23 million (loss: -57). During the year, the development of a renewable fuel continued in a joint project between Södra and Statkraft, Silva, which charged the result with SEK 120 million. Södra's share of SunPine's profit was SEK 3 million (9).

CASH FLOW AND LIQUIDITY

Cash flow before investments amounted to SEK 2,317 million (3,343) and after investments to SEK 646 million (2,227). At year-end, cash and cash equivalents and current investments amounted to SEK 3,187 million (3,010).

FINANCIAL POSITION

At 31 December 2020, equity amounted to SEK 16,759 million (17,382), of which paid-up and issued contributed capital accounted for SEK 4,891 million (4,636).

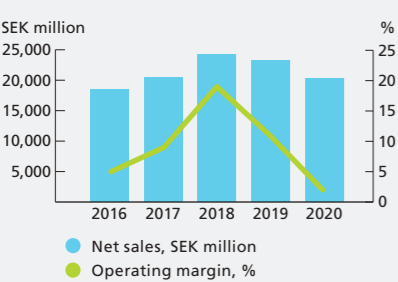
Total assets declined to SEK 29,253 million (29,337). At 31 December 2020, the equity ratio was 57 percent (59). Södra's borrowings comprised loans of SEK 4,625 million (4,086) from members, a loan of SEK 732 million (868) with a six-year maturity from the Nordic Investment Bank and a green bond of SEK 1,000 million (1,000) listed with Nasdaq Stockholm that reaches maturity in June 2021. Södra has a credit agreement in the form of a club agreement, enabling the company to borrow up to SEK 2,000 million over a period of just over four years. In addition to the club agreement, Södra has three bilateral credit facilities totalling SEK 1,500 million with one to three year maturities.

USE OF FINANCIAL INSTRUMENTS

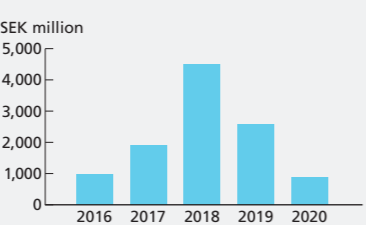
Due to the international and capital-intensive nature of its operations, Södra is constantly exposed to financial risks, such as market risk, credit risk and liquidity and financing risk. The Group's financial policy for handling financial risks, as adopted by the Board, provides a framework of guidelines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

Refer to Note 24 for financial risk management.

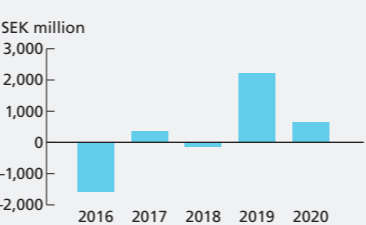
Net sales and operating margin



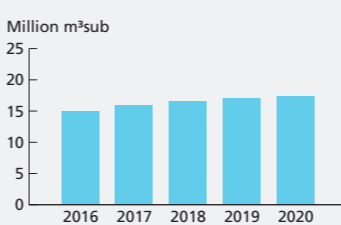
Operating profit/loss



Cash flow after investments

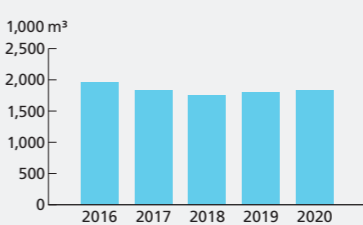


Wood volumes
Södra Skog



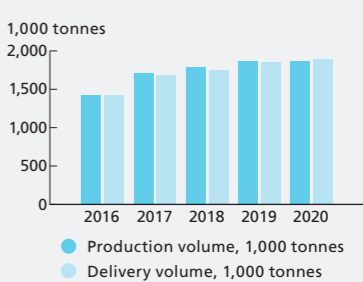
Wood supply in Södra's area was in line with the previous year.

Sawn and planed timber production
Södra Wood



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

Production and delivery volume
Södra Cell



The production volume was approximately 1.9 million tonnes, in line with the preceding year.

> Directors' Report, cont.

RISKS AND RISK MANAGEMENT

Södra operates in a global market and is impacted by the general economic trend and currency fluctuations, as well as more industry and company-specific factors. The most significant risk areas affecting 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. Strategic and operational risks are controlled and managed by the President, management team and employees, in accordance with central policies and guidelines. Södra's Business Ethics Council and Health and Safety Committee work Group-wide with risk areas such as corruption and safety.

STRATEGIC RISKS

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

| RISKS | CONTROL AND MANAGEMENT |
|--|--|
| <p>Climate and nature. Climate change can impact the conditions for Södra's operations in a variety of ways. Over time, it will lead to more extreme weather conditions, reduced/uneven access to water, more problems with pest control, increased fire risk and changes to vegetation boundary and growing conditions. This risk area also includes biological risks such as wildlife damage, root rot and fungal disease. Many of these risks affect individual forest owners, but also Södra in the long term.</p> | <p>Forest management measures reduce the potential consequences and are communicated continuously with forest owners: thinning, selective breeding material, stump treatment and so forth. Major training initiatives are implemented through, for example, the Södra School. Proven methods are followed to promote rapid clearing in windthrow areas.</p> <p>An established crisis organisation and flexible logistics ensure preparedness for responding to extraordinary events.</p> <p>According to agreement, forest owners are required to take out insurance to cover fire damage to standing, contracted wood.</p> <p>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.</p> <p>The more gradual effects of climate change, which will change conditions for forestry, are addressed by adapting the existing seed orchard, and initiatives such as the 'Kraftsamling Tall' (Pine mobilisation) project.</p> <p>Efforts to control and prevent spruce bark beetle damage, such as swarm monitoring in Götaland, free information and training material, and sales initiatives such as special ranges for spruce bark beetle-damaged pine.</p> <p>Södra works nationally with wildlife damage issues by, for example, participating in Skogsbrukets viltgrupp (a cooperation body between Sweden's large forest companies and forest owner associations).</p> <p>The OnceMore® project with the aim of commercialising the recycling of blended textiles on an industrial scale.</p> <p>Reducing Södra's own greenhouse gas emissions by working to achieve the targets set for a higher rate of forest growth, fossil-free production and fossil-free transportation.</p> |
| <p>Economy. Södra's earnings are highly sensitive to economic trends, and directly reflected in price movements and changes in sales volumes. Adverse changes in both global and local economies could have a negative impact on Södra's sales, financial position and earnings.</p> | <p>A global market focus with sales to customers across many sectors and countries reduces vulnerability, and the effects of local economic trends. Alongside of continued investment in each business area's core markets, Södra has established a presence in new markets and developing regions.</p> |
| <p>Competition. Both pulp and sawn timber industries are mature, with intense price competition. Price pressure intensifies due to new production capacity, or a weak economy. This is more noticeable in some segments due to changed consumption patterns, and the increase in digitalisation, for example, has led to declining demand for publishing paper, while e-commerce is increasing and, in turn, driving demand for packaging materials. In the construction sector, competition is impacted by the use of non-wood materials for buildings.</p> | <p>Ongoing development of strategic customer relationships, through longer contracts, for example, reduces Södra's vulnerability while also improving long-term planning and markets due to more accurate forecasting.</p> <p>Continued investments in the core business lead to greater efficiency, which strengthens Södra's competitiveness and market position in existing segments.</p> <p>Södra Wood's investment in CLT production for the building and residential construction industry has led to the development of a new business segment covering several stages of the value chain.</p> <p>The innovation strategy with a focus on faster commercialisation of innovations and new products, such as in the form of process for large-scale textile recycling (OnceMore®), biomethanol and liquid biofuels, is ensuring long-term competitiveness.</p> <p>The Group strategy means that we will continue to develop our existing products and markets, but also increase our focus on further processing and innovation with a greater customer and market focus.</p> |
| <p>Raw material risk. 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 these flows are also dependent on a well-functioning logistics chain.</p> <p>FSC® and PEFC certification of wood raw materials is crucial to the competitiveness of Södra's end products, including pulp and sawn timber.</p> <p>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 broad-based advisory services and active member dialogue, while the member strategy includes specific investments in training services and tools that provide forestry support for individual members.</p> <p>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.</p> <p>Södra holds both FSC® and PEFC certifications for forest management and chain of custody. The number of certified members is continuously monitored and in 2020, 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.</p> <p>The price of raw material inputs is continuously monitored. These input products are purchased centrally using index-based contracts and contract durations that balance supply, price and assessed market conditions.</p> <p>Measures taken to manage the effects of the COVID-19 pandemic have included increasing the robustness of existing logistics chains.</p> |
| <p>Political risks. Södra operates in a highly regulated industry. Policy decisions in a range of areas – tax legislation, environmental legislation, forest legislation, EU forest policy and so forth – can change conditions for the Group's operations, both directly and indirectly, by affecting the ability of forest estates to carry out productive forestry. In connection with policy decisions, there is also a risk of negative influence on public opinion.</p> | <p>Södra works actively with business policy initiatives to secure favourable conditions for family forestry and cooperative enterprise. Södra collaborates with the Swedish Forest Industries Federation, the Federation of Swedish Farmers (LRF) and the Confederation of European Forest Owners (CEPF) at both national and international level. At regional level, Södra collaborates directly with LRF's regional organisation. In 2020, the focus was on achieving an effective implementation of the Land Use, Land-Use Change and Forestry Regulation (LULUCF), participation in the Swedish Forest Agency's consultation groups, the Species Protection Investigation's team of experts, and bringing the forest owner's perspective into both opinion-shaping and EU administration in Brussels.</p> <p>Södra supports its members in legal proceedings related to integrity.</p> <p>Södra has taken an active role in preparatory work for the national forest damage centre, for which the Swedish Forest Agency and Swedish University of Agricultural Sciences have received government funding.</p> <p>The Group established a new position with responsibility for Public Affairs.</p> |
| <p>Brand risk. Trust and confidence are fundamental to Södra's ability to contract the wood volumes required by its mills, and to maintain its customer relationships and sales volumes. Should Södra or any of the Group's business partners take measures that are inconsistent with the values and commitments that Södra represents, the brand could be damaged.</p> | <p>Södra engages in active internal work around the company's values and Code of Conduct. A supplier monitoring process is linked to the Supplier Code. The Södra Code of Conduct and Supplier Code contain guidelines and requirements related to business ethics, working conditions, human rights and the environment. Members' forests are covered by a firmly established revision programme.</p> <p>Responsibility for branding rights is centralised and includes dedicated resources for business policy communication.</p> <p>The Group's crisis management capacity is maintained by developing methodology and practical exercises.</p> |

> Directors' Report, cont.

OPERATIONAL RISKS

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

| RISKS | CONTROL AND MANAGEMENT |
|--|--|
| <p>Facilities and property. Unforeseen events that can damage facilities, cause production losses and damage to goods during transport.</p> | <p>Systematic work with preventive maintenance.</p> <p>Property and business interruption insurance where facilities are insured up to their replacement value. In the event of production losses, business interruption insurance provides cover against loss of income.</p> <p>Goods being transported are insured, when considered justified.</p> <p>The value of the seed orchard is secured through geographic distribution and crosswise ownership.</p> |
| <p>Health and safety. Södra's operations include facilities with hazardous work environments and activities that may be dangerous or entail health risks. This also includes the psychosocial work environment.</p> | <p>The Group works systematically with occupational health and safety management, according to the accepted methodology, with an explicit focus on continuous improvements.</p> <p>All pulp mills are certified according to the ISO 45001 occupational health and safety standard.</p> <p>Södra's occupational health and wellness initiatives are an important contribution to creating a healthy workplace.</p> <p>Employee surveys are conducted on a regular basis.</p> <p>The Södra Code of Conduct and Supplier Code contain guidelines and requirements related to occupational health and safety. The Supplier Code is to be included in Södra's supplier agreements.</p> <p>BAM training (Better Occupational health and safety) is provided for managers with industrial experience and for managers of salaried employees.</p> <p>Representatives of senior management conduct Safety Walks at Södra's production facilities.</p> <p>Online training courses with a focus on management and working remotely.</p> |
| <p>Environmental risks. Environmental impacts due to consumption of water, energy and raw materials, as well as emissions from transportation. Risk of unexpected emissions and effluents, and their impact on the environment/humans/local communities.</p> | <p>Södra complies with current environmental legal requirements, including the Seveso Directives, and conditions for industrial production, and works continuously to improve energy efficiency. The Södra Code of Conduct and Supplier Code contain environmental guidelines and requirements. The Supplier Code is to be included in Södra's supplier agreements.</p> <p>A major focus lies on preventive measures, the precautionary principle of the Swedish Environmental Code is applied, responsibility is taken for any remediation of contaminated soil and financial provisions are made to cover such costs.</p> <p>There are also a large number of area-specific initiatives to reduce Södra's environmental impact, such as efforts to achieve fossil-free pulp production, HVO fuel for own and contracted hauliers, the classification of watercourses – blue management targets – in green forest management plans, and compulsory green and blue driving licenses for contractors to ensure that environmental considerations are applied on land and around watercourses.</p> |
| <p>Product safety. 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.</p> | <p>All business areas are certified according to international standards (ISO).</p> <p>Products hold the relevant labels/approvals, such as 'FDA acceptable' (U.S. Food and Drug Administration) and 'BfR approved' (Bundesinstitut für Risikobewertung) for use in the food industry, CE marking for construction products, and so forth.</p> <p>Information/recall procedures for defective products are in place.</p> <p>Liability insurance includes global product liability.</p> |
| <p>Competency provision. Södra is dependent on the ability to recruit, retain and develop competent leaders and employees. If people with the right expertise cannot be attracted to, and developed in, positions at Södra, this could have negative consequences in both the long and short term.</p> | <p>Södra's HR strategy and brand strategy, combined with systematic talent management and a clearly stated ambition to increase diversity and offer a welcoming workplace, work together to maintain and increase Södra's attractiveness as an employer.</p> <p>Resources are invested in 'Tekniksprånget' (internship for young people to try engineering), internships, 'Jobbsprånget' (short-term placements for migrant academic), Södra summer camp, summer job programmes and Södra Skog's Trainee Programme – in some cases adapted to the conditions of the COVID-19 pandemic.</p> |
| <p>Corruption. Södra operates in national and international markets across several different types of buying and selling channels. The risk of corruption in these settings varies but is always present and is, therefore, a constant threat to Södra's basic value of responsible business for a sustainable value chain.</p> | <p>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.</p> <p>Södra's purchasing is managed by the Group's purchasing departments. All suppliers, except for Södra's members, shall be covered by the Södra Supplier Code, which includes clear requirements in relation to business ethics.</p> <p>In cases where Södra engages sales agents, these are also covered by the Södra Code of Conduct, which includes clear requirements in relation to business ethics.</p> <p>Processes and procedures for internal control are developed continuously in dialogue with Södra's auditors.</p> <p>A whistleblower function has been established.</p> <p>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.</p> |
| <p>Information security and IT. Södra's increasing dependence on information technology and digital tools in everything from production in the Group's facilities to internal and external communication – especially with our customers and members – renders the Group vulnerable to IT/cybersecurity risk. Risk in the form of malicious software, system disruptions, inadequate data quality and information loss/leakage could potentially have major consequences in terms of direct costs, an increased burden on the organisation and/or lost stakeholder trust.</p> | <p>Continuous development of guidelines, work processes and procedures for IT safety in both industrial and administrative IT.</p> <p>Administrative and technical controls are continuously updated to maintain a form of digital perimeter security.</p> <p>Redundant environments and a modern backup system are in place.</p> <p>Advanced crisis management capability.</p> |

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

INVESTMENTS, ACQUISITIONS AND DIVESTMENTS

The investments amounted to SEK 1,549 million (1,128), of which SEK 1,001 million (684) pertained to Södra Cell, SEK 292 million (384) to Södra Wood and SEK 126 million (145) to Södra Skog. The investments were mainly focused on expansion, productivity and the environment.

INNOVATION, RESEARCH AND DEVELOPMENT

The Group's research and development costs amounted to SEK 193 million (167), corresponding to 1 percent (0.8) of operating expenses. This amount includes costs for Södra's own operations, support for external research projects and Södra's share of costs for the Silva Green Fuel development project.

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

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

Södra also supports research through the Södra Foundation for Research, Development and Education. The Foundation grants funding for research projects and training programmes that promote forest management and forest industry operations in southern Sweden. Over the years, the Foundation has awarded more than SEK 245 million in funding to 200 projects.

REGULATED ACTIVITIES

Of Södra's net sales (including assets held for sale), 76 percent (77) are subject to permits or mandatory notification requirements under the Swedish Environmental Code. At year-end, Södra conducted 56 (53) activities that were subject to permit or notification requirements in Sweden. Activities requiring a permit are conducted at Södra's pulp mills, sawmills, peat bogs and the port in Mönsterås. Facilities subject to notification requirements are wood and biofuel terminals and wind turbines. The permits contain conditions for activities, such as limits for emissions, effluents and noise.

In 2020, Södra Cell Värö submitted supplementary information to the Land and Environment Court regarding the ongoing provisional period prior to the determination of final permit conditions and lodged an application with the regulator regarding final top covers for landfills. Södra Cell Mörrum showed that its production capacity exceeded 460,000 tonnes per year, whereby its permit for production of up to 560,000 tonnes per year was utilised. The sawmill in Kinda was granted an amendment to its existing permit, in regard to a new painting line. The sawmill at Värö applied for an amendment to its existing permit for a new CLT facility. The sawmill at Orrefors obtained its final permit conditions. The nurseries in Flåboda and Falkenberg applied for water court rulings. In 2020, two terminals for timber storage and one peat bog were added to the list of units subject to permit or mandatory notification requirements.

There were no other significant changes in permits in 2020.

SUSTAINABILITY REPORT IN ACCORDANCE WITH THE SWEDISH ANNUAL ACCOUNTS ACT

Södra has prepared a Sustainability Report in accordance with the Swedish Annual Accounts Act. The Sustainability Report contains relevant information about Södra's work and results in the areas of environment, social conditions and employment, human rights and anti-corruption. In accordance with the Swedish Annual Accounts Act Chapter 6, Section 11, Södra Skogsägarna ekonomisk förening has elected to prepare a Sustainability Report that is separate from the Annual Report. The scope of the Sustainability Report is presented on page 136.

EMPLOYEES

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

EVENTS AFTER THE CLOSE OF THE PERIOD

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

FUTURE OUTLOOK

Södra's operations are impacted by the pandemic, and uncertainty surrounding the economic forecast and future price trends is great. The low prices for pulp remained stable throughout 2020, with a considerably lower average than in 2019. However, the price formation is expected to show an upward trend in the first half of 2021, driven by growing demand for pulp. The sawn timber market gained traction during the year, and the strong market by year-end is expected to continue in the short term. The trend for the coming years is difficult to forecast in light of the ongoing pandemic. Due to favourable underlying demand for forest-based products in the ongoing transition towards a more sustainable bioeconomy, the medium and long-term outlooks remain positive.

PARENT COMPANY

Result

Net sales declined to SEK 18,691 million (20,453) and operating profit declined to SEK 451 million (2,256). Profit after financial items totalled SEK 77 million (2,153).

Members

The number of members was 52,921 (52,192) and the affiliated membership area increased to 2.70 million hectares (2.64), up approximately 60,000 hectares.

In 2021, contribution repayments to members who had left the association by 31 December 2020 will amount to SEK 47 million (27).

Proposed appropriation of profits

The Board proposes that the profits at the disposal of Södra's AGM, an amount of SEK 3,736,979,905, be appropriated as follows:

Dividend to members of 2 percent of contributed capital, totalling SEK 97,818,734

Dividend to members of 8 percent of wood deliveries, totalling SEK 411,181,862

The dividend is calculated on members' wood deliveries from 1 January 2020 to 31 December 2020 and on all ranges, excluding sold standing forest.

To members' contribution capital accounts through a bonus issue SEK 89,288,108

The bonus issue represents 5 percent of available paid-up contributed capital at 31 December 2020.

Amount carried forward SEK 3,138,691,201

SEK 3,736,979,905

Consolidated statement of comprehensive income

| SEK million | Note | 2020 | 2019 |
|---|------|---------|---------|
| Net sales | 2, 3 | 20,351 | 23,183 |
| Other revenue | 4 | 486 | 319 |
| Change in inventories of finished products and products in process | | –433 | –2 |
| Capitalised work | | 13 | 13 |
| Raw materials and consumables | | –13,039 | –14,215 |
| Goods for resale | | 20 | 10 |
| Freight and transportation | | –1,150 | –1,112 |
| Employee expenses | 5 | –2,205 | –2,396 |
| Other expenses | 6 | –1,761 | –1,938 |
| Depreciation, amortisation and impairment of assets | 7 | –1,273 | –1,315 |
| Share of profit of associates | 8 | –118 | 35 |
| Operating profit | 2 | 891 | 2,582 |
| Financial income | | 48 | 97 |
| Financial expenses | | –193 | –184 |
| Net financial items | 9 | –145 | –87 |
| Profit before income tax | | 746 | 2,495 |
| Income tax | 10 | –67 | –323 |
| Gain/loss on assets held for sale, net after tax | 43 | –537 | — |
| Profit for the year | | 142 | 2,172 |
| Other comprehensive income | | | |
| Actuarial gains and losses | | 2 | –77 |
| Tax attributable to items that will not be reclassified to profit or loss | | 0 | 16 |
| Items that will not be reclassified to profit or loss | | 2 | –61 |
| Translation differences for the year on translation of foreign operations | | –122 | 71 |
| Fair value remeasurement, forest land | | 141 | — |
| Fair value remeasurement of available-for-sale financial assets | | 1 | 0 |
| Hedge accounting | | 71 | –35 |
| Tax attributable to items that will be reclassified to profit or loss | | –44 | 7 |
| Items that will be reclassified to profit or loss | | 47 | 43 |
| Other comprehensive income for the year | 11 | 49 | –18 |
| Total comprehensive income for the year | | 191 | 2,154 |
| Profit attributable to: | | | |
| Parent Company | | 142 | 2,172 |
| Profit for the year | | 142 | 2,172 |
| Total comprehensive income for the year attributable to: | | | |
| Owners of the Parent | | 191 | 2,154 |
| Total comprehensive income for the year | | 191 | 2,154 |

Consolidated statement of financial position

| 31 December, SEK million | Note | 2020 | 2019 |
|--|--------|---------------|---------------|
| ASSETS | 12, 13 | | |
| Non-current assets | | | |
| Intangible assets | | | |
| Goodwill | | 74 | 253 |
| Other intangible assets | | 33 | 140 |
| Total intangible assets | 14 | 107 | 393 |
| Property, plant and equipment | | | |
| Buildings and land | | 4,563 | 4,708 |
| Machinery and equipment | | 9,601 | 9,871 |
| Construction in progress | | 1,098 | 539 |
| Total property, plant and equipment | 15 | 15,262 | 15,118 |
| Biological assets | 16 | 3,338 | 2,918 |
| Shares and participations in associates | 8 | 367 | 324 |
| Financial investments | 17 | 33 | 36 |
| Non-current operating receivables | 18 | 40 | 12 |
| Deferred tax assets | 19 | 3 | 4 |
| Total non-current assets | | 19,150 | 18,805 |
| Current assets | | | |
| Inventories | 20 | 3,364 | 3,835 |
| Tax assets | | 13 | 142 |
| Current operating receivables | 21 | 3,216 | 3,545 |
| Current investments | 17 | 887 | 938 |
| Cash and cash equivalents | 22 | 2,300 | 2,072 |
| Assets held for sale | 43 | 323 | — |
| Total current assets | | 10,103 | 10,532 |
| TOTAL ASSETS | | 29,253 | 29,337 |

| 31 December, SEK million | Note | 2020 | 2019 |
|--|--------|---------------|---------------|
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Contributed capital | | 4,891 | 4,636 |
| Other paid-up capital | | 1,413 | 1,413 |
| Reserves | | 111 | 65 |
| Retained earnings including profit for the year | | 10,344 | 11,268 |
| Equity attributable to owners of the Parent | | 16,759 | 17,382 |
| Total equity | 23 | 16,759 | 17,382 |
| Liabilities | 12, 13 | | |
| Non-current liabilities | | | |
| Non-current interest-bearing financial liabilities | 25 | 1,248 | 2,368 |
| Non-current interest-bearing operating liabilities | 26 | 139 | 210 |
| Provisions for pensions | 27 | 463 | 477 |
| Non-current provisions | 28 | 100 | 143 |
| Deferred tax liabilities | 19 | 1,624 | 1,554 |
| Other non-current operating liabilities | 29 | 7 | 35 |
| Total non-current liabilities | | 3,581 | 4,787 |
| Current liabilities | | | |
| Current interest-bearing financial liabilities | 25 | 5,235 | 3,729 |
| Current interest-bearing operating liabilities | 26 | 76 | 118 |
| Income tax liabilities | | 15 | 12 |
| Current operating liabilities and provisions | 28, 30 | 3,147 | 3,309 |
| Liabilities held for sale | 43 | 440 | — |
| Total current liabilities | | 8,913 | 7,168 |
| Total liabilities | | 12,494 | 11,955 |
| TOTAL EQUITY AND LIABILITIES | | 29,253 | 29,337 |

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

Consolidated statement of changes in equity

EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT

| SEK million | Contributed capital | Other paid-up capital | Translation reserve | Revaluation reserve | Fair value reserve | Retained earnings including profit for the year | Total equity |
|--|---------------------|-----------------------|---------------------|---------------------|--------------------|---|--------------|
| Opening balance 1 Jan 2020 | 4,636 | 1,413 | 86 | — | –21 | 11,268 | 17,382 |
| Profit for the year | — | — | — | — | — | 142 | 142 |
| Other comprehensive income for the year | — | — | –122 | 112 | 56 | 2 | 49 |
| Comprehensive income for the year | — | — | –122 | 112 | 56 | 144 | 191 |
| Contributed capital, paid-up by members | 135 | — | — | — | — | — | 135 |
| Contributed capital, paid-out to members | –47 | — | — | — | — | — | –47 |
| Dividends to members | — | — | — | — | — | –901 | –901 |
| Bonus issue | 167 | — | — | — | — | –167 | — |
| Closing balance 31 Dec 2020 | 4,891 | 1,413 | –36 | 112 | 35 | 10,344 | 16,759 |
| Opening balance 1 Jan 2019 | 3,620 | 1,413 | 15 | — | 7 | 10,956 | 16,011 |
| Profit for the year | — | — | — | — | — | 2,172 | 2,172 |
| Other comprehensive income for the year | — | — | 71 | — | –28 | –61 | –18 |
| Comprehensive income for the year | — | — | 71 | — | –28 | 2,111 | 2,154 |
| Contributed capital, paid-up by members | 121 | — | — | — | — | — | 121 |
| Contributed capital, paid-out to members | –38 | — | — | — | — | — | –38 |
| Dividends to members | — | — | — | — | — | –861 | –861 |
| Bonus issue | 933 | — | — | — | — | –933 | — |
| Other changes | — | — | — | — | — | –5 | –5 |
| Closing balance 31 Dec 2019 | 4,636 | 1,413 | 86 | — | –21 | 11,268 | 17,382 |

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

Consolidated statement of cash flows

| SEK million | Note | 2020 | 2019 |
|---|------|---------------|---------------|
| Operating activities | | | |
| Profit before tax | | 746 | 2,495 |
| Gain/loss on asset held for sale | | –537 | |
| Adjustment for non-cash items | | | |
| Depreciation and amortisation | | 1,294 | 1,264 |
| Impairment of non-current assets | | 320 | 51 |
| Change in value of biological assets | | –348 | –87 |
| Profit/loss from sale of non-current assets | | 44 | –22 |
| Other items not affecting cash flow | | 274 | –372 |
| Income tax paid | | 85 | –415 |
| Net cash flow from operating activities before change in working capital | | 1,878 | 2,914 |
| Change in | | | |
| Inventories (increase –) | | 207 | –14 |
| Operating receivables (increase –) | | 294 | 497 |
| Operating liabilities (increase +) | | –62 | –54 |
| Cash flow from operating activities | | 2,317 | 3,343 |
| Investing activities | | | |
| Acquisition of subsidiaries and associates | 12 | –166 | –6 |
| Divestment of companies | 12 | — | 5 |
| Acquisition of other financial assets | | –1 | –23 |
| Divestment of other financial assets | | 2 | 2 |
| Investments in intangible assets | | –28 | –1 |
| Investments in property, plant and equipment | | –1,507 | –1,127 |
| Investments in biological assets | | –14 | |
| Divestment of property, plant and equipment | | 43 | 34 |
| Cash flow from investing activities | | –1,671 | –1,116 |
| Cash flow after investing activities | | 646 | 2,227 |
| Financing activities | | | |
| Contributed capital, paid-up | | 135 | 121 |
| Contributed capital, paid out | | –47 | –38 |
| Dividends paid | | –901 | –861 |
| Loans from members | 25 | 7,272 | 7,448 |
| Payment from member deposits | 25 | –6,733 | –6,891 |
| New loans | 25 | — | 33 |
| Repayment of other loans | 25 | –151 | –138 |
| Dividends received and shareholders' contributions repaid | | — | 1 |
| Change in current investments with maturity > 90 days | | 21 | –711 |
| Cash flow from financing activities | | –404 | –1,036 |
| CASH FLOW FOR THE YEAR | 40 | 242 | 1,191 |
| Cash and cash equivalents at beginning of year | | 2,072 | 873 |
| Exchange gains/losses on cash and cash equivalents | | –14 | 8 |
| Cash and cash equivalents at end of year | 22 | 2,300 | 2,072 |

Refer to Note 25 for additional information related to change in liabilities attributable to financing activities, and to Note 43 for assets that are held for sale and included in the above cash flow.

Parent Company income statement

| SEK million | Note | 2020 | 2019 |
|--|----------|-------------|--------------|
| Net sales | 2, 3 | 18,691 | 20,453 |
| Change in inventories of finished products and products in process | | -298 | 106 |
| Capitalised work | | 13 | 13 |
| Other revenue | 4 | 149 | 191 |
| Raw materials and consumables | | -12,059 | -12,413 |
| Other external expenses | 6 | -2,653 | -2,818 |
| Employee expenses | 5 | -2,102 | -2,173 |
| Depreciation, amortisation and impairment of assets | 7 | -1,134 | -1,098 |
| Other operating expenses | 6 | -156 | -5 |
| Operating profit | 2 | 451 | 2,256 |
| Profit from shares in Group companies | | -267 | 22 |
| Profit from shares in associates | | 13 | -34 |
| Interest income and similar profit items | | 51 | 70 |
| Interest expenses and similar loss items | | -171 | -161 |
| Net financial items | 9 | -374 | -103 |
| Profit after financial items | | 77 | 2,153 |
| Appropriations | 31 | 138 | -317 |
| Profit before income tax | | 215 | 1,836 |
| Income tax | 10 | -29 | -196 |
| Profit for the year | | 186 | 1,640 |

Profit for the year matches Comprehensive income for the year.

Parent Company balance sheet

| 31 December, SEK million | Note | 2020 | 2019 |
|---|-----------|---------------|---------------|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets | | | |
| Other intangible assets | | 2 | 1 |
| Total intangible assets | 14 | 2 | 1 |
| Property, plant and equipment | | | |
| Buildings and land | | 3,029 | 3,193 |
| Machinery and equipment | | 9,296 | 9,468 |
| Construction in progress | | 804 | 317 |
| Total property, plant and equipment | 15 | 13,129 | 12,978 |
| Financial assets | | | |
| Shares in Group companies | 32 | 4,462 | 4,604 |
| Interest-bearing receivables from Group companies | | — | 31 |
| Shares and participations in associates | 8 | 99 | 99 |
| Endowment policies | 27 | 2 | 40 |
| Other non-current investments | 33 | 33 | 35 |
| Other non-current receivables | 18 | 22 | 12 |
| Deferred tax assets | 19 | 37 | 60 |
| Total financial assets | | 4,655 | 4,881 |
| Total non-current assets | | 17,786 | 17,860 |
| Current assets | | | |
| Inventories | 20 | 2,456 | 2,906 |
| Current receivables | | | |
| Interest-bearing receivables from Group companies | 34 | 899 | 710 |
| Deferred tax receivables | | — | 119 |
| Operating receivables | 21 | 2,918 | 3,254 |
| Total current receivables | | 3,817 | 4,083 |
| Current financial investments | 17 | 1,155 | 1,329 |
| Cash and bank balances | | 1,869 | 1,482 |
| Total current assets | | 9,297 | 9,800 |
| TOTAL ASSETS | | 27,083 | 27,660 |

> Parent Company balance sheet, cont.

| 31 December, SEK million | Note | 2020 | 2019 |
|---|------|---------------|---------------|
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Restricted equity | | | |
| Contributed capital | | 4,891 | 4,636 |
| Statutory reserve | | 1,413 | 1,413 |
| Total restricted equity | | 6,304 | 6,049 |
| Non-restricted equity | | | |
| Profit carried forward | | 3,551 | 2,980 |
| Profit for the year | | 186 | 1,640 |
| Total non-restricted equity | | 3,737 | 4,619 |
| Total equity | 23 | 10,041 | 10,669 |
| Untaxed reserves | 35 | 7,213 | 7,483 |
| Provisions | | | |
| Provisions for pensions | 27 | 2 | 40 |
| Other non-current provisions | 28 | 100 | 143 |
| Total provisions | | 102 | 183 |
| Non-current liabilities | | | |
| Non-current interest-bearing liabilities from Group companies | 36 | 8 | 8 |
| Non-current interest-bearing financial liabilities | 25 | 1,248 | 2,368 |
| Non-current operating liabilities | | 6 | 8 |
| Total non-current liabilities | | 1,262 | 2,384 |
| Current liabilities | | | |
| Current interest-bearing liabilities from Group companies | 36 | 132 | 154 |
| Current interest-bearing financial liabilities | 25 | 5,209 | 3,687 |
| Current tax liabilities | | 9 | — |
| Current operating liabilities and provisions | 30 | 3,115 | 3,100 |
| Total current liabilities | | 8,465 | 6,941 |
| TOTAL EQUITY AND LIABILITIES | | 27,083 | 27,660 |

For information about the Parent Company’s pledged assets and contingent liabilities, refer to Notes 38–39.

Parent Company statement of changes in equity

| SEK million | Restricted equity | | Non-restricted equity | | Total equity |
|--|---------------------|-------------------|------------------------|---------------------|---------------|
| | Contributed capital | Statutory reserve | Profit carried forward | Profit for the year | |
| Opening balance 1 Jan 2020 | 4,636 | 1,413 | 2,980 | 1,640 | 10,669 |
| Transfer of profit/loss for the period | — | — | 1,640 | –1,640 | — |
| Merger | — | — | –1 | — | –1 |
| Profit for the year | — | — | — | 186 | 186 |
| Total equity excluding owner transactions | 4,636 | 1,413 | 4,619 | 186 | 10,854 |
| Contributed capital, paid-up by members | 135 | — | — | — | 135 |
| Contributed capital, paid-out to members | –47 | — | — | — | –47 |
| Appropriation of profits | — | — | — | — | — |
| Dividends to members | — | — | –901 | — | –901 |
| Bonus issue | 167 | — | –167 | — | — |
| Closing balance 31 Dec 2020 | 4,891 | 1,413 | 3,551 | 186 | 10,041 |
| | | | | | |
| Opening balance 1 Jan 2019 | 3,620 | 1,413 | 2,563 | 2,211 | 9,807 |
| Transfer of profit/loss for the period | — | — | 2,211 | –2,211 | — |
| Profit for the year | — | — | — | 1,640 | 1,640 |
| Total equity excluding owner transactions | 3,620 | 1,413 | 4,774 | 1,640 | 11,447 |
| Contributed capital, paid-up by members | 121 | — | — | — | 121 |
| Contributed capital, paid-out to members | –38 | — | — | — | –38 |
| Appropriation of profits | — | — | — | — | — |
| Dividends to members | — | — | –861 | — | –861 |
| Bonus issue | 933 | — | –933 | — | — |
| Closing balance 31 Dec 2019 | 4,636 | 1,413 | 2,980 | 1,640 | 10,669 |

For additional information, refer to Note 23 Equity. Profit for the year matches Comprehensive income for the year.

Parent Company statement of cash flows

| SEK million | Note | 2020 | 2019 |
|---|-----------|---------------|---------------|
| Operating activities | | | |
| Profit after financial items | | 77 | 2,153 |
| Adjustment for non-cash items | | | |
| Depreciation and amortisation according to plan | | 1,134 | 1,098 |
| Impairment | | 355 | 67 |
| Profit from divestment of non-current assets | | 3 | –16 |
| Profit/loss from sale of Group companies | | — | 22 |
| Other items not affecting cash flow | | –25 | 92 |
| Income tax paid | | 122 | –410 |
| Net cash flow from operating activities before change in working capital | | 1,666 | 3,006 |
| Change in | | | |
| Inventories (increase –) | | 458 | –291 |
| Operating receivables (increase –) | | 160 | 386 |
| Operating liabilities (increase +) | | –165 | 76 |
| Cash flow from operating activities | | 2,119 | 3,177 |
| Investing activities | | | |
| Acquisition of associate/Group companies | 12 | –188 | –15 |
| Group contributions received | | 5 | 22 |
| Group contributions paid | | –23 | 0 |
| Investments in property, plant and equipment and intangible assets | | –1,322 | –935 |
| Divestment of property, plant and equipment | | 33 | 28 |
| Acquisition of financial assets | | 2 | –54 |
| Divestment of financial assets | | –1 | — |
| Decrease in financial receivables | | — | 2 |
| Cash flow from investing activities | | –1,494 | –952 |
| Cash flow after investing activities | | 625 | 2,225 |
| Financing activities | | | |
| Contributed capital, paid-up | | 135 | 121 |
| Contributed capital, paid out | | –47 | –38 |
| Dividends paid | | –901 | –861 |
| Loans from members | 25 | 7,272 | 7,448 |
| Payment from member deposits | 25 | –6,733 | –6,891 |
| Repayment of loans | 25 | –137 | –133 |
| Change in current investments with maturity > 90 days | | 43 | –711 |
| Cash flow from financing activities | | –368 | –1,065 |
| CASH FLOW FOR THE YEAR | 40 | 257 | 1,160 |
| Cash and cash equivalents at beginning of year | | 1,902 | 742 |
| Cash and cash equivalents at end of year | 22 | 2,159 | 1,902 |

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

Notes

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

GENERAL INFORMATION
Södra Skogsägarna ekonomisk förening (corporate identity number 729500-3789) is a Swedish-registered economic association with its registered office in Växjö, Sweden. The head office is located at Skogsudden, Växjö, Sweden. The consolidated financial statements for 2020 consist of the Parent Company and its subsidiaries, jointly named the Group. The Group also includes shares owned in associates. The effect of assets held for sale is presented in the Consolidated statement of comprehensive income and Consolidated statement of financial position. The effect of assets held for sale is not included in the Consolidated statement of cash flows nor is it taken into account in calculated key indicators, which is not directly apparent from the income statement and balance sheet presented, since Södra uses these factors to manage all of its operations. Comparative figures for prior years have not been restated for the above-mentioned effect (from 2019 and backwards), but are reconcilable with historical reports.

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

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 the business areas: Södra Skog, Södra Wood and Södra Cell.

The annual report and consolidated financial statements for the 2020 financial year were approved for publication by the Board of Directors and the President on 17 February 2021. 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 1 June 2021.

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

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

CONFORMITY WITH STANDARDS AND LEGISLATION
The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the European Commission, with certain supplementary requirements in the Swedish Annual Accounts Act. The standards and interpretations applied are those that were in force and adopted by the EU on 1 January 2020. 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 BASES IN PREPARATION OF THE FINANCIAL STATEMENTS
Assets and liabilities are recognised at historic cost, except for certain financial assets and liabilities and biological assets that are measured at

fair value. Financial assets and liabilities measured at fair value consist of derivative instruments, financial assets classified as financial assets at fair value through either other comprehensive income or profit or loss.

FUNCTIONAL CURRENCY AND PRESENTATION CURRENCY
The companies in the Group prepare their financial statements in the currency that is used in the financial environment in which they are primarily operative, known as the functional currency. These statements form the basis of the consolidated financial statements. The consolidated financial statements are prepared in SEK, which is the Parent Company’s functional currency and presentation currency. All amounts are in SEK million, unless otherwise indicated.

AMENDMENTS TO ACCOUNTING POLICIES AND DISCLOSURES
New or revised accounting standards applied
Definition of Material – Amendments to IAS 1 and IAS 8. The IASB has issued narrow-scope amendments to IAS 1 Presentation of Financial Statements, and to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of materiality throughout IFRSs and in the Conceptual Framework for Financial Reporting, to clarify when information is material and to incorporate some of the guidance in IAS 1 regarding immaterial information.

In 2020, Södra reviewed the accounting policies for measuring the value of forest assets. This resulted in a shift to market valuation to determine the fair value of the Swedish holding. A market valuation means that the total forest value is based on market transactions involving forest land in the areas where Södra owns forest assets. This change means that land assets attributable to forest assets are also measured at fair value, and led to the application of a new accounting policy. The forest holding in the Baltics is valued according to the previous policy, since the market transaction statistics that are available are not considered sufficiently reliable.

The land assets were previously measured at cost, but are now measured at fair value using the revaluation model on page 31 of IAS 16. The change in value of land is recognised as other comprehensive income and does not affect profit or loss for the year.

New and revised accounting policies not yet applied
A number of new or revised standards and interpretations are not yet effective, and have not been applied in advance in the preparation of these financial statements. These are not expected to have any material effect on the Group in either the current or future financial years.

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

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

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

> Note 1, cont.

FOREIGN CURRENCIES

Transactions in foreign currencies

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

FINANCIAL STATEMENTS OF FOREIGN ENTITIES

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

RECEIVABLES AND LIABILITIES IN FOREIGN CURRENCY

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

Parent Company

ACCOUNTING POLICIES

The Parent Company has prepared its Annual Report in accordance with the Annual Accounts Act (1995:1554) and the recommendation of

the Swedish Financial Reporting Board's RFR 2 Accounting for legal entities. RFR 2 specifies that the Parent Company in the annual report of the legal entity is to apply all IFRS and statements adopted by the EU to the extent possible within the framework of the Annual Accounts Act and the Pension Obligations Vesting Act, and with regard to the relationship between accounting and taxation. The recommendation specifies the exceptions and additions to be made to IFRS.

DIFFERENCES BETWEEN ACCOUNTING POLICIES FOR THE GROUP AND PARENT COMPANY

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

CLASSIFICATION AND PRESENTATION

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

SUBSIDIARIES AND ASSOCIATES

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

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

The recoverable amount is the higher of fair value less costs to sell and the 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.

High-grade sawn and planed construction materials are produced at Södra's own sawmills. Customers are primarily in the building trade, and the housing, packaging and wood-processing industries.

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

Other segments include the activities conducted in Trivselhus, Södra Vind, Södra Medlemsel and the earnings effect of SunPine and Silva Green Fuel. Due to the decision to divest the Trivselhus AB operations in 2020, the activities of this company were excluded from Other segments in accordance with IFRS 5.

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.

> Note 2, cont.

| Group | Södra Skog | | Södra Wood | | Södra Cell | | Other segments | | Intra-Group | | Eliminations | | Total ²⁾ | |
|--|---------------------|--------|------------|-------|------------|--------|----------------|-------|-------------|-------|--------------|--------|---------------------|--------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Net sales | | | | | | | | | | | | | | |
| from external customers | 4,578 | 4,565 | 5,459 | 5,006 | 10,076 | 12,383 | 238 | 1,229 | — | — | — | — | 20,351 | 23,183 |
| from other segments | 6,932 | 7,415 | 761 | 750 | 151 | 211 | 8 | 2 | — | — | –7,852 | –8,378 | — | — |
| | 11,510 | 11,980 | 6,220 | 5,756 | 10,227 | 12,594 | 246 | 1,231 | — | — | –7,852 | –8,378 | 20,351 | 23,183 |
| Depreciation, amortisation and impairment of assets | –69 | –68 | –202 | –200 | –956 | –921 | –15 | –55 | –31 | –71 | — | — | –1,273 | –1,315 |
| Share of profit of associates | 0 | 0 | — | 5 | — | — | –118 | 30 | — | — | — | — | –118 | 35 |
| Operating profit/loss | 445 | 298 | 416 | 262 | 317 | 2,511 | –90 | –52 | –197 | –437 | — | — | 891 | 2,582 |
| Net financial items | | | | | | | | | | | | | –145 | –87 |
| Profit before income tax | | | | | | | | | | | | | 746 | 2,495 |
| Assets | 4,325 | 3,772 | 3,391 | 3,017 | 17,667 | 17,484 | 1,395 | 1,269 | 3,795 | 4,869 | –1,320 | –1,074 | 29,253 | 29,337 |
| Operating profit/loss excl. biological change in value | 97 | 173 | 416 | 262 | 317 | 2,511 | –90 | –52 | –197 | –437 | — | — | 543 | 2,457 |
| Operating profit/loss before depreciation, amortisation and impairment | 514 | 366 | 618 | 462 | 1,273 | 3,433 | –74 | 3 | –167 | –367 | — | — | 2,164 | 3,897 |
| Operating margin, % | 4 ²⁾ | 2 | 7 | 5 | 3 | 20 | neg. | neg. | neg. | neg. | — | — | 2 | 11 |
| Operating capital ¹⁾ | 5,223 ²⁾ | 4,871 | 3,204 | 3,207 | 12,650 | 13,074 | 921 | 1,141 | — | — | — | — | 20,840 | 21,238 |
| Return on operating capital ¹⁾ | 9 ²⁾ | 6 | 13 | 8 | 2 | 19 | neg. | neg. | — | — | — | — | 2 | 12 |
| Cash flow after investments | 250 ²⁾ | 129 | 364 | 131 | 686 | 2,653 | –216 | 137 | –438 | –823 | — | — | 646 | 2,227 |
| Investments | 126 ²⁾ | 145 | 292 | 384 | 1,001 | 684 | 75 | 11 | 55 | 40 | — | –136 | 1,549 | 1,128 |

¹⁾ 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.
²⁾ The effect of assets held for sale is presented in the Consolidated statement of comprehensive income and Consolidated statement of financial position. The effect of assets held for sale is not included in the Consolidated statement of cash flows nor is it taken into account in calculated key indicators, which is not directly apparent from the income statement and balance sheet presented, since Södra uses these factors to manage all of its operations. Comparative figures for prior years have not been restated for the above-mentioned effect (from 2019 and backwards), but are reconcilable with historical reports.

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 14,448 million (14,070), Latvia SEK 3,651 million (3,736), Estonia SEK 408 million (400), Finland SEK 111 million (123), the UK SEK 69 million (79), Denmark SEK 11 million (13) and Norway SEK 6 million (7).

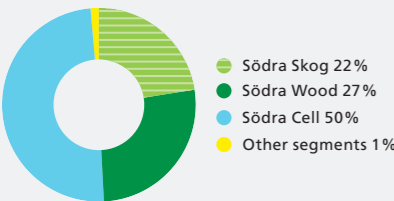
PARENT COMPANY

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

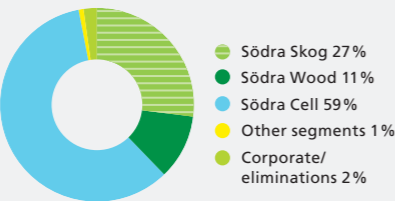
| Group | Södra Skog | | Södra Wood | | Södra Cell | | Other segments | | Intra-Group | | Eliminations | | Total | |
|---|------------|--------|------------|-------|------------|--------|----------------|------|-------------|------|--------------|--------|--------|--------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Net sales | | | | | | | | | | | | | | |
| from external customers | 4,429 | 4,433 | 2,948 | 2,712 | 10,076 | 12,383 | — | — | — | — | — | — | 17,454 | 19,528 |
| from other segments | 6,932 | 7,415 | 1,983 | 1,656 | 151 | 213 | — | — | — | — | –7,829 | –8,359 | 1,237 | 925 |
| | 11,361 | 11,848 | 4,931 | 4,368 | 10,227 | 12,596 | — | — | — | — | –7,829 | –8,359 | 18,691 | 20,453 |
| Depreciation, amortisation and impairment of assets | –44 | –42 | –176 | –175 | –902 | –864 | — | –4 | –12 | –13 | — | — | –1,134 | –1,098 |
| Operating profit/loss | 75 | 114 | 310 | 145 | 314 | 2,508 | — | 18 | –248 | –529 | — | — | 451 | 2,256 |
| Net financial items | | | | | | | | | | | | | –374 | –103 |
| Profit after financial items | | | | | | | | | | | | | 77 | 2,153 |

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

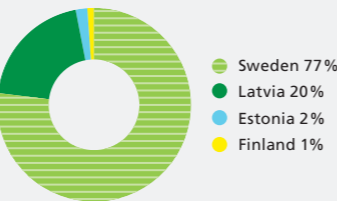
External net sales by segment



Facilities by segment



Facilities by geographic market



Result

Note 3 | Net sales

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

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

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

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

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

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

CONSOLIDATED NET SALES BY GEOGRAPHIC MARKET

| | 2020 | Share | 2019 | Share |
|-----------------|---------------|-------------|---------------|-------------|
| Sweden | 9,014 | 45% | 11,025 | 47% |
| UK | 2,497 | 12% | 2,789 | 12% |
| Italy | 1,689 | 8% | 2,027 | 9% |
| Germany | 1,276 | 6% | 1,375 | 6% |
| Austria | 568 | 3% | 844 | 4% |
| The Netherlands | 680 | 3% | 778 | 3% |
| France | 890 | 4% | 712 | 3% |
| Poland | 508 | 3% | 540 | 2% |
| Denmark | 387 | 2% | 61 | 0% |
| Slovakia | 273 | 1% | 361 | 2% |
| Hungary | 205 | 1% | 268 | 1% |
| Ireland | 207 | 1% | 235 | 1% |
| Finland | 127 | 1% | 227 | 1% |
| Rest of Europe | 890 | 5% | 1,001 | 5% |
| Asia | 439 | 2% | 430 | 2% |
| Africa | 67 | 0% | 74 | 0% |
| US | 634 | 3% | 436 | 2% |
| Total | 20,351 | 100% | 23,183 | 100% |

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

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

| | 2020 | Share | 2019 | Share |
|----------------|---------------|-------------|---------------|-------------|
| Sweden | 3,372 | 20% | 4,452 | 23% |
| Rest of Europe | 10,197 | 60% | 11,046 | 56% |
| Asia | 2,733 | 16% | 3,561 | 18% |
| Africa | 134 | 1% | 173 | 1% |
| North America | 634 | 3% | 436 | 2% |
| Rest of World | 12 | 0% | 19 | 0% |
| Total | 17,082 | 100% | 19,687 | 100% |

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

GEOGRAPHIC SEGMENTS

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

PARENT COMPANY NET SALES BY GEOGRAPHIC MARKET

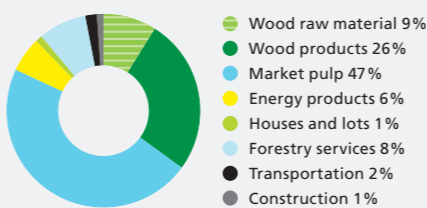
| | 2020 | 2019 |
|-----------------|---------------|---------------|
| Sweden | 8,895 | 9,740 |
| Italy | 1,689 | 2,027 |
| UK | 1,594 | 1,758 |
| Germany | 1,277 | 1,376 |
| Austria | 568 | 844 |
| The Netherlands | 679 | 777 |
| France | 890 | 712 |
| Poland | 506 | 540 |
| Slovakia | 273 | 361 |
| Hungary | 205 | 268 |
| Rest of Europe | 1,035 | 1,190 |
| Asia | 417 | 430 |
| US | 594 | 356 |
| Africa | 69 | 74 |
| Total | 18,691 | 20,453 |

> Note 3, cont.

NET SALES PER REVENUE CATEGORY:

| 2020 | Södra Skog | Södra Wood | Södra Cell | Other segments | Group |
|--------------------------------------|--------------|--------------|---------------|----------------|---------------|
| Wood raw material | 1,873 | — | — | — | 1,873 |
| Wood products | — | 5,290 | — | — | 5,290 |
| Market pulp | — | — | 9,618 | — | 9,618 |
| Energy products | 668 | 169 | 458 | 29 | 1,324 |
| Houses and lots | — | — | — | 103 | 103 |
| Forestry services | 1,643 | — | — | — | 1,643 |
| Transportation | 365 | — | — | — | 365 |
| Construction contracts | — | — | — | 103 | 103 |
| Other | 29 | — | — | 3 | 32 |
| Net sales, goods and services | 4,578 | 5,459 | 10,076 | 238 | 20,351 |

External net sales by revenue category



Note 4 | Other revenue

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

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

OTHER REVENUE BY REVENUE TYPE

| | Group | | Parent Company | |
|---|------------|------------|----------------|------------|
| | 2020 | 2019 | 2020 | 2019 |
| Sale of goods | 12 | 13 | 23 | 29 |
| Services | 13 | 6 | 36 | 11 |
| Rental income | 8 | 15 | 4 | 11 |
| Change in fair value of biological assets | 348 | 125 | — | — |
| Exchange-rate effect | — | 61 | — | 62 |
| Capital gains | 12 | 28 | 6 | 21 |
| Government grants | 15 | 8 | 13 | 5 |
| Insurance compensation | 20 | 29 | 20 | 29 |
| Damages | 28 | — | 28 | — |
| Other | 30 | 34 | 19 | 23 |
| Total | 486 | 319 | 149 | 191 |

Other government grants of SEK 15 million (8) are included in the consolidated total, and mainly relate to contributions of SEK 9 million (2) for personnel and SEK 5 million (3) for innovation.

Note 5 | Employee expenses

| EMPLOYEE EXPENSES | Group | | Parent Company | |
|--|--------------|--------------|----------------|--------------|
| SEK million | 2020 | 2019 | 2020 | 2019 |
| Salaries, benefits and social security costs | 1,566 | 1,606 | 1,383 | 1,415 |
| Contractual social security contributions | 238 | 229 | 234 | 232 |
| Other social security contributions | 472 | 486 | 428 | 446 |
| Other employee expenses | 46 | 75 | 57 | 80 |
| Less assets held for sale | –117 | — | — | — |
| Total | 2,205 | 2,396 | 2,102 | 2,173 |

| AVERAGE NUMBER OF EMPLOYEES | 2020 | | | 2019 | | | 2018 | | |
|-----------------------------|--------------|--------------|------------|--------------|--------------|------------|--------------|--------------|------------|
| | No. of | Men/women, % | | No. of | Men/women, % | | No. of | Men/women, % | |
| Parent Company | | | | | | | | | |
| Sweden | 2,752 | 79% | 21% | 2,773 | 79% | 21% | 2,749 | 77% | 23% |
| Subsidiaries | | | | | | | | | |
| Sweden | 177 | 70% | 30% | 197 | 67% | 33% | 227 | 99% | 1% |
| Finland | 43 | 77% | 23% | 44 | 75% | 25% | 44 | 82% | 18% |
| UK | 49 | 64% | 36% | 42 | 50% | 50% | 41 | 51% | 49% |
| Latvia | 41 | 64% | 36% | 36 | 62% | 38% | 30 | 60% | 40% |
| Germany | 13 | 46% | 54% | 13 | 46% | 54% | 13 | 46% | 54% |
| Estonia | 7 | 57% | 43% | 7 | 57% | 43% | 5 | 60% | 40% |
| US | 5 | 20% | 80% | 4 | 25% | 75% | 5 | 20% | 80% |
| Norway | 4 | 100% | — | 4 | 100% | — | 4 | 100% | — |
| China | 4 | 50% | 50% | 4 | 50% | 50% | 4 | 50% | 50% |
| Lithuania | — | — | — | — | — | — | — | — | — |
| Denmark | 17 | 65% | 35% | 2 | 50% | 50% | — | — | — |
| Total | 3,112 | 77% | 23% | 3,126 | 76% | 24% | 3,122 | 77% | 23% |

Average number of employees includes assets held for sale.

| MEN/WOMEN IN MANAGEMENT | Group | | | | | | Parent Company | | | | | |
|--------------------------|------------|------------|------------|------------|------------|------------|----------------|------------|------------|------------|------------|------------|
| | 2020 | | 2019 | | 2018 | | 2020 | | 2019 | | 2018 | |
| | Men | Women | Men | Women | Men | Women | Men | Women | Men | Women | Men | Women |
| Boards | | | | | | | | | | | | |
| < 30 years | — | — | — | — | — | — | — | — | — | — | — | — |
| 30–50 years | 78% | 22% | 89% | 11% | 91% | 9% | 100% | — | 100% | — | 100% | — |
| > 50 years | 80% | 20% | 82% | 18% | 78% | 22% | 70% | 30% | 70% | 30% | 62% | 38% |
| Total proportion | 79% | 21% | 85% | 15% | 83% | 17% | 75% | 25% | 75% | 25% | 67% | 33% |
| Management groups | | | | | | | | | | | | |
| < 30 years | — | 100% | — | — | — | — | — | — | — | — | — | — |
| 30–50 years | 62% | 38% | 62% | 38% | 62% | 38% | 80% | 20% | 75% | 25% | 67% | 33% |
| > 50 years | 88% | 12% | 95% | 5% | 85% | 15% | 67% | 33% | 83% | 17% | 57% | 43% |
| Total proportion | 77% | 23% | 80% | 20% | 76% | 24% | 73% | 27% | 80% | 20% | 60% | 40% |

SALARIES, BENEFITS AND SOCIAL SECURITY COSTS

| | 2020 | | 2019 | |
|----------------|---------------------|-----------------|---------------------|-----------------|
| | Board and President | Other employees | Board and President | Other employees |
| Parent Company | 17 | 1,366 | 16 | 1,404 |
| Subsidiaries | 8 | 175 | 10 | 181 |
| Total | 25 | 1,541 | 26 | 1,585 |

| | 2020 | | 2019 | |
|--|--|-------------------------------|--|-------------------------------|
| | Salaries, benefits and social security costs | Social security contributions | Salaries, benefits and social security costs | Social security contributions |
| Parent Company ¹⁾ | 1,383 | 662 | 1,420 | 679 |
| (of which pension costs in operating profit) ²⁾ | | (234) | | (232) |
| Other Group | 183 | 48 | 191 | 36 |
| (of which pension costs) | | (4) | | (–3) |
| Total | 1,566 | 710 | 1,611 | 715 |
| (of which pension costs in operating profit) ³⁾ | | (238) | | (229) |

¹⁾ Board fees are recognised as administration expenses under Other expenses.

²⁾ 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 2 million (40).

³⁾ Of the Group's pension costs, SEK 4 million (5) pertains to current and previous Presidents and Board members. Outstanding pension obligations to previous Presidents amounted to SEK 2 million (40).

> Note 5, cont.

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

| | Board fees | | Salary ³⁾ | Pension cost ⁴⁾ | Benefits ⁵⁾ | Total |
|---|---------------------|------------------------|----------------------|----------------------------|------------------------|---------------|
| 2020, SEK 000s | fixed ¹⁾ | variable ²⁾ | | | | |
| Elected Board members in Södra Skogsägarna ekonomisk förening | 3,390 | 890 | — | — | — | 4,280 |
| President, Ann-Charlotte Lyrå | — | — | 777 | 1 | 7 | 785 |
| President Lars Idermark | — | — | 8,310 | 4,575 | 264 | 13,149 |
| Interim President, Peter Karlsson | — | — | 4,047 | 1,718 | 112 | 5,877 |
| Group Senior Management, other* | — | — | 21,136 | 10,420 | 1,208 | 32,764 |
| Total | 3,390 | 890 | 34,270 | 16,714 | 1,591 | 56,855 |

* Including estimated variable remuneration of SEK –2,000 (–1,000).

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

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

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

⁴⁾ Pension cost including special employer's contribution.

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

FEES TO ELECTED BOARD MEMBERS

| | Board fees | | |
|-----------------------------------|--------------|------------|--------------|
| 2020, SEK 000s | Fixed | Variable | Total |
| Lena Ek (Chairman) | 900 | 301 | 1,201 |
| Paul Christensson (Vice Chairman) | 465 | 120 | 585 |
| Karin Andersson ¹⁾ | 180 | 65 | 245 |
| Kristina Alsér ²⁾ | 158 | 24 | 182 |
| Hans Berggren | 270 | 37 | 307 |
| Pål Börjesson | 270 | 81 | 351 |
| Magnus Hall ²⁾ | 157 | — | 157 |
| Ylva op den Velde Hammargren | 270 | 71 | 341 |
| Ulf Johansson | 270 | 127 | 397 |
| Anders Roman ¹⁾ | 180 | — | 180 |
| Mats Sandgren | 270 | 64 | 334 |
| Total | 3,390 | 890 | 4,280 |

¹⁾ Board fees for the January-May period

²⁾ Board fees for the June-December period

No remuneration is paid for committee assignments.

No Board fees were paid for subsidiaries in 2019 or 2020.

SALARIES AND REMUNERATION OF SENIOR MANAGEMENT

Senior Management

Senior Management in this Note refers to Group Senior Management, which consists of the President, business area presidents and heads of Group functions. Members of Group Senior Management may be employed in the Parent Company or in subsidiaries. In 2020, Senior Management consisted of 11 people (11).

Variable salaries/pensions

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

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

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

¹⁾ Board fees for the January-May period

²⁾ Board fees for the June-December period

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

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

Redundancy payments/termination

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

Note 6 | Other expenses

| Group | 2020 | 2019 |
|--|-------|-------|
| Repairs, maintenance and other operating costs | 576 | 566 |
| Other services and subcontracted personnel | 354 | 429 |
| Vehicle costs | 145 | 165 |
| Travel expenses and cost of sales | 85 | 159 |
| Cost of premises and property | 97 | 75 |
| R&D costs | 27 | 89 |
| Company insurances and other risk costs | 22 | 104 |
| Rent of non-current assets | 27 | 31 |
| Administration expenses | 29 | 39 |
| Exchange-rate effect | 158 | — |
| Other expenses | 241 | 281 |
| Total | 1,761 | 1,938 |

R&D costs also included employee expenses of SEK 43 million (45) and amortisation of SEK 3 million (3). Other expenses include costs of SEK 143 million (187) for scheduled maintenance shutdowns of the Group's pulp mills.

| OTHER OPERATING EXPENSES | | |
|--------------------------|------|------|
| Parent Company | 2020 | 2019 |
| Capital loss | 9 | 5 |
| Exchange-rate effect | 147 | — |
| Total | 156 | 5 |

| LEASES WHERE SÖDRA IS LESSEE. | Parent Company | |
|---|----------------|------|
| Non-cancellable lease payments amounted to: | 2020 | 2019 |
| Within 1 year | 79 | 86 |
| Between 1–5 years | 138 | 192 |
| More than 5 years | — | — |
| Total | 217 | 279 |

Note 7 | Depreciation, amortisation and impairment of assets

Impairment

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

The recoverable amounts of assets must calculated when there is an indicator of impairment. An asset is impaired if its carrying amount exceeds its recoverable amount. Losses arising from impairment are recognised in the consolidated statement of comprehensive income.

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

Impairment reversals

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

Depreciation and amortisation

Depreciation is made straight-line over the estimated useful life of assets. The Group applies component depreciation, which means that depreciation is based on the estimated useful life of the individual components. Machinery and other technical facilities comprise components with different useful lives. They are recognised and depreciated as separate components. Factory buildings consist of two components grouped under buildings and land. There is no depreciation on the land component as the useful life is deemed indeterminable.

Of the Parent Company's future lease payments, time-charter vessels account for SEK 144 million (208), operational machinery and equipment for SEK 30 million (40) and rents for SEK 43 million (30). The amount of future lease payments for rented premises is based on the consumer price index. No variable fees otherwise occur.

| Expensed charges for operating leases amounted to: | Parent Company | |
|--|----------------|------|
| | 2020 | 2019 |
| Minimum lease payments | 82 | 104 |
| Total | 82 | 104 |

| AUDITOR FEES | Group | | Parent Company | |
|---|-------|------|----------------|------|
| | 2020 | 2019 | 2020 | 2019 |
| PwC | | | | |
| auditing assignments | 5 | 4 | 4 | 3 |
| auditing activities other than the audit assignment | 1 | 0 | 1 | 0 |
| tax consultancy services | 0 | 0 | 0 | 0 |
| other assignments | 0 | 2 | 0 | 2 |
| Other | | | | |
| auditing assignments | 1 | 2 | — | — |
| tax consultancy services | 0 | 0 | — | — |
| other assignments | 1 | 1 | — | — |

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 4,440,000 (3,560,000) and other services SEK 478,000 (2,123,000).

| ESTIMATED USEFUL LIVES | Group | Right-of-use assets |
|--------------------------|-------------|---------------------|
| Wind turbines | 20 years | — |
| Pulp mills | 17–25 years | — |
| Factory buildings | 20–25 years | — |
| Administration buildings | 20–50 years | 1–7 years |
| Housing | 25–50 years | — |
| Land improvements | 20 years | — |
| Sawmills | 10–25 years | — |
| Machinery | 5–13 years | 3–5 years |
| Equipment | 3–15 years | 3–5 years |

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: façades, roof, etc. | 25 years |
| Inner surface, mechanical equipment, etc. | 25 years |

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

> Note 7, cont.

| Group | 2020 | | | 2019 | | |
|---------------------------|-------------------------------|--------------------------|-------|-------------------------------|--------------------------|-------|
| | Depreciation and amortisation | Impairment ¹⁾ | Total | Depreciation and amortisation | Impairment ¹⁾ | Total |
| Goodwill | — | 178 | 178 | — | — | — |
| Other intangible assets | 13 | 123 | 136 | 12 | — | 12 |
| Buildings | 200 | — | 200 | 204 | 31 | 235 |
| Land | 2 | 9 | 11 | 1 | 20 | 21 |
| Land improvements | 54 | — | 54 | 53 | — | 53 |
| Machinery | 771 | — | 771 | 748 | — | 748 |
| Equipment | 255 | 9 | 264 | 246 | — | 246 |
| Less assets held for sale | –31 | –310 | –341 | — | — | — |
| Total | 1,264 | 9 | 1,273 | 1,264 | 51 | 1,315 |

Note 8 | Shares in associates

Associates in which Södra has a significant influence are recognised using the equity method, which means that the Group's share of profit in the associates is recognised in the consolidated income statement. The Group's investment in an associate is recognised in the consolidated balance sheet at an amount corresponding to the Group's share of the associate's net assets. Associates are all companies in which the Group has a significant but not controlling influence, which generally entails holding 20–50 percent of the voting rights and ownership that constitutes a lasting relationship. This means that the carrying amount in the Group for shares in associates is equivalent to the Group's share of equity in the associates plus consolidated goodwill and any remaining consolidated surplus and deficits. The Group's share of profit of 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 principles as for the acquisition of subsidiaries.

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

Impairment of shares in associates

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

The following information pertains to associates in full.

| SPECIFICATION OF ASSOCIATES/JOINT VENTURES | | | | | | | |
|--|---------|---------|--------|--------|-------------|---------------|--------------|
| 2020 | Country | Revenue | Result | Assets | Liabilities | Adjust equity | Ownership, % |
| SunPine AB | Sweden | 1,222 | 31 | 1,078 | 362 | 557 | 25% |
| Södra Green Fuel DA | Norway | — | –201 | 428 | 261 | 167 | 49% |
| Silva Green Fuel AS | Norway | — | 2 | 201 | — | 201 | 49% |
| Prestige Exclusive Homes Ltd | UK | — | 0 | 5 | 0 | 5 | 50% |
| Other associates | Sweden | 3 | 1 | 4 | 1 | 3 | — |
| 2019 | Country | Revenue | Result | Assets | Liabilities | Adjust equity | Ownership, % |
| SunPine AB | Sweden | 1,329 | 99 | 1,001 | 288 | 713 | 25% |
| Södra Timber A/S | Denmark | 341 | 10 | — | — | — | — |
| Silva Green Fuel AS | Norway | 0 | 48 | 223 | 4 | 218 | 49% |
| Prestige Exclusive Homes Ltd | UK | 3 | –3 | 6 | 1 | 5 | 50% |
| Other associates | Sweden | 6 | 1 | 4 | 0 | 4 | — |

The information is based on the reports available at the time of Södra's reporting. During the year, the operations of Silva Green Fuel AS were transferred to the newly-started company Silva Green Fuel DA.

| Parent Company | 2020 | | 2019 | |
|-------------------------|-------------------------------|-------|-------------------------------|-------|
| | Depreciation and amortisation | Total | Depreciation and amortisation | Total |
| Other intangible assets | 1 | 1 | 2 | 2 |
| Buildings | 158 | 158 | 158 | 158 |
| Land | — | — | — | — |
| Land improvements | 53 | 53 | 52 | 52 |
| Machinery | 755 | 755 | 730 | 730 |
| Equipment | 167 | 167 | 156 | 156 |
| Total | 1,134 | 1,134 | 1,098 | 1,098 |

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

The recoverable amounts of assets must calculated when there is an indicator of impairment. An asset is impaired if its carrying amount exceeds its recoverable amount. Losses arising from impairment are recognised in the consolidated statement of comprehensive income.

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

Impairment reversals

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

| | Group | | Parent Company | |
|--|-------|------|----------------|------|
| | 2020 | 2019 | 2020 | 2019 |
| At the beginning of the year | 324 | 310 | 99 | 246 |
| Reclassification | — | –13 | — | –13 |
| Share of profit of associates | –118 | 35 | — | — |
| Divestments and shareholders' contributions paid | 178 | — | — | –134 |
| Dividends | –13 | –3 | — | — |
| Translation difference | –4 | –5 | — | — |
| Carrying amount at the end of the year | 367 | 324 | 99 | 99 |

Note 9 | Income from financial items

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

Interest income on receivables and interest expenses on liabilities are calculated using the effective interest method. Dividend income is recognised when the dividend has been determined and the right to receive payment is established. Issue expenses and arrangement fees for loans are accrued over the term of the loan, using the effective interest method. For measurement principles, refer to Note 13 Financial instruments.

| NET FINANCIAL ITEMS | | |
|---|-------------|-------------|
| Group | 2020 | 2019 |
| Financial income | | |
| Net profit | | |
| Assets and liabilities at fair value through profit or loss | 2 | 45 |
| Dividends | 7 | 7 |
| Other interest income | 37 | 33 |
| Net exchange rate fluctuations | 0 | 11 |
| Other financial income | 2 | 1 |
| | 48 | 97 |
| Financial expenses | | |
| Net loss | | |
| Assets and liabilities at fair value through profit or loss | –16 | 0 |
| Net exchange rate fluctuations | –55 | 0 |
| Impairment of non-current operating receivables | — | –73 |
| Interest expenses on defined-benefit pension obligations | –7 | –10 |
| Other interest expenses | –101 | –92 |
| Other financial expenses | –14 | –9 |
| | –193 | –184 |
| Total | –145 | –87 |
| Of which: | | |
| Interest income from instruments measured at amortised cost | 37 | 32 |
| Interest expenses from instruments measured at amortised cost | –101 | –86 |

PROFIT FROM FINANCIAL INSTRUMENTS RECOGNISED IN OPERATING PROFIT/LOSS

| Group | 2020 | 2019 |
|---|-------------|-----------|
| Exchange-rate effect in trade receivables | –158 | 61 |
| | –158 | 61 |

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

Parent Company

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

ANTICIPATED DIVIDENDS

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

| NET FINANCIAL ITEMS | | |
|---|-------------|-------------|
| Parent Company | 2020 | 2019 |
| Result from shares in Group companies | | |
| Dividends from Group companies | 88 | 111 |
| Impairment of shares in Group companies | –355 | –67 |
| Result from sale of shares in Group companies | — | –22 |
| | –267 | 22 |
| Profit from shares in associates | | |
| Dividends from associates | 13 | 3 |
| Profit/loss from sale of shares in associates | — | –37 |
| | 13 | –34 |
| Interest income and similar profit items | | |
| Dividends on shares in other companies | 7 | 7 |
| Interest income from Group companies | 9 | 8 |
| Interest income from others | 35 | 32 |
| Exchange-rate gain | 0 | 12 |
| Gain on sale of current investments | 0 | 10 |
| Other | — | 1 |
| | 51 | 70 |
| Interest expenses and similar loss items | | |
| Interest expenses from Group companies | –1 | –2 |
| Interest expenses from others | –97 | –83 |
| Impairment | –1 | –66 |
| Foreign exchange rate loss | –54 | 0 |
| Loss on sale of current investments | –5 | — |
| Other | –13 | –10 |
| | –171 | –161 |
| Total | –374 | –103 |

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

Note 10 | Taxes

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

Current tax is tax that is to be paid or received pertaining to the current year, with application of the tax rates that are enacted or substantively enacted at the balance-sheet date. Adjustments of current tax relating to previous periods are also recognised here.

The rules for economic associations were applied for 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 tax loss carryforwards are recognised only to the extent it is probable they can be used in the future. The value of deferred tax assets is reduced when it is no longer considered likely they can be utilised.

Parent Company

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

| RECOGNISED TAX EXPENSE | Group | | Parent Company | |
|--|------------|-------------|----------------|-------------|
| | 2020 | 2019 | 2020 | 2019 |
| Tax expense for the period | –32 | –222 | 0 | –210 |
| Adjustment of tax pertaining to prior years | –10 | 3 | –6 | 0 |
| Current tax expense | –42 | –219 | –6 | –210 |
| Deferred tax expense pertaining to temporary differences | –25 | –104 | –23 | 14 |
| Deferred tax expense | –25 | –104 | –23 | 14 |
| Total | –67 | –323 | –29 | –196 |

RECONCILIATION OF EFFECTIVE TAX

| | 2020 | Tax rate | 2019 | Tax rate | 2020 | 2019 |
|--|------|----------|-------|----------|------|-------|
| Result before tax | 209 | | 2,495 | | 482 | 1,836 |
| Tax based on current tax rate for Parent Company | −45 | 21.4 % | −534 | 21.4 % | −103 | −393 |
| Effect of special tax rules for economic associations ¹⁾ | 110 | | 198 | | 110 | 198 |
| Effect of other tax rates for foreign subsidiaries | 13 | | 13 | | — | — |
| Non-deductible expenses incl. restructuring costs | −112 | | −15 | | −45 | −33 |
| Non-taxable income | 1 | | 6 | | 22 | 30 |
| Share of profit of associates | −4 | | 8 | | — | — |
| Remeasurement of loss carryforwards ²⁾ /temporary differences | −2 | | 0 | | −7 | — |
| Standard interest on tax allocation reserve | 0 | | 0 | | 0 | 0 |
| Tax pertaining to prior years | −9 | | 1 | | −6 | 2 |
| Changed tax rate | −19 | | — | | 0 | — |
| Effective tax recognised | −67 | 32 % | −323 | 13 % | −29 | −196 |

¹⁾ According to the tax rules for economic associations, dividends paid in the second year (pertaining to the prior 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.

²⁾ Loss carryforwards can be used indefinitely.

Income tax relating to components of other comprehensive income is presented in Note 11 Other comprehensive income.

CHANGE IN DEFERRED TAX IN TEMPORARY DIFFERENCES AND LOSS CARRYFORWARDS

| Group 2020 | At the beginning of the year | Recognised in profit or loss | Recognised in other comprehensive income | Carrying amount at the end of period |
|--|------------------------------|------------------------------|--|--------------------------------------|
| Non-current assets | –1,620 | 70 | — | –1,550 |
| Biological assets | –65 | –91 | –29 | –185 |
| Non-current operating receivables | 0 | — | — | 0 |
| Inventories | 2 | 19 | — | 21 |
| Current receivables and liabilities | 5 | –10 | — | –5 |
| Current investments | –6 | 2 | — | –4 |
| Provisions | 142 | –15 | –15 | 112 |
| Untaxed reserves excluding depreciation and amortisation in excess of plan | –10 | 10 | — | 0 |
| Other | 2 | –11 | — | –9 |
| Total | –1,550 | –25 | –44 | –1,621 |

> Note 10, cont.

| Group 2019 | At the beginning of the year | Recognised in profit or loss | Acquisitions | Recognised in other comprehensive income | Carrying amount at the end of period |
|--|------------------------------|------------------------------|--------------|--|--------------------------------------|
| Non-current assets | -1,512 | -108 | — | — | -1,620 |
| Biological assets | -38 | -27 | — | — | -65 |
| Non-current operating receivables | -2 | -5 | — | 7 | 0 |
| Inventories | 14 | -12 | — | — | 2 |
| Current receivables and liabilities | -2 | 7 | — | — | 5 |
| Current investments | 2 | -8 | — | — | -6 |
| Provisions | 118 | 8 | — | 16 | 142 |
| Untaxed reserves excluding depreciation and amortisation in excess of plan | -53 | 43 | — | — | -10 |
| Other | 0 | -2 | 4 | — | 2 |
| Total | -1,473 | -104 | 4 | 23 | -1,550 |

Note 11 | Other comprehensive income

FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

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

| Group 2020 | Trans-lation reserve | Reval-uation reserve | Fair value reserve | Actuarial gain/loss ¹⁾ |
|--|----------------------|----------------------|--------------------|-----------------------------------|
| At the beginning of the year | 86 | — | -21 | -518 |
| Translation differences for the year | -122 | — | — | — |
| Change in Swedish forest land for the year | — | 141 | — | — |
| Fair value change for the year in hedge accounting derivatives | — | — | 71 | — |
| Actuarial gains and losses | — | — | — | 2 |
| Tax pertaining to components in other comprehensive income | — | -29 | -15 | 0 |
| Carrying amount at the end of the period | -36 | 112 | 35 | -516 |

¹⁾ Actuarial gain/loss included in retained earnings.

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

¹⁾ Actuarial gain/loss included in retained earnings.

Financial position

Note 12 | Business combinations

Business combinations

Subsidiaries are recognised using the purchase method. This method means that the acquisition of a subsidiary is viewed as a transaction whereby the Group indirectly obtains the subsidiary's assets and assumes its liabilities. The acquisition analysis 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. The are two options available for recognition: recognising the non-controlling interest's proportionate

share of net assets, or measuring the non-controlling interest at fair value, meaning that the non-controlling interest has a share of goodwill. The choice between the options for recognising non-controlling interests are made by Södra on an acquisition-by-acquisition basis.

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

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

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

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

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

Asset acquisitions

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

ACQUISITIONS/DIVESTMENTS 2020

In December, Södra concluded an agreement to divest its Trivselhus AB operations, and subsequently exited the single-family homes market. For more information, refer to Note 43. The transfer date is 1 March 2021. There were no other material acquisitions or divestments during the reporting period.

ACQUISITIONS IN 2019

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

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

Carrying amounts, identifiable assets and assumed liabilities:

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

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

Note 13 | Financial instruments

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

Classification

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

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

Measurement

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

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

A financial asset, or part thereof, is derecognised from the consolidated statement of financial position when the contractual rights are realised, expire or the company relinquishes control of the asset. 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 presented in the consolidated statement of financial position only when there is a legally enforceable right to set off the amount, combined with an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

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

| | Fair value through profit or loss | Fair value through other comprehensive income | Amortised cost | Total carrying amount | Fair value |
|--|-----------------------------------|---|----------------|-----------------------|------------|
| Group 2020 | | | | | |
| Financial investments | | | | | |
| Other shares and participations | 33 | — | — | 33 | 33 |
| | 33 | — | — | 33 | 33 |
| Operating receivables | | | | | |
| Trade receivables | — | — | 2,342 | 2,342 | 2,342 |
| Derivatives, non-current | — | 18 | — | 18 | 18 |
| Derivatives, current | 27 | — | — | 27 | 27 |
| | 27 | 18 | 2,342 | 2,387 | 2,387 |
| Current investments | 887 | — | — | 887 | 887 |
| Cash and cash equivalents | — | — | 2,300 | 2,300 | 2,300 |
| Total assets, financial instruments | 947 | 18 | 4,642 | 5,607 | 5,607 |
| Other assets, non-financial instruments | | | | 23,646 | |
| Total assets | | | | 29,253 | |
| Non-current liabilities | | | | | |
| Loans from banks and other credit institutions | — | — | 599 | 599 | 624 |
| Member deposits | — | — | 549 | 549 | 569 |
| Non-current lease liabilities | — | — | 259 | 259 | 261 |
| Other liabilities, non-current | — | — | 100 | 100 | 118 |
| | — | — | 1,507 | 1,507 | 1,572 |
| Current liabilities | | | | | |
| Bond loans | | | 1,000 | 1,000 | 1,013 |
| Loans from banks and other credit institutions | — | — | 133 | 133 | 135 |
| Member deposits | — | — | 4,076 | 4,076 | 4,111 |
| Current lease liabilities | — | — | 96 | 96 | 97 |
| Other liabilities, current | — | — | 26 | 26 | 26 |
| | — | — | 5,331 | 5,331 | 5,382 |
| Current operating liabilities | | | | | |
| Trade creditors | — | — | 2,361 | 2,361 | 2,361 |
| | — | — | 2,361 | 2,361 | 2,361 |
| Total liabilities, financial instruments | — | — | 9,199 | 9,199 | 9,315 |
| Other liabilities, non-financial instruments | | | | 3,295 | |
| Total liabilities | | | | 12,494 | |

* Customer contracts tied to financial instruments.

> Note 13, cont.

Investments in debt instruments

Södra classifies investments in debt instruments into three measurement categories:

FAIR VALUE THROUGH PROFIT OR LOSS

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

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

FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

AMORTISED COST

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

| | Fair value through profit or loss | Fair value through other comprehensive income | Amortised cost | Total carrying amount | Fair value |
|--|-----------------------------------|---|----------------|-----------------------|------------|
| Group 2019 | | | | | |
| Financial investments | | | | | |
| Other shares and participations | 36 | — | — | 36 | 36 |
| | 36 | — | — | 36 | 36 |
| Operating receivables | | | | | |
| Trade receivables | — | — | 2,493 | 2,493 | 2,493 |
| LTFP*, current | 1 | — | — | 1 | 1 |
| | 1 | — | 2,493 | 2,494 | 2,494 |
| Current investments | 938 | — | — | 938 | 938 |
| Cash and cash equivalents | | — | 2,072 | 2,072 | 2,072 |
| Total assets, financial instruments | 975 | — | 4,565 | 5,540 | 5,540 |
| Other assets, non-financial instruments | | | | 23,797 | |
| Total assets | | | | 29,337 | |
| Non-current liabilities | | | | | |
| Bond loans | — | — | 1,000 | 1,000 | 1,024 |
| Loans from banks and other credit institutions | — | — | 732 | 732 | 780 |
| Member deposits | — | — | 536 | 536 | 556 |
| Non-current lease liabilities | — | — | 210 | 210 | 211 |
| Derivatives, non-current | — | 27 | — | 27 | 27 |
| Other liabilities, non-current | — | — | 100 | 100 | 102 |
| | — | 27 | 2,578 | 2,605 | 2,700 |
| Current liabilities | | | | | |
| Loans from banks and other credit institutions | — | — | 136 | 136 | 142 |
| Member deposits | — | — | 3,550 | 3,550 | 3,580 |
| Current lease liabilities | — | — | 118 | 118 | 119 |
| Other liabilities, current | — | — | 43 | 43 | 49 |
| | — | — | 3,847 | 3,847 | 3,890 |
| Current operating liabilities | | | | | |
| Trade creditors | — | — | 2,389 | 2,389 | 2,389 |
| Derivatives, current | 1 | — | — | 1 | 1 |
| | 1 | — | 2,389 | 2,390 | 2,390 |
| Total liabilities, financial instruments | 1 | 27 | 8,814 | 8,842 | 8,980 |
| Other liabilities, non-financial instruments | | | | 3,113 | |
| Total liabilities | | | | 11,955 | |

¹⁾ 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 consist 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:

> Note 13, cont.

SHARES AND PARTICIPATIONS AND CURRENT INVESTMENTS

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

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

DERIVATIVES

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

The following tables present information about how fair value is determined for the financial instruments that are measured at fair value in the 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 2020 | Level 1 | Level 2 | Level 3 | Total |
|---------------------------------|------------|----------|-----------|------------|
| Other shares and participations | — | — | 34 | 34 |
| Derivatives, non-current | — | — | 18 | 18 |
| Derivatives, current | | — | 27 | 27 |
| Current investments | 887 | — | — | 887 |
| Total assets | 887 | — | 79 | 966 |
| LTFP ¹⁾ , current | — | — | 0 | 0 |
| Total liabilities | — | — | 0 | 0 |

¹⁾ 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 2020 | Assets | | | Liabilities | |
|---|---------------------------------|-------------|----------|-------------|--------------------|
| | Other shares and participations | Derivatives | LTFP* | Derivatives | LTFP ¹⁾ |
| At the beginning of the year | 36 | 0 | 1 | 28 | 0 |
| Total recognised gains and losses: | | | | | |
| – recognised in profit for the year | — | — | –1 | — | — |
| – recognised in other comprehensive income | — | 0 | — | –28 | — |
| Acquisitions | — | 45 | — | — | — |
| Capital contributions | — | — | — | — | — |
| Sold and terminated | –2 | 0 | — | — | — |
| Carrying amount at the end of the period | 34 | 45 | 0 | 0 | 0 |

¹⁾ Customer contracts tied to finance leases.

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

¹⁾ Customer contracts tied to finance leases.

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

TRADE RECEIVABLES AND TRADE CREDITORS

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

OTHER FINANCIAL ASSETS AND LIABILITIES

The fair value of other financial assets and liabilities is based on future cash flows of payments of capital and interest, discounted using the current market rate at the balance-sheet date.

INTEREST RATES USED TO DETERMINE FAIR VALUE

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

Note 14 | Intangible assets

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

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

Assets with a finite useful life are amortised on a straight-line basis over each asset's estimated useful live. The useful life of an asset is retested every year.

| Group 2020 | Brand | Development costs, licences | Goodwill | Total |
|---|-------------|-----------------------------|-------------|-------------|
| Cost | | | | |
| At the beginning of the year | 123 | 110 | 275 | 508 |
| Investment | — | 29 | — | 29 |
| Divestment and disposals | — | –6 | –0 | –6 |
| Translation differences | — | — | –1 | –1 |
| | 123 | 133 | 274 | 530 |
| Depreciation | | | | |
| At the beginning of the year | — | –85 | — | –85 |
| Divestment and disposal | — | 6 | — | 6 |
| Depreciation according to plan for the year | — | –13 | — | –13 |
| | — | –92 | — | –92 |
| Impairment | | | | |
| At the beginning of the year | — | –8 | –22 | –30 |
| Impairment for the year | –123 | — | –178 | –302 |
| Translation differences | | | 0 | 0 |
| | –123 | –8 | –200 | –331 |
| Carrying amount at the end of the period | 0 | 33 | 74 | 107 |

TESTING OF IMPAIRMENT REQUIREMENT FOR GOODWILL AND BRANDS

Impairment testing of the carrying amount of goodwill, and brands with indefinite useful lives, was performed prior to the balance-sheet date of 31 December 2020. In the Consolidated statement of financial position, the carrying amount of goodwill is SEK 74 million (253). The following table presents the carrying amount of goodwill allocated by business area. Profit for the year was charged with SEK 179 million pertaining to goodwill impairment and SEK 123 million pertaining to other intangible fixed assets, related to Södra's exit from the single-family homes market via the divestment of Trivselhus AB. The impairment loss arises when the carrying amount on the balance sheet exceeds the proceeds.

Södra Wood is the cash-generating unit 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, goodwill is tested for impairment

Impairment of material and intangible assets

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

The recoverable amounts of assets must calculated when there is an indicator of impairment. An asset is impaired if its carrying amount exceeds its recoverable amount. Losses arising from impairment are recognised in the consolidated statement of comprehensive income.

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

Impairment reversals

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

PARENT COMPANY

Research and development

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

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

at business area level, since this is where goodwill is monitored internally.

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

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

> Note 14, cont.

| GOODWILL/BRAND PER CASH-GENERATING UNIT | | |
|--|------|------|
| | 2020 | 2019 |
| Södra Wood | 74 | 74 |
| Intra-Group, Södra Trivselhus Holding AB (incl. brand) | — | 302 |
| Total | 74 | 376 |

| Parent Company 2020 | Development costs, licences | Goodwill | Total |
|---|-----------------------------|----------|-------|
| Cost | | | |
| At the beginning of the year | 25 | 22 | 47 |
| Merger | — | 2 | 2 |
| Divestment and disposal | –6 | — | –6 |
| | 19 | 24 | 43 |
| Depreciation | | | |
| At the beginning of the year | –24 | –16 | –40 |
| Divestment and disposal | 6 | — | 6 |
| Depreciation according to plan for the year | –1 | 0 | –1 |
| | –19 | –16 | –35 |
| Impairment | | | |
| At the beginning of the year | — | –6 | –6 |
| | — | –6 | –6 |
| Carrying amount at the end of the period | 0 | 2 | 2 |

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

Note 15 | Property, plant and equipment

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

The cost of own-generated non-current assets includes expenses for material, for remuneration of employees, if applicable, other manufacturing costs directly attributable to the non-current asset, and the estimated costs of dismantling and removing the item and restoring the site on which it is located.

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

In 2020, Södra reviewed the accounting policies for measuring the value of forest assets. The change resulted in land assets attributable to forest assets in Sweden are now measured using the revaluation model. The revaluation model entails that the land assets previously measured at cost are now measured at fair value. The change in value of land is recognised as other comprehensive income and does not affect profit or loss for the year.

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 to be derived from the use or disposal/divestment of the asset. The gain or loss arising on the divestment or disposal of an asset represents the difference between the selling price and the carrying amount of the asset less direct selling costs. The gain and loss are recognised as operating income/expenses.

ADDITIONAL EXPENSES

Additional expenses are added to the cost only if it is probable that the future economic benefits associated with the asset will benefit

the company and the cost can be reliably estimated. Other additional expenses are expensed in the period they are incurred.

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

LEASES

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

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

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

> Note 15, cont.

| BUILDINGS AND LAND | | | | | | |
|---|-----------|--------------------------------|-------|---------------------------|--------------------|--------------------------|
| Group 2020 | Buildings | Leased buildings ¹⁾ | Land | Leased land ¹⁾ | Land improve-ments | Total Buildings and Land |
| Cost | | | | | | |
| At the beginning of the year | 4,535 | 149 | 1,621 | 2 | 1,250 | 7,557 |
| Forest land revaluation ²⁾ | — | — | 141 | — | — | 141 |
| Business combinations | — | — | 5 | — | — | 5 |
| Investments | 12 | 153 | 60 | 1 | 31 | 257 |
| Reclassifications ³⁾ | 8 | — | –44 | — | 19 | –17 |
| Divestments and disposals | – 57 | –16 | –7 | – 2 | –3 | –85 |
| Translation differences | –7 | 0 | –73 | — | 0 | –80 |
| | 4,491 | 286 | 1,703 | 1 | 1,297 | 7,778 |
| Depreciation | | | | | | |
| At the beginning of the year | –2,130 | –42 | — | –1 | –561 | –2,734 |
| Divestments and disposals | 33 | 6 | — | 2 | 1 | 42 |
| Depreciation according to plan for the year | –162 | –38 | — | –2 | –54 | –256 |
| Translation differences | 1 | 0 | — | — | 0 | 1 |
| | –2,258 | –74 | — | –1 | –614 | –2,947 |
| Impairment | | | | | | |
| At the beginning of the year | –37 | –31 | –36 | — | –11 | –115 |
| Impairment for the year | — | — | –9 | — | — | –9 |
| | –37 | –31 | –45 | — | –11 | –124 |
| Assets held for sale | — | –144 | — | — | — | –144 |
| Carrying amount at the end of the period | 2,196 | 37 | 1,658 | 0 | 672 | 4,563 |

¹⁾ IFRS 16 Leases has been applied since 2019, which means that leases are now recognised as assets, instead of Other expenses.
²⁾ Remeasurement presented in Other comprehensive income, refer to Notes 11 and 23.
³⁾ Reclassifications predominantly relate to capitalised work in progress, which are considered investments.

| Group 2019 | Buildings | Leased buildings ¹⁾ | Land | Leased land ¹⁾ | Land improve-ments | Total Buildings and Land |
|---|-----------|--------------------------------|-------|---------------------------|--------------------|--------------------------|
| Cost | | | | | | |
| At the beginning of the year | 4,417 | — | 1,561 | — | 1,217 | 7,195 |
| Lease reclassification | — | 111 | — | 1 | — | 112 |
| Business combinations | — | — | 10 | — | — | 10 |
| Investments | — | 40 | 79 | 1 | — | 120 |
| Reclassifications ²⁾ | 128 | — | –55 | — | 33 | 106 |
| Divestments and disposals | –17 | –2 | –8 | — | –1 | –28 |
| Translation differences | 7 | — | 34 | — | 1 | 42 |
| | 4,535 | 149 | 1,621 | 2 | 1,250 | 7,557 |
| Depreciation | | | | | | |
| At the beginning of the year | –1,975 | — | — | — | –509 | –2,484 |
| Divestments and disposals | 6 | 1 | — | — | 1 | 8 |
| Depreciation according to plan for the year | –161 | –43 | — | –1 | –53 | –258 |
| Translation differences | 0 | 0 | — | — | 0 | 0 |
| | –2,130 | –42 | — | –1 | –561 | –2,734 |
| Impairment | | | | | | |
| At the beginning of the year | –37 | — | –16 | — | –11 | –64 |
| Impairment for the year | — | –31 | –20 | — | — | –51 |
| | –37 | –31 | –36 | — | –11 | –115 |
| Carrying amount at the end of the period | 2,368 | 76 | 1,585 | 1 | 678 | 4,708 |

¹⁾ IFRS 16 Leases has been applied since 2019, which means that leases are now recognised as assets, instead of Other expenses.
²⁾ Reclassifications predominantly relate to capitalised work in progress, which are considered investments.

> Note 15, cont.

| Parent Company | 2020 | | | | 2019 | | | |
|---|---------------|------------|--------------------|--------------------------|---------------|------------|--------------------|--------------------------|
| | Buildings | Land | Land improve-ments | Total Buildings and Land | Buildings | Land | Land improve-ments | Total Buildings and Land |
| Cost | | | | | | | | |
| At the beginning of the year | 4,423 | 265 | 1,232 | 5,920 | 4,312 | 264 | 1,200 | 5,776 |
| Reclassifications ¹⁾ | 22 | 3 | 50 | 75 | 128 | 2 | 33 | 163 |
| Divestments and disposals | –57 | –2 | –2 | –61 | –17 | –1 | –1 | –19 |
| | 4,388 | 266 | 1,280 | 5,934 | 4,423 | 265 | 1,232 | 5,920 |
| Depreciation | | | | | | | | |
| At the beginning of the year | –2,116 | — | –554 | –2,670 | –1,964 | — | –502 | –2,466 |
| Divestments and disposals | 31 | — | 2 | 33 | 6 | — | — | 6 |
| Depreciation according to plan for the year | –158 | — | –53 | –211 | –158 | — | –52 | –210 |
| | –2,243 | — | –605 | –2,848 | –2,116 | — | –554 | –2,670 |
| Impairment | | | | | | | | |
| At the beginning of the year | –37 | –10 | –10 | –57 | –37 | –10 | –11 | –58 |
| Divestments and disposals | — | — | 0 | 0 | — | — | 1 | 1 |
| | –37 | –10 | –10 | –57 | –37 | –10 | –10 | –57 |
| Carrying amount at the end of the period | 2,108 | 256 | 665 | 3,029 | 2,270 | 255 | 668 | 3,193 |

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

MACHINERY AND EQUIPMENT

| Group | 2020 | | | | | 2019 | | | | |
|---|----------------|------------------|---------------|------------------|-------------------------------|----------------|------------------|---------------|------------------|-------------------------------|
| | Machinery | Leased machinery | Equipment | Leased equipment | Total Machinery and Equipment | Machinery | Leased machinery | Equipment | Leased equipment | Total Machinery and Equipment |
| Cost | | | | | | | | | | |
| At the beginning of the year | 23,581 | 2 | 2,515 | 295 | 26,393 | 23,078 | — | 2,413 | — | 25,491 |
| Lease reclassification | — | — | — | — | — | — | 2 | — | 336 | 338 |
| Business combinations | — | — | — | — | — | — | — | 1 | — | 1 |
| Investments | 371 | 2 | 212 | 19 | 604 | 3 | 0 | 5 | 45 | 53 |
| Reclassifications ²⁾ | 138 | — | 76 | — | 214 | 629 | — | 201 | — | 830 |
| Divestments and disposals | –82 | 0 | –153 | –28 | –263 | –137 | 0 | –106 | –86 | –329 |
| Translation differences | –8 | — | –2 | 0 | –10 | 8 | — | 1 | — | 9 |
| | 24,000 | 4 | 2,648 | 286 | 26,938 | 23,581 | 2 | 2,515 | 295 | 26,393 |
| Depreciation | | | | | | | | | | |
| At the beginning of the year | –14,634 | –1 | –1,585 | –63 | –16,283 | –14,020 | — | –1,512 | — | –15,532 |
| Divestments and disposals | 82 | — | 146 | 27 | 255 | 136 | 0 | 97 | 14 | 247 |
| Depreciation according to plan for the year | –770 | –1 | –182 | –73 | –1,026 | –747 | –1 | –169 | –77 | –994 |
| Translation differences | 4 | — | 1 | 0 | 5 | –3 | 0 | –1 | 0 | –4 |
| | –15,318 | –2 | –1,620 | –109 | –17,049 | –14,634 | –1 | –1,585 | –63 | –16,283 |
| Impairment | | | | | | | | | | |
| At the beginning of the year | –178 | — | –61 | — | –239 | –184 | — | –62 | — | –246 |
| Divestments and disposals | — | — | — | — | — | 6 | — | 1 | — | 7 |
| Impairment for the year | — | — | –9 | — | –9 | — | — | — | — | — |
| | –178 | — | –70 | — | –248 | –178 | — | –61 | — | –239 |
| Assets held for sale | –28 | — | –12 | — | –40 | — | — | — | — | — |
| Carrying amount at the end of the period | 8,476 | 2 | 946 | 177 | 9,601 | 8,769 | 1 | 869 | 232 | 9,871 |

¹⁾ IFRS 16 Leases has been applied since 2019, which means that leases are now recognised as assets, instead of Other expenses.²⁾ Reclassifications predominantly relate to capitalised work in progress, which are considered investments.

> Note 15, cont.

| Parent Company | 2020 | | | 2019 | | |
|---|----------------|---------------|-------------------------------|----------------|---------------|-------------------------------|
| | Machinery | Equipment | Total Machinery and Equipment | Machinery | Equipment | Total Machinery and Equipment |
| Cost | | | | | | |
| At the beginning of the year | 23,420 | 2,262 | 25,682 | 22,924 | 2,159 | 25,083 |
| Reclassifications ¹⁾ | 486 | 272 | 758 | 631 | 202 | 833 |
| Divestments and disposals | –77 | –144 | –221 | –135 | –99 | –234 |
| | 23,829 | 2,390 | 26,219 | 23,420 | 2,262 | 25,682 |
| Depreciation | | | | | | |
| At the beginning of the year | –14,556 | –1,478 | –16,034 | –13,955 | –1,413 | –15,368 |
| Divestments and disposals | 76 | 136 | 212 | 129 | 91 | 220 |
| Depreciation according to plan for the year | –755 | –167 | –922 | –730 | –156 | –886 |
| | –15,235 | –1,509 | –16,744 | –14,556 | –1,478 | –16,034 |
| Impairment | | | | | | |
| At the beginning of the year | –179 | –1 | –180 | –184 | –2 | –186 |
| Divestments and disposals | 1 | 0 | 1 | 5 | 1 | 6 |
| Impairment for the year | — | — | — | — | — | — |
| | –178 | –1 | –179 | –179 | –1 | –180 |
| Carrying amount at the end of the period | 8,416 | 880 | 9,296 | 8,685 | 783 | 9,468 |

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

CONSTRUCTION IN PROGRESS

| Group | 2020 | 2019 |
|---|--------------|-------------|
| Cost | | |
| At the beginning of the year | 539 | 500 |
| Investments | 842 | 1,031 |
| Reclassifications | –283 | –992 |
| Carrying amount at the end of the period | 1,098 | 539 |
| Parent Company | 2020 | 2019 |
| Cost | | |
| At the beginning of the year | 317 | 379 |
| Investments | 734 | 934 |
| Reclassifications | –247 | –996 |
| Carrying amount at the end of the period | 804 | 317 |

PRINCIPLES FOR RIGHT-OF-USE ASSETS

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

INVESTMENT COMMITMENTS

Group

In 2020, the Group entered into agreements for SEK 696 million (367) pertaining to future acquisitions of property, plant and equipment.

Parent Company

In 2020, the Parent Company entered into agreements for SEK 696 million (367) pertaining to future acquisitions of property, plant and equipment.

Note 16 | Biological assets

Forest assets are divided into standing timber and land assets. Standing timber is recognised as a biological asset according to IAS 41 Agriculture. Land assets are accounted for as property, plant and equipment (fixed assets) according to IAS 16 Property, plant and equipment.

In 2020, Södra reviewed the accounting policies for measuring the value of forest assets. This resulted in a shift to market valuation to determine the fair value of the Swedish holding. A market valuation means that the total forest value is based on market transactions involving forest land in the areas where Södra owns forest assets. This change means that land assets attributable to forest assets are also measured at fair value, and led to the application of a new accounting policy. The land assets were previously measured at cost, but are now measured at fair value using the revaluation model on page 31 of IAS 16 for the Swedish holding. The change in value of land is recognised as other comprehensive income and does not affect profit or loss for the year. The comparative year has not been restated to fair value, it is measured at cost. The forest holding in the Baltics is valued according to the previous policy, since the market transaction statistics that are available are not considered sufficiently reliable. In the Baltics, standing timber is recognised at fair value discounted to the present value of future expected cash flows from the standing timber. The land that the forest is growing on is measured at cost.

When measuring biological assets at fair value in the Baltics, the present value of expected future cash flows before tax is estimated based on current harvest plans and estimates of forest growth, wood prices, harvest costs and forest management costs. These future cash flows, net of costs to sell, are discounted using estimated weighted average cost of capital (WACC), based on a harvest cycle of 70 years. Future price and cost trends have been taken into account and provisions have been made for environmental considerations.

There have not been any changes to the accounting policy for biological assets, and the new method in Sweden has only resulted in changed assumptions under the same accounting policy. The new accounting method for the valuation of forest assets therefore gives rise to a change in accounting policy for land assets, but only a change in assumptions for biological assets. In the balance sheet, the change in accounting treatment to the revaluation model led to an increase of SEK 141 million in the value of land assets, and the recognition of a deferred tax liability on the difference between the tax base of the asset and its carrying amount. The deferred tax liability was SEK 29 million.

PARENT COMPANY

The value of biological assets and forest land is measured in accordance with the Swedish Annual Accounts Act. This means that biological assets and forest land classified as fixed assets are measured at cost less any impairment.

MEASUREMENT

At 31 December 2020, Södra's forest holding amounted to 124,900 hectares (121,600) of productive forest land. The volume of standing timber was 15.8 million m³fo (15.2). The total value of the forest holding was SEK 4,808 million (4,273), of which SEK 1,470 million (1,355) pertained to forest land. Of the total value of the forest holding, the Swedish holding accounted for SEK 717 million and the Baltic holding for SEK 4,091 million. During the year, the change in value of standing timber was SEK 348 million (125), which was recognised in profit or loss. Of this amount, change in fair value accounted for SEK 452 million (77) and translation differences for SEK -103 million (48).

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

The calculation of cash flow for forest assets in Estonia was discounted using an interest rate of 6.5 percent (6.5) after tax, and in Latvia using an interest rate of 6.4 percent (6.4) after tax. Södra believes that this interest rate should reflect the long-term cost of capital for an investment in forest assets, and not be affected by short-term adjustments to market rates. A 100-year time frame was used for discounting the value of future cash flows in the Baltics. A harvest cycle of 70 years was applied for the forest holding in the Baltics. 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 valuation in Sweden is based on all sales over the past five years in the areas where Södra owns forest assets, where the consideration derived from forest land exceeded 75 percent of the total consideration. The selection also excludes estates of less than 50 hectares, based on Södra's view that market rationality is declining. In addition, the forestry parameters must be known through prospectuses to be included in the selection.

The market price calculated is based on forest land transactions over the past five years. The market price is a weighted average price that amounted to SEK 738/m³fo in 2020, and forms the basis for the total average value per m³fo of Södra's forest assets in Sweden. As for standing timber, the value of land assets is based on forest land transactions over the past eight years and is a bare land value. The total value of the land assets was SEK 174 million.

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

| Group | 2020 | 2019 |
|---|-------|-------|
| At the beginning of the year | 2,918 | 2,738 |
| Purchases of standing timber | 59 | 55 |
| Purchases of standing timber by asset acquisition | 12 | — |
| Sales of standing timber | — | 0 |
| Change in fair value | 452 | 77 |
| Translation differences | -103 | 48 |
| Carrying amount at the end of the period | 3,338 | 2,918 |

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 in the Baltics | ±0.25% | -167/+186 |
| Wood price in the Baltics | ±2%, real | ±115 |
| Market price per m³fo in Sweden | ±2% | ±14 |
| Exchange rate fluctuation, EUR | ±0.25% | ±84 |
| Stand volume | 0.8 million m³fo | ±140 |

Note 17 | Financial investments

FINANCIAL INSTRUMENTS

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

Classification

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

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

Measurement

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

A financial asset, or part thereof, is derecognised from the consolidated statement of financial position when the contractual rights are realised, expire or the company relinquishes control of the asset. 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 presented in the consolidated statement of financial position only when there is a legally enforceable right to set off the amount, combined with an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

FAIR VALUE THROUGH PROFIT OR LOSS

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

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

| Group | 2020 | 2019 |
|--|-------|-------|
| Non-current assets | | |
| Measured at fair value through profit or loss | | |
| Financial investments | 33 | 36 |
| | 33 | 36 |
| Current assets | | |
| Other current investments | 1,177 | 1,358 |
| - of which reclassified to cash and cash equivalents | -290 | -420 |
| | 887 | 938 |

Non-current assets comprise unlisted shares and participations measured at cost since a reliable market value could not be determined. If objective evidence of impairment exists, this is taken into account. At 31 December 2020, impairment losses totalled SEK 1 million (1). Södra does not intend to divest any of the financial investments in 2021.

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. 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 0.00 (0.01) and 0.45 percent (0.35). The receivables have maturities of up to five years.

| Parent Company | 2020 | 2019 |
|-------------------------------|-------|-------|
| Current financial investments | | |
| Other current investments | 1,155 | 1,329 |
| | 1,155 | 1,329 |

Note 18 | Non-current operating receivables

DERIVATIVES AND HEDGE ACCOUNTING

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

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

Derivatives used for hedging purposes

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

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item impacted earnings. Cumulative gains

and losses related to net investment hedges in foreign operations are reclassified to profit or loss when the foreign operations are wholly or partly divested.

Derivatives not used for hedging

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

| | Group | | Parent Company | |
|-------------------------------|-------|------|----------------|------|
| | 2020 | 2019 | 2020 | 2019 |
| Derivatives | 18 | — | — | — |
| Other non-current receivables | 22 | 12 | 22 | 12 |
| Total | 40 | 12 | 22 | 12 |

| Parent Company | 2020 | 2019 |
|--|------|------|
| At the beginning of the year | 12 | 81 |
| Additional | 14 | 11 |
| Utilised | –5 | –7 |
| Impairment | — | –73 |
| Carrying amount at the end of the year | 22 | 12 |

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

Note 19 | Deferred tax assets/liabilities

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

is based on how the underlying assets or liabilities are expected to be capitalised or settled. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted at the balance-sheet date.

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

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

| Group | Deferred tax assets | | Deferred tax liabilities | | Net | |
|-------------------------------|---------------------|------|--------------------------|--------|--------|--------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Intangible assets | — | — | –56 | –71 | –56 | –71 |
| Property, plant and equipment | 3 | 3 | –1,497 | –1,552 | –1,494 | –1,549 |
| Biological assets | — | — | –185 | –65 | –185 | –65 |
| Inventories | 0 | 1 | 21 | 1 | 21 | 2 |
| Operating receivables | — | — | –9 | 6 | –9 | 6 |
| Current investments | — | — | –4 | –6 | –4 | –6 |
| Tax allocation reserves | — | — | 0 | –10 | 0 | –10 |
| Provisions for pensions | — | — | 91 | 102 | 91 | 102 |
| Non-current provisions | — | — | 21 | 40 | 21 | 40 |
| Operating liabilities | — | — | 4 | –1 | 4 | –1 |
| Other | 1 | — | –10 | 2 | –9 | 2 |
| Deferred tax asset/liability | 4 | 4 | –1,624 | –1,554 | –1,620 | –1,550 |

| Parent Company | Deferred tax assets | | Deferred tax liabilities | | Net | |
|-------------------------------|---------------------|------|--------------------------|------|------|------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Property, plant and equipment | 12 | 12 | — | — | 12 | 12 |
| Provisions for pensions | 0 | 8 | — | — | 0 | 8 |
| Non-current provisions | 21 | 40 | — | — | 21 | 40 |
| Operating liabilities | 4 | — | — | — | 4 | — |
| Deferred tax asset/liability | 37 | 60 | — | — | 37 | 60 |

Of the Group's deferred tax liabilities, SEK 1,531 million (1,601) is attributable to depreciation and amortisation in excess of plan.

Note 20 | Inventories

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

ELECTRICITY CERTIFICATES

In 2003, a system of electricity certificates was introduced in Sweden in order to promote the use of renewable energy sources for electricity generation. Plants involved in the system receive electricity certificates at no cost from Svenska Kraftnät (Swedish National Grid) in proportion to the certificate-entitled electricity generated. Received electricity certificates are recognised at zero cost. Stock-on-hand of allocated electricity certificates is recognised at zero value. No allocated electricity certificates were 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 0 million (2019: 2, 2018: 93, 2017: 96)

EMISSION PERMITS

Södra participates in the European emissions trading system, which aims to reduce emissions of the greenhouse gas CO₂. The affected plants are allocated permits free of charge by the Swedish Environmental Protection Agency. Allocated permits are recognised at zero cost. Purchased permits are recognised as inventories under current assets at cost, less cumulative impairment losses, where applicable.

As long as own holdings of permits covers 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. 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 12 million (2019: 39, 2018: 175, 2017: 72). No permits were sold on contract for future deliveries.

| | Group | | Parent Company | |
|-------------------------------------|-------|-------|----------------|-------|
| | 2020 | 2019 | 2020 | 2019 |
| Raw materials and consumables | 599 | 537 | 580 | 512 |
| Goods under production | 188 | 120 | 188 | 120 |
| Finished goods and goods for resale | 2,673 | 3,178 | 1,688 | 2,274 |
| Less assets held for sale | –96 | — | — | — |
| Total | 3,364 | 3,835 | 2,456 | 2,906 |

Note 21 | Current operating receivables

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

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

Customer credit risk

The risk of customers not fulfilling their obligations, in other words payment not being received, represents a customer credit risk. Customer credit is checked using information on their financial position from various credit-rating agencies. The basic principle is that security is required for customers with a bad credit score or weak credit history. To the extent that sufficient security is not obtained, an individual assessment is carried out in accordance with the financial policy to determine whether delivery with the associated credit risk should go ahead. Södra estimates expected credit losses by grouping trade receivables on the basis of shared credit risk and the calculation of historical loss rate.

| | Group | | Parent Company | |
|--|-------|-------|----------------|-------|
| | 2020 | 2019 | 2020 | 2019 |
| Current receivables from Group companies | — | — | 151 | 113 |
| Trade receivables | 2,342 | 2,493 | 1,934 | 2,163 |
| Derivatives | 27 | — | — | — |
| Customer contracts | — | 1 | — | — |
| Accrued revenue | 18 | 10 | 15 | 9 |
| Other receivables | 789 | 944 | 741 | 875 |
| Prepaid expenses and accrued income | 77 | 97 | 77 | 94 |
| Less assets held for sale | –37 | — | — | — |
| Total | 3,216 | 3,545 | 2,918 | 3,254 |

Note 22 | Cash and cash equivalents

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

| | Group | | Parent Company | |
|--|-------|-------|----------------|-------|
| | 2020 | 2019 | 2020 | 2019 |
| Cash and bank balances | 2,010 | 1,652 | 1,869 | 1,482 |
| Current investments, equivalent to cash | 290 | 420 | 290 | 420 |
| Cash and cash equivalents according to cash flow statement | 2,300 | 2,072 | 2,159 | 1,902 |

Prepaid expenses and accrued income for the Parent Company includes prepaid rental charges of SEK 7 million (6), prepaid insurance premiums of SEK 8 million (7), accrued interest income of SEK 1 million (1), accrued income of SEK 13 million (14) and other prepaid expenses of SEK 48 million (66).

CUSTOMER CREDIT RISK

| Trade receivables | Group | | Parent Company | |
|--------------------------------------|-------|-------|----------------|-------|
| | 2020 | 2019 | 2020 | 2019 |
| Trade receivables gross | 2,505 | 2,686 | 2,095 | 2,338 |
| Provision for expected credit losses | –163 | –193 | –161 | –175 |
| Total | 2,342 | 2,493 | 1,934 | 2,163 |

| Analysis of the credit risk exposure in trade receivables | Group | | Parent Company | |
|---|-------|-------|----------------|-------|
| | 2020 | 2019 | 2020 | 2019 |
| Trade receivables that are neither overdue nor impaired | 1,840 | 2,140 | 1,703 | 1,881 |
| Trade receivables that are overdue | | | | |
| < 30 days | 363 | 356 | 228 | 298 |
| 30–90 days | 130 | 20 | 2 | 11 |
| 90–180 days | 4 | 13 | 2 | 9 |
| > 180 days | 168 | 157 | 160 | 139 |
| Total exposure to credit risk | 2,505 | 2,686 | 2,095 | 2,338 |
| Provision for expected credit losses | –163 | –193 | –161 | –175 |
| Trade receivables | 2,342 | 2,493 | 1,934 | 2,163 |

| Provision for uncertain receivables | Group | | Parent Company | |
|--|-------|------|----------------|------|
| | 2020 | 2019 | 2020 | 2019 |
| At the beginning of the year | –193 | –163 | –175 | –159 |
| Actual credit losses | 3 | 0 | 3 | 0 |
| Provision for expected credit losses | –4 | –48 | –2 | –33 |
| Reversal of unutilised amount | 31 | 18 | 13 | 17 |
| Carrying amount at the end of the year | –163 | –193 | –161 | –175 |

Note 23 | Equity

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

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

| | Group | | Parent Company | |
|-----------------------------|--------|--------|----------------|--------|
| | 2020 | 2019 | 2020 | 2019 |
| Paid-up contributed capital | 1,786 | 1,665 | 1,786 | 1,665 |
| Issued contributed capital | 3,105 | 2,971 | 3,105 | 2,971 |
| Other equity ¹⁾ | 11,868 | 12,746 | 5,150 | 6,033 |
| Total | 16,759 | 17,382 | 10,041 | 10,669 |

¹⁾ Remeasurement of biological assets, refer to Note 11 and Note 15.

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

Note 24 | Financial risk management

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. 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.

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, should total at least 50 percent of profit before tax over a business cycle. Dividends are to reward the year's wood deliveries and the risk capital – in the form of capital contributed by the members. The long-term objective is to achieve a balance between the return on wood deliveries and contributed capital.

Södra has a credit agreement in the form of a club agreement, enabling the company to borrow up to SEK 2,000 million over a period of just over four years. In addition to the club agreement, Södra has three bilateral credit facilities totalling SEK 1,500 million with one to three year maturities. 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 2021, contribution repayments to members who had left the association by 31 December 2020 will amount to SEK 47 million (27).

These foreign exchange risks consist partly of the risk of fluctuations in the value of financial instruments and trade receivables and payables, and partly of foreign exchange risk in anticipated or contracted payment flows (transaction exposure).

There is also risk in translation of the assets and liabilities of foreign subsidiaries to the presentation currency of the Group (translation exposure). The Group is also exposed to foreign exchange risk attributable to investments in foreign currency (financial exposure).

Consolidated income includes exchange-rate differences of SEK –158 million (61) in operating profit, and net financial income of SEK –55 million (11).

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 prior 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.

> Note 24, cont.

TRANSACTION EXPOSURES AT 31 DEC 2020
(PER MAJOR CURRENCY)

| Currency | 2021 | | | | 2022 | | | |
|--|---------------------|--------|------|--------------|---------------------|--------|---|--------------|
| | Forecast net influx | Hedges | % | Average rate | Forecast net influx | Hedges | % | Average rate |
| USD ¹⁾ | 790 | — | — | — | 800 | — | — | — |
| EUR | 225 | — | — | — | 240 | — | — | — |
| GBP | 110 | — | — | — | 115 | — | — | — |
| Total | | | — | | | | — | |
| According to the accepted hedging interval in Södra's financial policy | | | 0–70 | | 0–50 | | | |

¹⁾ The currency hedging component of pulp price hedges is included in forecast net influses; there are no pulp price hedges for 2021–2022.

TRANSACTION EXPOSURES AT 31 DEC 2019
(PER MAJOR CURRENCY)

| Currency | 2020 | | | | 2021 | | | |
|--|---------------------|--------|------|--------------|---------------------|--------|---|--------------|
| | Forecast net influx | Hedges | % | Average rate | Forecast net influx | Hedges | % | Average rate |
| USD ¹⁾ | 800 | — | — | — | 880 | — | — | — |
| EUR | 175 | — | — | — | 190 | — | — | — |
| GBP | 120 | — | — | — | 130 | — | — | — |
| Total | | | — | | | | — | |
| According to the accepted hedging interval in Södra's financial policy | | | 0–70 | | 0–50 | | | |

¹⁾ The currency hedging component of pulp price hedges is included in forecast net influses; there are no pulp price hedges for 2020–2021.

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 excess returns in the following local currencies: EUR 524 million (514), NOK 41 million (65), GBP 23 million (25) and DKK 16 million (27). Currency swaps equivalent to EUR 168 million (181) were signed to hedge some of the Group's translation exposure in EUR. The currency swaps are contracted using the issued bond (SEK 1,000 million) and loan (SEK 733 million) raised with the Nordic Investment Bank as benchmarks. The aim of the hedges is to reduce the effects of a changed EUR/SEK exchange rate, where a stronger SEK would have a negative impact on consolidated equity, which is offset by the currency swaps. These effects are recognised in other comprehensive income until the asset and currency swaps are divested. The strategy for this currency hedging is to reduce the risk of material restatement effects. The time-to-maturity of each currency swap is 2021 for the issued bond, and 2026 for the loan with Nordic Investment Bank, with loan repayments commencing in 2019.

| NET INVESTMENT IN FOREIGN OPERATIONS | 2020 | 2019 |
|--|-------|-------|
| Currency swap bond and bank loan, EUR | –168 | –181 |
| Hedged net investment in foreign operations (EUR) | 430 | 430 |
| Hedge ratio | 1:3 | 1:2 |
| Changes in the value of currency swaps | 71 | –36 |
| Changes in value of the hedged item to determine effectiveness | –112 | 62 |
| Weighted average of forward rates, EUR/SEK | 10.30 | 10.30 |
| Closing rate, EUR/SEK | 10.03 | 10.45 |

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 2020, the fixed-rate term of the financial liability was 4 months (3). The fixed-rate term is an average where the frequency of interest-rate reset matches the interest rate of the financial liability. The interest rate for member deposits is reset periodically following a decision by the President based on the Riksbank's key interest rate. For other loans, the interest rate is adjusted with the change in STIBOR for each contracted fixed-rate period.

Trading with fixed-rate instruments is permitted under the financial policy. At 31 December 2020, 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 37 million (34).

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 2020, the fixed-rate term for interest-bearing investments was 3 months (3).

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

| 31 Dec 2020 | 2021 | | 2022 | |
|-------------------|--------|---|--------|---|
| | ktonne | % | ktonne | % |
| Fair value hedges | 1 | 0 | — | — |

| 31 Dec 2019 | 2020 | | 2021 | |
|-------------------|--------|---|--------|---|
| | ktonne | % | ktonne | % |
| Fair value hedges | 0 | 0 | — | — |

> Note 24, cont.

Electricity price risk

Södra has business areas with both excess and deficit electricity. Södra Wood is at risk of sharp price hikes for purchased electricity, leading to lower margins and a weaker competitive position. For Södra Cell, a net seller of electricity, adequately high prices for electricity are required to ensure a desirable return.

To best hedge the different needs of the business areas while optimising the Group's net position for electricity utilisation, Södra Treasury has a consumption portfolio and a production portfolio. The total net price position is hedged between the two portfolios using financial electricity contracts to avoid major profit effects of electricity price changes. The permitted hedging instruments consist of standard contracts on Nasdaq. Södra's forecast net position on electricity can be hedged for a period of five years with an annually declining maximum percentage level. For the first two years, up to 100 percent of net position may be hedged. For years 3–5, up to 80, 50 and 20 percent of net position, respectively, may be hedged.

There is no electricity price hedging for 2021 and 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 2021 and onwards.

Share price risk

Under certain conditions, Södra has opportunities for positive exposure to shares or share-related products. Södra is exposed to price risk through its holding of shares, share index certificates, share index bonds and share funds (refer to Note 17 Financial investments).

CREDIT RISK

Financial credit risk

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

At 31 December 2020, the Södra Group's counterparty exposure totalled SEK 3,187 million (3,010). At 31 December, all counterparties were within the parameters set in Södra's financial policy with regard to limits, durations and rating requirements.

Credit risk in trade receivables

The risk of customers not fulfilling their obligations, in other words payment not being received, represents a customer credit risk. Customer credit is checked using information on their financial position from various credit-rating agencies. The basic principle is that security is required for customers with a bad credit score or weak credit history. To the extent that sufficient security is not obtained, an individual assessment is carried out in accordance with the financial policy to determine whether delivery with the associated credit risk should go ahead. Södra estimates expected credit losses by grouping trade receivables on the basis of shared credit risk and the calculation of historical loss rate. Customer credit risk is described in more detail in Note 18 Non-current operating receivables and Note 21 Current operating receivables.

Maximum credit risk

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

| FINANCIAL ASSETS BY CATEGORY | 2020 | 2019 |
|---|-------|-------|
| Trade receivables that are not overdue | 1,840 | 2,140 |
| Trade receivables that are overdue | 665 | 546 |
| Trade receivables gross | 2,505 | 2,686 |
| Current investments | 887 | 938 |
| Cash and cash equivalents | 2,300 | 2,072 |
| Total financial investments | 3,187 | 3,010 |
| Derivative instruments with positive values | 45 | — |
| Customer contracts | — | 1 |
| Accrued revenue | 18 | 10 |
| Other operating receivables | 789 | 944 |
| Total other receivables | 852 | 955 |
| Maximum credit risk exposure | 6,544 | 6,651 |

Refer to Note 21 Current operating receivables and information about a loan loss provision of SEK –163 million (–193) 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 limits or other binding loan agreements that guarantee access to liquidity in the coming two-year period.

A substantial part of loan financing consists of loans from members through member accounts and payment plans. Södra has a credit agreement in the form of a club agreement, enabling the company to borrow up to SEK 2,000 million over a period of just over four years. In addition to the club agreement, Södra has three bilateral credit facilities totalling SEK 1,500 million with one to three year maturities. 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.

The covenants also apply to the loan of SEK 732 million from the Nordic Investment Bank and a green bond issuance of SEK 1,000 million. Interest rates are based on six and three-month STIBOR, respectively, plus a fixed surcharge. The liquidity reserve, which consists of loan agreements and the company's cash and cash equivalents, is to represent at least 15 percent of forecast rolling 12-month revenue. On the balance-sheet date, the liquidity reserve totalled SEK 6,687 million (5,010), representing 33 percent (22) of consolidated annual sales. The loan agreement was unutilised in its entirety at the balance-sheet date.

> Note 24, cont.

MATURITY STRUCTURE CURRENT INVESTMENTS

| Financial investments | Maturity | | | | | | | |
|-----------------------|---------------|------|-----------|------|-------------------|------|-------|------|
| | Within 1 year | | 1–5 years | | More than 5 years | | Total | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Certificates | 887 | 938 | — | — | — | — | 887 | 938 |
| Total | 887 | 938 | — | — | — | — | 887 | 938 |

Interest-bearing investments amounted to SEK 887 million (938), of which 100 percent (100) have a duration of up to one year, 0 percent (0) from one-five years and 0 percent (0) of longer than five years.

MATURITY STRUCTURE FINANCIAL LIABILITIES – UNDISCOUNTED CASH FLOWS

| Financial liabilities | Interest rate, % | Currency | Maturity | | | | | | | |
|-------------------------------|-------------------------------|----------|---------------|-------|-----------|-------|-------------------|------|-------|-------|
| | | | Within 1 year | | 1–5 years | | More than 5 years | | Total | |
| | | | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Borrowings | | SEK | 1,007 | 167 | 605 | 1,713 | 36 | 181 | 1,815 | 2,061 |
| Loans from members | | | | | | | | | | |
| Liquidity accounts | 0.0 (0.0) | SEK | 13 | 14 | — | — | — | — | 13 | 14 |
| Payment plans | 1.0 (1.0) variable | SEK | 548 | 539 | 443 | 442 | 97 | 93 | 1,091 | 1,074 |
| Member accounts ¹⁾ | 0.9 (0.8) variable six months | SEK | 3,527 | 3,006 | — | — | — | — | 3,526 | 3,006 |
| Fixed-rate account | 1.0–1.65 (1.0–1.65) | SEK | 23 | 21 | 29 | 21 | — | — | 52 | 42 |
| Trade creditors | | | 2,361 | 2,389 | — | — | — | — | 2,361 | 2,389 |
| Negative derivatives | | | — | 1 | — | 27 | — | — | — | 28 |
| Lease liabilities | | | 97 | 119 | 198 | 211 | 63 | — | 358 | 330 |
| Other liabilities | | | 28 | 36 | 102 | — | — | — | 130 | 36 |
| Total | | | 7,743 | 6,292 | 1,376 | 2,414 | 196 | 274 | 9,315 | 8,980 |

¹⁾ Fall due on request. Historical statistics indicate that they are non-current over a business cycle.

SENSITIVITY ANALYSIS

Södra is subject to major earnings fluctuations. Several of the Group's businesses are highly cyclical, and currency-dependent. However, it is primarily the upswings and downswings in the pulp market that give rise to earnings fluctuations at Group level.

Södra Skog's earnings are particularly sensitive to changing price margins in the wood trade and acquired volumes. Sawmill earnings are mainly affected by changes in the sawn timber price, sawlog cost and woodchip price. For Södra Cell, changes in pulp prices, currency, volume and fibre costs have the greatest impact. The table shows the effect on earnings had the values been higher or lower than the actual outcome. (Pertains to 12-month profit based on average conditions during the financial year.)

When calculating the earnings effect, the effects of the specified changes on hedging instruments for currencies and pulp prices have been taken into account. The effects that would have been realised during the year, and the unrealised effects that would have arisen by year-end, are taken into account in the specified earnings effect.

The table shows individual sensitivity for each variable. In reality, the change in one variable often affects other variables, but with a certain time delay. For example, a strengthening or weakening of a currency could affect the market price. There is no simple rule of thumb for calculating a “net income effect” since the relationships are complicated, and vary depending on market conditions and other factors.

| Variable | Change | Effect on 12-month profit, SEK million |
|-------------------------------|-----------------|--|
| USD/SEK | ±SEK 0.50 | 550 |
| Pulp price | ±SEK 300/tonnes | 560 |
| Fibre cost for the pulp mills | ±SEK 25/m³sub | 220 |
| Pulp production | ±50,000 tonnes | 120 |
| Sawn timber price | ±SEK 50/m³ | 85 |
| Sawlog cost for sawmills | ±SEK 25/m³sub | 80 |
| Sawn timber production | ±50,000 m³ | 30 |
| Oil price | ±USD 10/barrel | 6 |
| Total salary cost | ±3% | 70 |

PROFIT EFFECT OF CHANGE IN CLOSING RATE

| Variable | Change | Profit effect, SEK million |
|-------------------|---------------|----------------------------|
| Trade receivables | USD ±SEK 0.5 | 62 |
| | EUR ±SEK 0.50 | 27 |
| | GBP ±SEK 0.5 | 2 |
| Trade creditors | USD ±SEK 0.5 | 1 |
| | EUR ±SEK 0.50 | 11 |
| | GBP ±SEK 0.5 | 0 |

The effect on equity corresponds to the effect on profit.

Note 25 | Interest-bearing financial liabilities

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

A financial liability, or part thereof, is derecognised from the consolidated statement of financial position when the contractual obligations are fulfilled or otherwise extinguished.

A financial asset and financial liability are offset and the net amount presented in the consolidated statement of financial position only when there is a legally enforceable right to set off the amount, combined with an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

| Group | Maturity | | | | | | | |
|------------------------------------|---------------|-------|-----------|-------|-------------------|------|-------|-------|
| | Within 1 year | | 1–5 years | | More than 5 years | | Total | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Bond loans | 1,000 | — | — | 1,000 | — | — | 1,000 | 1,000 |
| Liabilities to credit institutions | 133 | 136 | 532 | 554 | 67 | 178 | 732 | 868 |
| Loans from members ¹⁾ | 4,076 | 3,550 | 458 | 449 | 91 | 87 | 4,625 | 4,086 |
| Other liabilities | 26 | 43 | 100 | 100 | — | — | 126 | 143 |
| Total | 5,235 | 3,729 | 1,090 | 2,103 | 158 | 265 | 6,483 | 6,097 |

| Parent Company | Maturity | | | | | | | |
|------------------------------------|---------------|-------|-----------|-------|-------------------|------|-------|-------|
| | Within 1 year | | 1–5 years | | More than 5 years | | Total | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Bond loans | 1,000 | — | — | 1,000 | — | — | 1,000 | 1,000 |
| Liabilities to credit institutions | 133 | 136 | 532 | 554 | 67 | 178 | 732 | 868 |
| Loans from members ¹⁾ | 4,076 | 3,550 | 458 | 449 | 91 | 87 | 4,625 | 4,086 |
| Other liabilities | 0 | 1 | 100 | 100 | — | — | 100 | 101 |
| Total | 5,209 | 3,687 | 1,090 | 2,103 | 158 | 265 | 6,457 | 6,055 |

¹⁾ Historical statistics indicate that they are non-current over a business cycle.

| | Group | | Parent Company | |
|--|--------|--------|----------------|--------|
| | 2020 | 2019 | 2020 | 2019 |
| At the beginning of the year | 6,097 | 5,630 | 6,055 | 5,630 |
| Business combinations/New loans | — | 48 | — | — |
| Member deposits | 7,271 | 7,448 | 7,271 | 7,448 |
| Repayment of loans | –152 | –138 | –136 | –132 |
| Member deposits paid | –6,733 | –6,891 | –6,733 | –6,891 |
| Carrying amount at the end of the period | 6,483 | 6,097 | 6,457 | 6,055 |

Note 26 | Interest-bearing operating liabilities

For lease accounting principles, refer to Note 15 Property, plant and equipment.

| Group | Within 1 year | | 1–5 years | | More than 5 years | | Total | |
|---------------------------|---------------|------|-----------|------|-------------------|------|-------|------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| | 96 | 118 | 198 | 209 | 61 | 1 | 355 | 328 |
| Leases | | | | | | | | |
| Less assets held for sale | –20 | — | –59 | — | –61 | — | –140 | — |
| Total | 76 | 118 | 139 | 209 | — | 1 | 215 | 328 |

| | |
|--|------|
| Lease liabilities recognised at 1 January 2020 | 328 |
| New loans | 173 |
| Repayment of loans | –143 |
| Translation differences | –3 |
| Less assets held for sale | –140 |
| Carrying amount at the end of the period | 215 |

Note 27 | Pensions

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

Defined-contribution pension plans

Defined-contribution pension plans are classified as 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 pension plans

The Group's net obligation in terms of defined-benefit pension plans is calculated separately for each plan by estimating the future benefit that employees have earned in current and previous periods. This benefit is discounted to a present value. The discount rate is the interest on the balance-sheet date on a mortgage bond with a duration equivalent to the Group's pension obligations. The calculation is made by a qualified actuary using the Projected Unit Credit Method. The fair value of any plan assets is also calculated at the report date.

Actuarial gains and losses are recognised as revenue or expense in other comprehensive income.

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

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

When there is a difference between how pension costs are determined in a legal entity and Group, a provision or asset for special employer's contribution is recognised based on this difference. The provision or asset is not calculated at present value.

The net of the interest on pension liabilities and expected return on the associated plan assets is recognised in net financial items. Other components are recognised in the operating profit or loss.

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

Most salaried employees in Sweden and almost all employees in Germany are covered by defined-benefit pension plans. Most other employees are covered by defined-contribution pension plans. The pension plans mainly cover retirement pension and, for some categories, disability and family pension.

DEFINED-BENEFIT PENSION 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 PENSION 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 | 2020 | 2019 |
|--|------------|------------|
| Defined-benefit plans | | |
| Pension costs accrued during the year | 39 | 31 |
| Net interest | 7 | 10 |
| Settlements | — | — |
| Cost of defined-benefit plans in profit for the year | 46 | 41 |
| Cost of defined-contribution plans | 151 | 150 |
| Special employer's contribution | 48 | 48 |
| Pension cost in profit for the year | 245 | 239 |
| Remeasurement recognised in other comprehensive income | –2 | 77 |
| Pension cost in comprehensive income for the year | 243 | 316 |
| Costs in the following line items are included in profit for the year: | | |
| Employee expenses | 238 | 229 |
| Net financial items | 7 | 10 |
| Costs recognised in profit for the year | 245 | 239 |
| Other comprehensive income | –2 | 77 |
| Pension cost recognised in comprehensive income for the year | 243 | 316 |

RETURN ON PLAN ASSETS

| Group | 2020 | 2019 |
|---|-----------|------------|
| Actual return on plan assets | 68 | 164 |
| Interest income on plan assets | –19 | –26 |
| Actuarial result for plan assets during the period | 49 | 138 |

> Note 27, cont.

| OBLIGATIONS AND PLAN ASSETS FOR THE DEFINED-BENEFIT PLANS | | |
|---|------------|------------|
| Group | 2020 | 2019 |
| Defined-benefit plans and value of plan assets | | |
| Fully or partially funded obligations | | |
| Present value of defined-benefit obligations | 1,777 | 1,721 |
| Fair value of plan assets | –1,342 | –1,273 |
| Fully or partially funded obligations, net | 435 | 448 |
| Present value of unfunded defined-benefit obligations | 28 | 29 |
| Net obligations before adjustments | 463 | 477 |
| Net amount is recognised in consolidated statement of financial position under the heading: | | |
| Provisions for pensions | 463 | 477 |
| Net amount in consolidated statement of financial position (obligation +, asset –) | 463 | 477 |
| Net amount is allocated between plans in the following countries: | | |
| Sweden | 435 | 448 |
| Germany | 28 | 29 |
| Net amount in consolidated statement of financial position | 463 | 477 |

| NET AMOUNT IN CONSOLIDATED STATEMENT OF FINANCIAL POSITION | | |
|---|------------|------------|
| | 2020 | 2019 |
| Net liability in consolidated statement of financial position at the beginning of the period | 477 | 414 |
| Cost of defined-benefit plans | | |
| Net expense recognised in profit for the year | 46 | 41 |
| Payment of benefits | –58 | –56 |
| Actuarial gains and losses recognised in other comprehensive income | –2 | 77 |
| Curtailments and settlements | — | — |
| Exchange-rate difference | 0 | 0 |
| Net liability in consolidated statement of financial position at the end of the period | 463 | 477 |

| PRESENT VALUE OF DEFINED-BENEFIT OBLIGATIONS | | |
|---|--------------|--------------|
| Group | 2020 | 2019 |
| At the beginning of the year | 1,750 | 1,524 |
| Service expenses | 39 | 31 |
| Payment of benefits | –58 | –56 |
| Interest expense | 26 | 36 |
| Actuarial gains and losses ¹⁾ | 47 | 216 |
| Settlements | — | — |
| Exchange rate differences | 0 | 0 |
| Carrying amount at the end of the period | 1,804 | 1,750 |

¹⁾ Of which change in demographic assumptions SEK –21 million (0), financial SEK 83 million (186), experience-based SEK –14 million (15) and special employer's contribution SEK –1 million (15).

| FAIR VALUE OF PLAN ASSETS | | |
|---|--------------|--------------|
| Group | 2020 | 2019 |
| At the beginning of the year | 1,273 | 1,110 |
| Expected return on plan assets | 19 | 26 |
| Difference between expected and actual return | 49 | 138 |
| Settlements | — | — |
| Carrying amount at the end of the period | 1,341 | 1,273 |

| FAIR VALUE OF PLAN ASSETS | | |
|---|--------------|--------------|
| Group | 2020 | 2019 |
| Equity instruments | 656 | 646 |
| Hedge funds and bonds | 225 | 174 |
| Other interest-bearing securities ¹⁾ | 300 | 231 |
| Properties | 7 | 8 |
| Cash and cash equivalents | 153 | 214 |
| Carrying amount at the end of the period | 1,341 | 1,273 |

¹⁾ Debentures of SEK 100 million (100) issued by Södra Skogsägarna ekonomisk förening.

Equity instruments plus hedge funds and bonds comprise the asset classes with prices quoted primarily in active markets.

ACTUARIAL ASSUMPTIONS

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

| Group | 2020 | 2019 |
|-------------------|------|------|
| Discount rate | 1.1% | 1.5% |
| Inflation | 1.5% | 1.8% |
| Employee turnover | 3.5% | 6.0% |

Assumptions of life expectancy are based on official statistics and experience from mortality surveys in each country, and are set in consultation with actuarial expertise.

DUS14 is applied for the Swedish pension plans.

| SENSITIVITY ANALYSIS OF THE PENSION OBLIGATION | | |
|--|---------|-----------------------------------|
| Assumption | Change | Change in liabilities SEK million |
| Discount rate | ±0.5% | +207/–181 |
| Inflation | ±0.5% | –137/+152 |
| Life expectancy | ±1 year | –91/+92 |

The sensitivity analysis is performed by changing one actuarial assumption, while other assumptions remain unchanged. This is a simplified method, since the other actuarial assumptions are usually correlated. The method shows the sensitivity of the pension obligation to the change of a single assumption. The duration is 19 years (18). The expected pension payments in the forthcoming year amount to SEK 54 million (56).

| PENSION LIABILITIES PER CATEGORY OF PERSON | 2020 | | 2019 | |
|--|--------------|--------------|--------------|--------------|
| | Women | Men | Women | Men |
| Active | 160 | 397 | 161 | 408 |
| Disability pensioners | 8 | 5 | 5 | 8 |
| Leavers | 315 | 616 | 320 | 611 |
| Retirees | 311 | 1,096 | 303 | 1,135 |
| Total | 794 | 2,114 | 789 | 2,162 |
| Total commitments comprised by the obligation | 2,908 | | 2,951 | |

The above table per category of person comprises the Swedish liability, which accounts for 98 percent of the recognised pension liability.

PENSION EXPENSES

| Parent Company | 2020 | 2019 |
|---|------------|------------|
| Pension system run by Södra | | |
| Cost for pensions accrued | 19 | 21 |
| Payment of benefits | 56 | 54 |
| Actual return on specific separate assets | –17 | –21 |
| Cost for pensions run by Södra excluding tax | 58 | 54 |
| Pensions through insurance | | |
| Insurance premiums or equivalent | 131 | 133 |
| Special employer's contribution | 45 | 45 |
| Recognised net cost pertaining to pensions | 234 | 232 |

PROVISIONS FOR PENSIONS

| Parent Company | 2020 | 2019 |
|---|----------|-----------|
| Net present value of pension obligations* | 964 | 985 |
| Less plan assets in Pension Foundation | –962 | –945 |
| Total | 2 | 40 |
| Pension obligations secured through endowment insurance recognised under financial assets | –2 | –40 |
| Net | — | — |
| * Of which PRI pensions ITP2 | 823 | 803 |
| * Credit insured via PRI Pensionsgaranti | 962 | 945 |

Where plan assets exceed pension liabilities, the excess amount is not recognised. In 2020, the unrecognised surplus in the Pension Foundation was SEK 380 million (328).

> Note 27, cont.

CHANGES IN NET LIABILITY

| Parent Company | 2020 | 2019 |
|---|------|------|
| At the beginning of the year | 40 | 40 |
| Cost recognised in profit or loss for pensions run by Södra excluding taxes | 58 | 54 |
| Settlement of endowment policy | –38 | — |
| Pension payments | –56 | –54 |
| Carrying amount at the end of the period | 2 | 40 |

In 2020, anticipated pension payments amounted to SEK 54 million (56).

FAIR VALUE OF PLAN ASSETS

| Parent Company | 2020 | 2019 |
|---|-------|-------|
| Equity instruments | 656 | 646 |
| Hedge funds and bonds | 225 | 174 |
| Other interest-bearing securities ¹⁾ | 300 | 231 |
| Properties | 7 | 8 |
| Cash and cash equivalents | 153 | 214 |
| Value of plan assets | 1,341 | 1,273 |
| Surplus value | –380 | –328 |
| Carrying amount at the end of the period | 962 | 945 |

¹⁾ Debentures of SEK 100 million (100) issued by Södra Skogsägarna ekonomisk förening.

Note 28 | Provisions

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

Provisions are made based on the best estimate of the amount required to settle the obligation on the balance-sheet date. When the effect of the timing of the payment is important, provisions are estimated by discounting the expected future cash flow at a pre-tax rate that reflects current market assessments of the time value of money.

| Group 2020 | Restructuring reserve | Other provisions | Total |
|--|-----------------------|------------------|-------|
| At the beginning of the year | 45 | 120 | 165 |
| Provisions made during the period | — | 2 | 2 |
| Utilised amount during the year | –23 | –20 | –43 |
| Amounts dissolved without utilisation | — | –2 | –2 |
| Carrying amount at the end of the year | 22 | 100 | 122 |
| of which non-current provisions | 0 | 100 | 100 |
| of which current provision, refer to Note 30 | 22 | — | 22 |

| Group 2019 | Restructuring reserve | Other provisions | Total |
|--|-----------------------|------------------|-------|
| At the beginning of the year | 6 | 139 | 145 |
| Provisions made during the period | 45 | 14 | 59 |
| Utilised amount during the year | –6 | –16 | –22 |
| Amounts dissolved without utilisation | — | –17 | –17 |
| Carrying amount at the end of the year | 45 | 120 | 165 |
| of which non-current provisions | 23 | 120 | 143 |
| of which current provision, refer to Note 30 | 22 | — | 22 |

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.

ASSUMPTIONS FOR DEFINED-BENEFIT OBLIGATIONS

| Parent Company | 2020 | 2019 |
|-----------------------------------|------|------|
| ITP plan according to PRI grounds | | |
| Discount rate, % | 3.8 | 3.8 |

PARENT COMPANY

Defined-benefit plans

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

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.

| Group 2020 | Restructuring reserve | Other provisions | Total |
|--|-----------------------|------------------|-------|
| At the beginning of the year | 45 | 120 | 165 |
| Provisions made during the period | — | 2 | 2 |
| Utilised amount during the year | –23 | –20 | –43 |
| Amounts dissolved without utilisation | — | –2 | –2 |
| Carrying amount at the end of the year | 22 | 100 | 122 |
| of which non-current provisions | 0 | 100 | 100 |
| of which current provision, refer to Note 30 | 22 | — | 22 |

| Group 2019 | Restructuring reserve | Other provisions | Total |
|--|-----------------------|------------------|-------|
| At the beginning of the year | 6 | 139 | 145 |
| Provisions made during the period | 45 | 14 | 59 |
| Utilised amount during the year | –6 | –16 | –22 |
| Amounts dissolved without utilisation | — | –17 | –17 |
| Carrying amount at the end of the year | 45 | 120 | 165 |
| of which non-current provisions | 23 | 120 | 143 |
| of which current provision, refer to Note 30 | 22 | — | 22 |

Provisions for guarantee and warranty commitments have been made in amounts deemed reasonable, based on experience.

> Note 28, cont.

| Parent Company 2020 | Restructuring reserve | Other provisions | Total |
|--|-----------------------|------------------|-------|
| At the beginning of the year | 45 | 120 | 165 |
| Provisions made during the period | — | 2 | 2 |
| Utilised amount during the year | –23 | –20 | –43 |
| Amounts dissolved without utilisation | — | –2 | –2 |
| Carrying amount at the end of the year | 22 | 100 | 122 |
| of which non-current provisions | 0 | 100 | 100 |
| of which current provision, refer to Note 30 | 22 | — | 22 |

OTHER PROVISIONS

Other provisions described above also pertain to the Parent Company.

Note 29 | Other non-current operating liabilities

| Group | 2020 | 2019 |
|--|------|------|
| Derivatives | — | 26 |
| Non-interest-bearing non-current liabilities | 7 | 9 |
| Total | 7 | 35 |

Note 30 | Other current operating liabilities and provisions

| | Group | | Parent Company | |
|--|-------|-------|----------------|-------|
| | 2020 | 2019 | 2020 | 2019 |
| Current liabilities from Group companies | — | — | 199 | 87 |
| Trade creditors | 2,361 | 2,389 | 2,198 | 2,261 |
| Derivatives | — | 1 | — | — |
| Advances from customers | 12 | 9 | 12 | 6 |
| Value-added tax liability | 47 | 23 | — | — |
| Other operating liabilities | 167 | 199 | 125 | 121 |
| Provision for restructuring | 22 | 22 | 22 | 22 |
| Accrued expenses and prepaid income | 838 | 666 | 559 | 603 |
| Less assets held for sale | –300 | — | — | — |
| Total | 3,147 | 3,309 | 3,115 | 3,100 |

Parent Company notes

Note 31 | Appropriations

| Parent Company | 2020 | 2019 |
|--|------|------|
| Change in tax allocation reserve | | |
| – releases for the year | 2 | 231 |
| Change in provisions in excess of plan | | |
| – buildings and land | — | 0 |
| – machinery and equipment | 270 | –530 |
| Group contributions received | 21 | 5 |
| Group contributions paid | –155 | –23 |
| Total | 138 | –317 |

Group contributions received and paid are recognised as appropriations.

Note 32 | Group companies

| SPECIFICATION OF PARENT COMPANY’S HOLDINGS OF SHARES AND PARTICIPATIONS IN GROUP COMPANIES | | | | Carrying amount | |
|--|--------------|-------------|-------|-----------------|-------|
| | Corp. ID no. | No. | Share | 2020 | 2019 |
| Operational | | | | | |
| Södra Cell GmbH | 164312351 | 50 | 100% | 0 | 0 |
| Sodra International Trading (Shanghai) Co Ltd | | | 100% | 0 | 0 |
| Södra Interiör AS | 920335551 | | 100% | — | 43 |
| Södra Wood A/S (formerly Södra Interiör ApS) | 73496314 | 2 | 100% | 33 | 0 |
| Södra Timber A/S | 16992445 | 100 | 100% | — | |
| Sodra Latvia SIA | 41203019726 | 106,025,646 | 100% | 3,082 | 3,082 |
| 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% | | |
| Alfredsson Latvia SIA | 40003814052 | 100 | 100% | | |
| Södra Medlemsel AB | 556070-5724 | 50,000 | 100% | 6 | 6 |
| Södra Metsad OÜ | 10944021 | 400 | 100% | 231 | 231 |
| Sodra Mezs SIA | 50003871841 | 310,000 | 100% | 181 | 181 |
| SIA Ruda | 40003383543 | 2,377,823 | 100% | 250 | 250 |
| Södra Silva Holding AB | 559164-5816 | 1,000 | 100% | 273 | 95 |
| Södra Trivselhus Holding AB | 556552-6810 | 5,000 | 100% | — | 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% | 34 | 17 |
| Sodra USA Inc | 47-5601859 | 1,000 | 100% | 0 | 0 |
| Södra Vind AB | 556765-5716 | 1,000 | 100% | 25 | 25 |
| Södra Wood AB | 2571610-1 | 100 | 100% | 113 | 113 |
| Sodra Wood Limited | 1789912 | 1 | 100% | 225 | 225 |
| Sodra Wood Ireland | 635053 | 1 | 100% | 0 | 0 |
| SW Project AB | 559007-5312 | 5,000 | 100% | — | 9 |
| Non-operational | | | | 9 | 9 |
| Total | | | | 4,462 | 4,604 |

SW Project AB was merged in September. Södra Wood A/S received a shareholder contribution of SEK 33 million for the acquisition of Södra Timber A/S. During the year, Södra Interiör AS was depreciated by SEK 27 million and the company was merged with Södra Tofte AS in December 2020. The merger increased the association's value of Södra Tofte AS by SEK 16 million. Södra Silva Holding AB received SEK 178 million. Södra Trivselhus Holding AB was depreciated by SEK 328 million and received a shareholder contribution of SEK 10 million.

SHARES AND PARTICIPATIONS IN GROUP COMPANIES

| Parent Company | 2020 | 2019 |
|---|-------|-------|
| Cost | | |
| At the beginning of the year | 4,604 | 4,561 |
| Impairment/Liquidation, Demerger | –355 | –67 |
| Acquisitions, incl. shareholders’ contributions | 238 | 507 |
| Mergers/Divestments | –25 | –397 |
| Carrying amount at the end of the period | 4,462 | 4,604 |

Note 33 | Other non-current investments

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

| Parent Company | 2020 | 2019 |
|--|------|------|
| Cost | | |
| At the beginning of the year | 75 | 54 |
| Investment | — | 23 |
| Divestment | –2 | –2 |
| | 73 | 75 |
| Impairment | | |
| At the beginning of the year | –40 | –40 |
| | –40 | –40 |
| Carrying amount at the end of the year | 33 | 35 |

Note 34 | Receivables from Group companies

INTEREST-BEARING RECEIVABLES FROM GROUP COMPANIES

| Parent Company | 2020 | 2019 |
|--|------|------|
| Cost | | |
| At the beginning of the year | 710 | 846 |
| Additional items | 226 | 106 |
| Deductible items | –37 | –242 |
| Carrying amount at the end of the period | 899 | 710 |

OPERATING RECEIVABLES FROM GROUP COMPANIES

| Parent Company | 2020 | 2019 |
|--|------|--------|
| Cost | | |
| At the beginning of the year | 113 | 182 |
| Additional items | 44 | 1,011 |
| Deductible items | –6 | –1,080 |
| Carrying amount at the end of the period | 151 | 113 |

TRANSACTIONS ELIMINATED ON CONSOLIDATION

Intra-Group receivables and liabilities, revenue or expenses and unrealised gains or losses in transactions between Group companies are eliminated in their entirety when the consolidated financial statements are prepared.

Unrealised profits in transactions with associates are eliminated to the extent they represent the Group's ownership in the company. Unrealised losses are eliminated in the same way as unrealised gains.

Note 35 | Untaxed reserves

| Parent Company | 2020 | 2019 |
|---|-------|-------|
| Accumulated depreciation and amortisation in excess of plan | | |
| – buildings | 0 | 0 |
| – machinery and equipment | 7,213 | 7,483 |
| Total | 7,213 | 7,483 |

Deferred tax in the above untaxed provisions amounted to SEK 1,486 million (1,601), which was not listed on the balance sheet of the Parent Company.

Note 36 | Interest-bearing liabilities from Group companies

| Parent Company | Maturity | | | | | | Total | |
|-----------------------------|---------------|------|-----------|------|-------------------|------|-------|------|
| | Within 1 year | | 1–5 years | | More than 5 years | | 2020 | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Group account – liabilities | 132 | 154 | — | — | — | — | 132 | 154 |

| Parent Company | Maturity | | | | | | Total | |
|--------------------------------|---------------|------|-----------|------|-------------------|------|-------|------|
| | Within 1 year | | 1–5 years | | More than 5 years | | 2020 | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Liabilities to Group companies | — | — | — | — | 8 | 8 | 8 | 8 |
| Total | — | — | — | — | 8 | 8 | 8 | 8 |

Note 37 | Mergers

| 2020 | |
|------------------------------------|---------------|
| Merged subsidiaries | SW Project AB |
| Corp. ID no. | 559007-5312 |
| Date of merger | 7 Sep 2020 |
| Merged net sales | 30 |
| Merged profit | 1 |
| Assets | |
| Non-current assets | 0 |
| Current assets | 14 |
| Assets | 14 |
| Liabilities, provisions and equity | |
| Equity | 7 |
| Untaxed reserves | 2 |
| Current liabilities | 5 |
| Liabilities, provisions and equity | 14 |

Other information

Note 38 | Pledged assets

| | Group | | Parent Company | |
|---|-------|------|----------------|------|
| | 2020 | 2019 | 2020 | 2019 |
| Pledged assets for own liabilities and provisions | — | — | — | — |
| Other pledged collateral and securities | | | | |
| Financial assets ¹⁾ | 4 | 42 | 2 | 40 |
| Total | 4 | 42 | 2 | 40 |

1) Endowment policies, refer to Note 27.

Note 39 | Contingent liabilities

| | Group | | Parent Company | |
|------------------------------|-------|------|----------------|------|
| | 2020 | 2019 | 2020 | 2019 |
| Guarantees for subsidiaries | — | — | 26 | 43 |
| Other contingent liabilities | 58 | 55 | 45 | 44 |
| Total | 58 | 55 | 71 | 87 |

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 40 | Related parties

The Parent Company is deemed a related party in relation to its subsidiaries and associates, as presented in Note 32 Group companies and Note 8 Shares in associates.

Of the Parent Company's total purchases and sales measured in SEK million, 2 percent (3) of purchases and 7 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 |
|------------|---|---|-----------------------------|--|--|
| Associates | | | | | |
| 2020 | 21 | 65 | 13 | 3 | — |
| 2019 | 306 | 351 | — | 8 | 10 |

| Parent Company | Sale of goods/services to related parties | Purchase of goods/services from related parties | Other (interest, dividends) | Receivables from related parties 31 December | Liabilities to related parties 31 December |
|----------------|---|---|-----------------------------|--|--|
| Subsidiaries | | | | | |
| 2020 | 1,237 | 211 | 36 | 1,051 | 299 |
| 2019 | 925 | 434 | 17 | 856 | 248 |
| Associates | | | | | |
| 2020 | 21 | 65 | 13 | 3 | — |
| 2019 | 306 | 351 | 3 | 8 | 10 |

For information about salaries, agreements for redundancy payments, and so forth for employees in senior positions, refer to Note 5 Employee expenses. Other information relating to transactions between Group companies is presented in Note 39 Contingent liabilities.

Note 41 | Statement of cash flows

| | Group | | Parent Company | |
|------------------------------------|-------|------|----------------|------|
| | 2020 | 2019 | 2020 | 2019 |
| Financial items | | | | |
| Interest received during the year | 37 | 36 | 44 | 41 |
| Interest paid during the year | –101 | –84 | –98 | –84 |
| Dividends received during the year | 7 | 7 | 108 | 122 |
| Capital gains | 12 | 37 | 6 | 30 |
| Capital losses | –15 | –5 | –14 | –66 |
| Parent Company | | | | |
| Unsettled Group contributions | — | — | –134 | –18 |

Note 42 | Events after the balance-sheet date

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

Note 43 | Gain/loss on assets held for sale

| Gain/loss on assets held for sale | 2020 |
|---|------|
| Net sales | 679 |
| Other revenue | 3 |
| Change in inventories of finished products and work in process | 37 |
| Raw materials and consumables | –517 |
| Employee expenses | –117 |
| Other expenses | –281 |
| Depreciation, amortisation and impairment of assets ¹⁾ | –341 |
| Operating loss | –537 |
| Loss before income tax | –537 |
| Loss for the year | –537 |

¹⁾ Of which SEK 301 million pertains to goodwill and brand. For further information, refer to Other definitions on page 49.

| Financial position from assets held for sale | |
|--|------------|
| Assets | |
| Property, plant and equipment | 184 |
| Deferred tax assets | 1 |
| Total non-current assets | 185 |
| Inventories | 96 |
| Tax assets | 5 |
| Operating receivables | 37 |
| Total current assets | 138 |
| Total Assets | 323 |
| Liabilities | |
| Non-current interest-bearing operating liabilities | 120 |
| Current interest-bearing operating liabilities | 20 |
| Total non-current liabilities | 140 |
| Current non-interest-bearing operating liabilities | 300 |
| Total current liabilities | 300 |
| Total liabilities | 440 |

| Statement of cash flows from assets held for sale | |
|---|-------------|
| Operating activities | |
| Loss before tax | –537 |
| Cash flow from operating activities before change in working capital | –40 |
| Change in working capital | –45 |
| Cash flow from operating activities | –85 |
| Cash flow from investing activities | –72 |
| Cash flow after investing activities | –157 |

Trivselhus AB was divested in December 2020, and will be transferred on 1 March 2021. As a result, assets held for sale are now presented separately in the consolidated income statement and balance sheet for 2020. The Group's statement of cash flows and key indicators include assets held for sale. Comparative figures have not been restated.

Proposed appropriation of profits

The Board proposes that the profits at the disposal of Södra's AGM, an amount of SEK 3,736,979,905, be appropriated as follows:

| | |
|--|--------------------------|
| Dividend to members of 2 percent of contributed capital, totalling | SEK 97,818,734 |
| Dividend to members of 8 percent of the value of wood deliveries, totalling The dividend is calculated on members' wood deliveries from 1 January 2020 to 31 December 2020 and on all ranges, excluding sold standing forest | SEK 411,181,862 |
| To members' contribution capital accounts through a bonus issue The bonus issue represents 5 percent of available paid-up contributed capital at 31 December 2020. | SEK 89,288,108 |
| Amount carried forward | SEK 3,138,691,201 |
| | SEK 3,736,979,905 |

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, 17 February 2021

Lena Ek
Chairman

Paul Christensson
Vice Chairman

Kristina Alsér
Board member

Dan Andersson
Employee representative

Hans Berggren
Board member

Pål Börjesson
Board member

Magnus Hall
Board member

Ylva op den Velde Hammargren
Board member

Pontus Johansson
Employee representative

Ulf Johansson
Board member

Lars Nilsson
Employee representative

Mats Sandgren
Board member

Ann-Charlotte Lyrå
President and CEO

Our audit report was submitted on 17 February 2021

Martin Johansson
Authorised Public Accountants

Madeleine Edberg

Carina Arvidsson Löw
Member Representative Auditors

Dick Stagmo

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 2020 except for the statutory sustainability report on pages 16–23, 26–27, 34–43 and 110–136. The annual accounts and consolidated accounts of the association are included on pages 46–105 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 2020 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 2020 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the statutory sustainability report on pages 16–23, 26–27, 34–43 and 110–136. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting adopts the income statement and balance sheet for the parent association and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent association’s audit committee in accordance with the Audit Regulation (537/2014) Article 11.

BASIS FOR OPINIONS

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Authorised public accountants’ section and in the Member representative auditors’ section. We are independent of the parent association and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited association or, where applicable, its parent company or its controlled companies within the EU.

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

OUR AUDIT APPROACH

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the group operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

KEY AUDIT MATTERS

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were

addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

| KEY AUDIT MATTER | HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER |
|---|---|
| <p>Valuation and reporting of intangible assets, property, plant and equipment & biological assets (refer to the group's accounting principles in Note 7 and in Notes 14–16 and 43)</p> <p>In the consolidated statement of financial position as at 31 December 2020, intangible assets, property, plant and equipment & biological assets total MSEK 18,707 and MSEK 13,131 in the parent association's balance sheet. The valuation and reporting of property, plant and equipment comprised a Key Audit Matter in our audit due to the significance of the amounts in relation to the group's and parent association's financial position, and in consideration of the complexity of the investment projects within the industry. The group's and parent association's investments in intangible assets, property, plant and equipment & biological assets during the financial year amounted to MSEK 1,549, respective MSEK 1,322. 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.</p> | <p>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 samples, 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.</p> <p>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 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.</p> <p>We have reviewed the divestment of Trivselshus AB through an analysis of the signed agreement and ensured that impacts of the agreement have been correctly accounted for and that correct disclosures have been presented.</p> <p>In terms of the valuation of biological assets, we have evaluated the models used by the association when calculating the values and based on randomly selected samples reviewed the transactions which forms the basis for the calculated market value. Further, we have reviewed the accounting resulting from the changed model and the disclosures in connection with this. We have also reviewed the accounting triggered by the changed principle in relation to forest land and the disclosures related to this.</p> |
| <p>Transactions with the association's members (refer to Note 31)</p> <p>During financial year 2020, 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.</p> | <p>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 through sample testing in connection with testing of revenue and expenses.</p> |

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 1–43 and 110–156. 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 2020 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 and Madeleine Edberg c/o PwC 113 97 Stockholm, were appointed auditors of Södra Skogsägarna ekonomisk förening by the general meeting on the 3 June 2020 and have 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 3 June 2020 and has been the association’s auditor since the 17 May 2016. Carina Arvidsson Lööw was appointed auditor of Södra Skogsägarna ekonomisk förening by the general meeting on the 3 June 2020 and has been the association’s auditor since the 23 May 2019.

Växjö 17 February 2021

Martin Johansson
Authorised Public Accountant

Carina Arvidsson Lööw
Member Representative Auditor

Madeleine Edberg
Authorised Public Accountant

Dick Stagmo
Member Representative Auditor

About Södra’s Sustainability Report

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

Södra’s Sustainability Report is included in the Group’s Annual and Sustainability Report. Södra’s uses the calendar year as its financial year. The last Annual and Sustainability Report was published in March 2020 for the 2019 financial year.

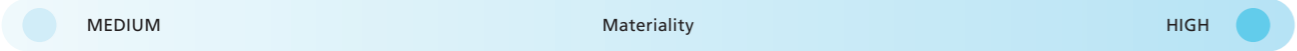
The Sustainability Report is also Södra’s Communication on Progress (COP) in accordance with the United Nations Global Compact and Global Reporting Initiative.

Scope and content of the Sustainability Report

The Sustainability Report covers Södra Skogsägarna ekonomisk förening and its subsidiaries (refer to Note 32 for a summary of the Group companies included), but not its associates (refer to Note 8). Trivselhus AB is included in the Sustainability Report. 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). SW Project AB (merged by the Parent Company during the year) and Södra Timber A/S are included in the Sustainability Report as of 2020 and in the comparative figures for 2019 relating to information about employees. The Latvian companies, Sodra Latvia SIA and its four wholly owned subsidiaries, and SIA Ruda, have been included in the Sustainability Report since 2019, and in the comparative figures for 2018 regarding information about employees. 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 2020. For calculation principles, refer to page 119.

List of material topics

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



* Material sustainability topics in accordance with GRI Standards

Events after the close of the period

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

List of material topics

Södra’s first materiality assessment was conducted in 2015. The aim was to identify Södra’s most relevant sustainability topics, and to lay the foundation for Södra’s sustainability strategy and sustainability reporting. In 2018, the materiality assessment was updated to ensure that the sustainability strategy was appropriate and to define material sustainability topics to report.

The materiality assessment is updated at regular intervals and whenever required, such as in the event of relevant changes in the operations, external environment or the focus and expectations of stakeholders. In 2019 and 2020, round table discussions were held with experts in four areas: circularity and resource efficiency, responsible employer and business partner, challenges and opportunities of climate change, and forestry activities in balance. Dialogue was also held with customers during the same period as a key element of efforts to set new sustainability targets. The results from round table discussions and customer meetings, combined with a situation assessment of Södra’s influence in sustainability issues, a business intelligence assessment and a mapping of the progress required in

Södra’s sustainability practices to ensure that Södra’s future growth is both profitable and sustainable, form the basis for new sustainability targets and material sustainability topics in 2021. Internal experts validate the material topics and define their boundaries.

For 2020, all material sustainability topics from the 2019 Sustainability Report have been retained. The boundaries for the sustainability topics are presented in the GRI Content Index on pages 132–134. The ‘Within Södra’ boundary is presented in ‘Scope and content of the Sustainability Report’ on page 110.

Reporting

Södra’s material sustainability topics are presented in the GRI Content Index on pages 132–134. The sustainability topics that Södra focuses on are also included in the Group-wide sustainability targets presented on pages 18–19. Södra’s Sustainability Report also contains information about other sustainability topics that are important for the operations, see the illustration on page 110. The connection between Södra’s material sustainability topics, Södra’s strategic focus areas for sustainability and the selected GRI standards is presented in the table at the bottom of this page. The GRI Reporting Principles for defining report content (stakeholder inclusive-ness, sustainability context, materiality and completeness) have determined the scope and content of this Sustainability Report.

| Material sustainability topics | Strategic focus areas for sustainability | GRI Standard |
|---|--|---|
| 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 |
| Diversity and inclusion | Responsible employer and committed employees | GRI 405: Diversity and equal opportunity |
| Efficient processes | Climate-positive operations Resource efficiency Sustainable innovation | 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 |
| Emissions | Climate-positive operations Resource efficiency | GRI 305: Emissions |
| Energy consumption | Climate-positive operations Resource efficiency Sustainable innovation | 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 |
| Green electricity generation | Climate-positive operations Resource efficiency Sustainable innovation | 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 harvest rate | Sustainable forestry | Own: Sustainable harvest rate |

Cooperation for sustainable development

Södra's contributions to sustainable development include membership and involvement in various initiatives and organisations.

- » In 2020, Södra became a signatory to the UN Global Compact and committed to the Ten Principles, which requires meeting fundamental responsibilities in the areas of human rights, labour, environment and anti-corruption.
- » Södra also signed a commitment to set emission-reduction targets consistent with achieving a net-zero world by no later than 2050, in accordance with the Science Based Target initiative.
- » Södra is already a member of Fossil Free Sweden and the 2030 Secretariat (the national secretariat for monitoring the progress of a fossil-fuel free vehicle fleet by 2030).
- » Södra is represented on the Swedish Boards of FSC® and PEFC and the international Board of PEFC.
- » In 2020, Södra became a member of Business@Bio-diversity Sweden, a sustainability network with a focus on biodiversity for large corporations.
- » Södra is a member of the Responsible Shipping Initiative (RSI), which aims to promote working conditions, health and safety in the dry cargo shipping industry and the environmental performance of vessels operating in the Baltic and North Sea.

In addition to these memberships and engagements, Södra also plays an active role in several national and international organisations that are focused on issues relevant to Södra. These include the Federation of Swedish Farmers (LRF), the Forestry Research Institute of Sweden, Swedish Wood, the Swedish Forest Industries Federation and the Energy Research Institute of Sweden.

Dialogue with Södra's stakeholders

| Stakeholder group | Stakeholder dialogue 2020 | Key topics from stakeholders | How Södra handles the topics |
|--|---|---|---|
| Customers | <ul style="list-style-type: none">- Customer contacts (meetings, surveys)- Research and development projects- Knowledge building and partnerships- Round table discussions on sustainability | <ul style="list-style-type: none">- Product performance (quality, safety, price, development)- Traceability- Business ethics- Profitability- Sustainable forestry- Climate change and carbon dioxide emissions- Working conditions and human rights | <ul style="list-style-type: none">- Process and product development- Innovation- Sustainability partnerships with selected customers- Management systems- Certifications and labelling- Policies, Code of Conduct and Supplier Code- Financial targets and sustainability targets- Annual and Sustainability Report |
| Owners/members | <ul style="list-style-type: none">- Annual General Meeting, Administrative Council meetings, member meetings, member surveys- Owner dialogue- Round table discussions on sustainability | <ul style="list-style-type: none">- Profitability and profit distribution- Social impact and opinion- Market for wood raw material- Forestry services- Business ethics- Sustainable forestry- Climate change and carbon dioxide emissions- Working conditions and human rights | <ul style="list-style-type: none">- Financial targets and sustainability targets- Business policy activities- Research and development- Development of service packages (forestry services, forest management certification)- Policies, Code of Conduct and Supplier Code- Management systems- Annual and Sustainability Report |
| Employees | <ul style="list-style-type: none">- Regular dialogue- Performance appraisals- Employee surveys- Unionisation | <ul style="list-style-type: none">- Working conditions and human rights- Personal development- Sustainable forestry- Climate change and carbon dioxide emissions- Business ethics | <ul style="list-style-type: none">- Policies, Code of Conduct and Supplier Code- Incident reporting system- Benefits- Training programmes- Management systems |
| Business partners | <ul style="list-style-type: none">- Research and development projects- Unionisation- Monitoring compliance with Supplier Code- Round table discussions on sustainability | <ul style="list-style-type: none">- Sustainability requirements in the Supplier Code- Contract terms- Profitability- Sustainable forestry- Climate change and carbon dioxide emissions- Working conditions and human rights | <ul style="list-style-type: none">- Management systems- Incident reporting system- Policies, Code of Conduct and Supplier Code- Assessment and monitoring based on the Supplier Code- Forest contractor certification |
| Society at large (capital market, local residents, policy makers and officials, public organisations, interest groups, companies in the same industry) | <ul style="list-style-type: none">- Dialogue and cooperation- Research and development projects- Round table discussions on sustainability | <ul style="list-style-type: none">- Sustainable business (economic, environmental and social responsibility)- Community engagement- Transparency- Industry-specific issues | <ul style="list-style-type: none">- Policies, targets, management systems, risk management- Employer- Membership and participation in various organisations and initiatives- Annual and Sustainability Report |

Stakeholder dialogue

All of Södra's stakeholders contribute to the Group's development. The stakeholders are identified and prioritised using a structured mapping process and include customers, owners/members, employees, business partners and a number of stakeholders in the society at large. These stakeholders have the most influence on, and are most affected by, Södra's activities and decisions.

In 2020, the singular stakeholder dialogue from a sustainability perspective consisted of round table discussions with experts, and dialogue with customers. Ongoing stakeholder dialogue takes place in various forms, and with varying frequency, throughout the year, refer to the table below.



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 maintain or promote some forestry environments with high conservation value. These measures are important for maintaining and promoting biodiversity in the landscape. This disclosure is used to report the area of performed nature-conservation measures.

GRI 406 Non-discrimination, Training in policies related to non-discrimination

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

GRI 417 Marketing and labelling, Forest certification and certified products

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

Forest growth, Annual rate of forest growth on Södra members' estates

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

Sustainable harvest rate, Harvest rate on land owned by Södra's members

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

New products and services, New sustainable products

Renewable forest raw material can replace fossil-based materials in many applications. Demand for sustainable products is rising as customers and consumers become more aware of how their behaviour impacts the environment and the climate. This disclosure is used to report the number of new, commercialised products with a better sustainability performance than today's options. A better sustainability performance than today's options means that the total sustainability performance must be better than for those currently in use, and the assessment must be based on a supply chain perspective, meaning not only on the basis of direct impacts from Södra's own activities, but also on indirect impacts from suppliers, forest owners, customers and society.

Attractive employer, Employees who would recommend Södra

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

Governance and sustainability organisation

Sustainability framework

Sustainability is part of Södra's Group strategy. The Sustainability Policy governs and guides sustainability efforts in key strategic focus areas for a sustainable Södra. Södra's 15 Group-wide sustainability targets are integrated into Södra's operations. The Södra Code of Conduct and Supplier Code are also key elements of Södra's sustainability framework. Both are based on Södra's values – Value-generating relationships, a long-term approach.

Södra's sustainability framework has been inspired by a number of principles and standards: the UN Global Compact (signed in 2020), 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. The Paris Agreement and European Green Deal also influence the focus of the framework. Södra's sustainability targets are aligned with the UN Sustainable Development Goals. Read more on page 17.

The framework is regularly reviewed to ensure its relevance. In 2020, the Code of Conduct and Supplier Code were revised as a result of Södra's commitment to the UN Global Compact.

Sustainability organisation

In 2020, Södra's staff function for communication and sustainability was led by the Director of Communications and Sustainability who was a member of Group Senior Management. The Sustainability Department consists of the Sustainability Manager and three employees. The department coordinates the Group's sustainability efforts, drives and supports development issues and is responsible for the Sustainability Policy and monitoring the sustainability targets. Direct responsibility for sustainability issues is delegated within the line organisation, from the President to each Business Area President. Södra's sustainability targets are monitored by Group Senior Management twice annually. Decisions are then made regarding further action. Further efforts were made in 2020, including implementation of the Supplier Code. Södra's Board of Directors updates the Sustainability Policy, Code of Conduct and Supplier Code once annually.

Södra's Business Ethics Council is responsible for the development and implementation of the Group's business ethics policies and guidelines. The Council was formed in 2015 and in 2020, consisted of the HR Director (Chair), Chief Legal Officer, Director of Communications and Sustainability, the Sustainability Manager, CFO and management representatives from the Södra Skog, Södra Wood and Södra Cell business areas. The Council meets once per year.

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

Governance structure

Climate-positive operations

Södra's roadmap for fossil-free production and transportation contains activities that are expected to generate both long and short-term positive results, such as the shift to fossil-free alternatives, continued efficiency improvements, and research and development. These efforts are coordinated in a programme – A Fossil-Free Södra. A Steering Committee monitors and evaluates the outcomes on a regular basis. Södra's efforts are focused on direct greenhouse gas emissions. To reduce indirect greenhouse gas emissions, Södra engages in business policy lobbying and collaborates with external parties. The transition to fossil-free transportation is an extensive process that requires long-term, external collaborations. The programme also works with supply and demand for fossil-free alternatives and political advocacy.

In Södra's roadmap for a higher rate of forest growth, four key areas have been identified for achieving the target: effective forest management, fertilisation/nutrient recycling, forest tree breeding and damage reduction. Continued investment in research and development is also required.

Sustainable forestry

Södra's members are firmly committed to responsible forest management. Södra contributes to sustainable forestry by offering a range of advisory and other services to support forest estate management and care. Forest certification is an important tool for responsible forest management and forest owners can become certified under Södra's group certification. Södra's offerings also include the Södra School, which aims to raise awareness of sustainable forestry and to inspire active forest management in order to combine a higher rate of growth and profitability with the preservation and promotion of all forest values. The Södra School evolves in line with members' needs for information and training.

Most members use Södra's green forest management plan for their forestry. The plan sets long-term management objectives for each forest stand. The objectives are divided into four classes with detailed descriptions for each stand. The green forest management plans help the forest landscape to maintain a balance between profitable wood production and the preservation or new creation of biodiversity. The plans also include consideration for the cultural heritage and social values of forests. The green forest management plans also include blue management targets in which watercourses are assessed, and the ambition for aquatic environment considerations is specified. For forest owners with more than 20 hectares of productive forest land, a forest management plan is mandatory for forest management certification.

Contractors who perform forestry measures on behalf of Södra must hold PEFC certification. The contractors' employees must be aware of the considerations that apply to environmental and cultural values in forestry. For forestry operations in aquatic

environments, such as ditch clearing, expertise in the management of aquatic environments in forests is required.

Södra provides continuous training for its field organisation and contractors, which includes information about the new industry-wide objectives for environmental considerations in forestry measures.

Every year, the considerations applied in regeneration harvests, thinning, nature-conservation measures and regeneration operations are audited and rated in a Green Balance Sheet. The handling of forest residues (branches and treetops), which are attractive habitats for many species, especially insects and fungi, is also assessed. Regeneration operations are also monitored 1–2 years after harvesting, including an assessment of the site preparation and planting performed, and whether special considerations were applied for cultural relics, buffer strips and sensitive habitats. The field work is carried out by Södra's forest management auditors.

Guidelines for the balance between production and economics, and conservation, cultural and social considerations in forestry are summarised in 'Miljöhänsyn Södra Skog – strategisk inriktning' (Environmental considerations Södra Skog – strategic focus area). Södra's employees undergo training via the internal Nature Conservation course, which includes Södra's application of the guidelines.

The business management system for Södra's forestry operations is subject to internal and external audits every year. During the management's review, annual outcomes are evaluated and steps are taken to achieve continuous improvement. In 2020, a working group for nature-conservation measures was appointed to raise the quantity and quality of nature-conservation measures.

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.

Resource efficiency

Södra's environmental and energy initiatives are based on the Sustainability Policy which, in combination with targets and guidelines, govern the Group's efforts in this area. Environmental and energy issues are addressed within the framework of each business area's management systems. Most of the Group's environmental management systems are ISO 14001-certified. The energy management systems of the pulp mills are ISO 50001-certified. Internal and external audits of management systems are performed annually. Each business area works towards targets in selected areas to achieve continuous improvement. The targets are monitored in the business areas and units. The management performs regular reviews to ensure that management systems remain appropriate, adequate and effective.

In 2020, internal and external audits identified some key issues that the Group as a whole needs to improve: the safe use and handling of chemicals, including clear labels on pipes and tanks, the use of lifts and rail transport. Targeted initiatives were carried out to improve these areas, including coordination and knowledge transfers between business areas, information and training, and increased use of digital tools.

Regulated activities

Environmental permits control a major part of the industrial activities, such as emissions and effluents, and management

systems are a means for obtaining permits. Water court rulings have been issued for all industries that extract raw water, to regulate their withdrawals and prevent any negative effects from their activities. Södra's operations are governed by many laws and regulations, most significantly the Swedish Forestry Act, the Swedish Environmental Code and chemicals legislation. Legal and permit compliance is also inspected regularly by authorities. Read more about regulated activities on page 54.

Policy measures for reducing greenhouse gas emissions and increasing renewable electricity generation

- » Södra Cell participates in the European Union Emissions Trading System. The aim of the trading system is to reduce greenhouse gas emissions in Europe in a cost-efficient manner. Södra sells its excess permits.
- » Södra Cell is allocated electricity certificates for some of its electricity generation. The electricity certificate system is a support scheme for the expansion of electricity generation from renewable sources. Södra Medlemsel offers members, employees and business partners an opportunity to purchase renewable electricity generated by the pulp mills and Södra's own wind turbines.
- » Guarantee of Origin certificates show the energy source of the electricity generation. The government allocates certificates to electricity generators for every megawatt-hour (MWh) of electricity they produce. The certificates can then be traded on the open market. Green Guarantee of Origin certificates for the electricity consumed by the Södra Group and by customers of Södra Medlemsel are used by Södra and removed from the market.

Responsible employer and committed employees

Södra's HR strategy based on four focus areas: set of values (value-generating relationships, a long-term approach), occupational health and safety, strategic competency provision and performance management. There are clear targets, key indicators and processes for each of the areas. Södra's policies and guidelines for corporate social responsibility cover occupational health and safety, diversity and inclusion, and bullying and harassment. The policies apply for management teams, managers and employees. HR processes are conducted both centrally, and at operational level to ensure local support and implementation. Employee satisfaction surveys are conducted every other year.

Occupational health and safety

Occupational health and safety (OHS) is a key priority for Södra. To achieve Södra's zero accident vision and create a physical, organisational and socially sustainable work environment where all employees can feel safe, satisfied and able to develop, a Group-wide work environment focus has been created. It is based on a three-step plan: rules and procedures, the importance of responsibility, and teamwork and colleagues.

Systematic occupational health and safety (OHS) management is mandatory for all employers (AFS 2001:1) and the Swedish Work Environment Authority is the supervisory body. This means that the employer is required to systematically, and together with employees and OHS officers, investigate, introduce and monitor the activities in a manner that prevents accidents and illnesses at work, and achieve a safe and healthy workplace. To ensure a safe and healthy workplace, Södra has a range of management

systems that cover all employees. The business areas use business management systems that gather procedure and process data. The systems are connected to Södra's HR portal, which contains Group-wide information, policies and guidelines related to areas such as OHS. The management systems enable planning, control, monitoring and evaluation and are crucial to Södra's continuous improvement of OHS performance. All of Södra's units create their own OHS targets based on the OHS policy for each unit's focus, requirements and needs. The pulp mills hold ISO 45001 certification.

Under the Swedish Work Environment Act, when contractors are engaged, Södra is ultimately responsible for the introduction and coordination of workplace health and safety instructions using existing management systems and external systems (such as SSG On site). Contractors are always responsible for their own employees, which means they must take concrete measures to prevent ill health and accidents.

To identify, report and control accidents, incidents, dangerous occurrences and hazards in the workplace, Södra uses the Group-wide web-based IA system (Occupational Health and Safety Information System, AFA Försäkring). Every adverse event is reported and then follows a pre-defined flow that manages both the reactive (occurred events) and the proactive (such as safety inspections, risk analyses) OHS management. Employees and contractors are urged to report adverse events with an emphasis on risk observations. Events can be registered in several ways – on Södra's intranet, during safety inspections or via a mobile app. The system also provides clear action plans for the entire organisation or individual units, enabling risk assessments. This ensures that all events are handled systematically and enables improvement. Employees can suggest measures and give feedback on the measures taken.

Preventive health measures are carried out at both Group-wide and local level. All employees are offered preventive healthcare and rehabilitation through agreements with Occupational Health Services. Occupational Health Services can provide support and assistance for rehabilitation and preventive healthcare with risk assessments, a review of workplace ergonomics, new employment surveys, statutory surveys and health discussions. All employees are offered regular health checks to promote health and well-being. Thematic days at local level increase the focus on health promotion activities. Other preventive measures include the annual wellness subsidy, free counselling and health insurance for planned specialist care, which also can also be taken out by employee's families and Södra's members. All employees in Sweden are offered life and accident insurance cover, and cover for children.

Employees are able to contribute to health and safety initiatives in a variety of ways, including participation in OHS committees or Group-wide and business area councils. Södra also has an OHS Council that meets four times per year. At these meetings, employers and union parties can discuss OHS-related issues of a long-term and overall nature. The aim of the council is to develop and stimulate Södra's OHS initiatives. The council includes representatives from Södra's business areas, OHS engineers and managers, OHS officers, Occupational Health Services, the HR Director, HR specialist and other internal and external guests. Contractors are not represented in the OHS Council or on OHS committees, since their assignments are governed by contracts. Contractor involvement is ensured by delegating people to serve as a link between Södra and the contractor, and to coordinate the prevention of work-related accidents and ill health. They also report whether there are any specific risks to consider, including work-related risks for the contractor, to provide training in safety regulations and request

reports of adverse events from the contractor. Under the Södra Supplier Code, suppliers are required to maintain a safe and secure workplace for all employees. Read more about the Supplier Code on pages 116–117.

OHS training programmes are implemented on a regular basis. The Group's Competency Toolkit, SABA, is used for all internal and external training courses, including OHS courses with certifications and repetition requirements. The courses are adapted to the individual needs of each unit. Some units are given courses linked to physical hazards in a production environment that require regular repetition. Other courses include safe handling of chemicals, safe production stoppages, use of personal protective equipment and fire safety training. Södra also offers courses with a focus on psychosocial risk factors in the workplace, such as bullying and harassment, workload, stress and working hours. At the end of 2020, 55 percent (51) of employees had completed a course in Södra's training programme to prevent discrimination and bullying. For more information about training in Södra's Code of Conduct, refer to page 117.

Diversity and inclusion

Södra has stated ambitions to increase diversity by recruiting and retaining employees with diverse backgrounds, experience and perspectives. Södra has strengthened its recruitment process by focusing on the under-representation of women. There is also a focus on diversity and inclusion in the membership organisation. One of the targets in the action plan for greater diversity and gender equality in Södra's membership organisation is that at least 40 percent of Södra's elected representatives will be women by 2025. Activities conducted included Nomination Committee training and a review and adaptation of communication with forest owners from a diversity perspective.

Responsible business

A responsible supply chain is gaining significance in Södra's sustainability efforts, not least to achieve the company's fossil-free targets. Policy documents will be reviewed as a result of the new Group strategy and new sustainability targets. Efforts to develop a responsible supply chain will also be further systematised.

Code of Conduct and Supplier Code

The Code of Conduct specifies the rights and responsibilities of Södra's employees in relation to business practices, occupational health and safety, working conditions, human rights, the environment and sustainable forestry. The Code sets out the rules that apply to gifts, benefits, remuneration and business-related entertainment, conflicts of interest and competition from a business ethics perspective.

The Supplier Code contains the obligations and responsibilities of Södra's suppliers in regard to business practices, working conditions, human rights, the environment and quality. Södra's suppliers are assessed on the basis of selected sustainability criteria: geographic risk, supply chain complexity and the supplier's assessed ability to comply with the Södra Supplier Code with regard to human rights, working conditions, environmental considerations, bribery or other types of corruption. Prioritised suppliers are those that represent a higher level of compliance risk, and these suppliers are evaluated using self-assessments or sustainability audits.

Södra's policies and guidelines also apply for other representatives of Södra, including Board members and elected representatives.

To raise awareness of the Code of Conduct, every employee completes a compulsory online training course. At the end of 2020, 80 percent (80) of Södra's employees and 75 percent (75) of Södra's Group Senior Management had completed the online training programme. Group Senior Management, management teams and key groups participate in an advanced course. The Board also undergoes training in the Code of Conduct. Purchasing managers undergo continuous training on the Supplier Code.

Follow-up and whistleblower function

Suspected breaches of the Code of Conduct should be reported to the immediate supervisor in the first instance or, alternatively, to a senior member of staff, Södra's HR department or a union representative. There is an internal whistleblower function for Södra's employees, and other people representing Södra, for reporting serious misconduct. The whistle-blower always has a right to remain anonymous.

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.

Certifications and labelling

Södra uses several different schemes for certification and labelling. Certifications enable traceability for wood raw material, and labelling is a tool for communicating the high environmental and sustainability performance of Södra's processes and products. Lifecycle assessments (LCA) and Environmental Product Declarations (EPD) will remain a priority for Södra, particularly due to customer demand.

Sustainable innovation

An assessment of the sustainability performance of new products and services is included in various stages of the innovation process. The positive and negative impacts for a number of sustainability aspects are identified and quantified. Both the direct impact of Södra's operations and the indirect impact of Södra's supply chain are assessed. If negative impacts arise in any part of the value chain, measures should be taken, if possible, to reduce them. Measures are followed-up at the next assessment of the sustainability performance when the innovation has progressed to the next stage of the innovation process.

New Sustainability targets

Södra's Board set the Group's first joint sustainability targets in 2016. Since then, a positive shift has taken place in several of Södra's strategic focus areas for sustainability. Major steps have been taken in fossil-free operations, processes for monitoring suppliers have been introduced, and innovations have been evaluated from a sustainability perspective.

During the year, an internal project team presented a recommendation for new sustainability targets and key indicators. These were based on the results from round table discussions with experts and customer meetings, combined with a situation assessment of Södra's influence on sustainability issues, a business intelligence assessment and a mapping of the progress required in Södra's sustainability practices to ensure that Södra's future growth is both profitable and sustainable. New sustainability targets will be decided by Group Senior Management and the Board in 2021.

Governance of Södra’s strategic focus areas for sustainability

| Strategic focus area | Why is this important for Södra? | Södra’s governance tools |
|--|---|--|
| Climate-positive operations | Growing forests, the use of wood and deliveries of renewable energy play a key role in combatting climate change and the transition to a circular bioeconomy. | - Sustainability Policy - Sustainability targets for fossil-fuel free and a higher rate of forest growth - ‘A Fossil-free Södra’ - Action plans to achieve the sustainability targets - Partnerships and business policy lobbying - Research and development - Management systems - Local environmental objectives |
| Sustainable forestry | Sustainable forestry forms the basis of Södra’s operations. Responsible forest management ensures regrowth for coming generations and future needs. Considerations during forestry operations are essential for maintaining and promoting the multiple values of forests. | - Sustainability Policy - Environmental considerations, Södra Skog – strategic focus area - Sustainability targets for sustainable harvest rate, considerations in regeneration harvesting and nature-conservation measures - Advisory and other services for members - FSC® or PEFC forest management certification - Green Forest Management Plan - Training for members and employees - Management systems - Local environmental objectives |
| Resource efficiency | Efficient use of resources is helping to strengthen Södra’s competitiveness and profitability. It also benefits society and reduces negative impact on the climate and environment. | - Sustainability Policy - Sustainability targets for lower electricity and heating consumption and net electricity deliveries - Environmental permits for industrial processes - European policy instruments for greenhouse gas emissions and renewable electricity - Management systems - Local environmental objectives |
| Responsible employer and committed employees | Södra’s HR strategy is based on four focus areas: values, occupational health and safety, strategic competency provision and performance management. Set of values: Value-generating relationships, a long-term approach permeate the company’s day-to-day operations and are designed to deepen the corporate culture and lead Södra towards its goal of being a next-generation forest company. | - HR strategy - Code of Conduct and Sustainability Policy - Sustainability targets for reduced sickness absence, a zero accident vision, gender equality and employees who would recommend Södra as an employer - Training for employees - Preventive work for better occupational health and safety - Safety walks - Projects and initiatives to improve diversity and inclusion - OHS Council - Business Ethics Council - Whistleblower function - Management systems - Local targets |
| Responsible business | Södra places high demands on its employees and suppliers in regard to business ethics, working conditions, human rights and the environment. Sound business ethics and high integrity make the company an attractive and credible business partner. | - Sustainability Policy - Code of Conduct and Supplier Code - Sustainability targets for Supplier Code, supplier assessments and sustainability criteria for investments - Training in Code of Conduct and Supplier Code - Certifications and labelling - Business Ethics Council - Whistleblower function - Local targets |
| Sustainable innovation | Södra pursues strategic innovation to meet the growing need for more sustainable products based on renewable, recyclable and biodegradable forest raw material. | - Research in strategic arenas: forests, wood products, paper, textiles, chemicals and energy - Sustainability Policy - Sustainability criteria in the innovation process - Sustainability target for new, sustainable products - Partnerships with customers, universities, research institutes and companies in the value chain |

Calculation principles

Information for the Sustainability Report is gathered in a variety of ways. Södra Skog is responsible for forest growth, sustainable harvesting and biodiversity. Information about raw materials, energy, products, waste, emissions and effluents is gathered in Södra’s annual environmental inventory and compiled by the Sustainability Department. HR is responsible for employee data and the Treasury Unit gathers information about the gender and age distribution in Boards and management teams. Information about suppliers is gathered by each purchasing organisation and compiled by the Sustainability Department.

FOREST GROWTH
Forest growth is based on statistics from the National Forest Inventory’s sample plots on land owned by Södra’s members. The rate of forest growth for 2020 is a mean of the annual growth rings between 2014 and 2018.

SUSTAINABLE HARVESTING
The harvest rate is based on statistics from the National Forest Inventory for Götaland. The harvest rate for 2020 is a mean of three seasons, from the first bud burst in 2016 to the first bud burst in 2019. To determine a sustainable harvest rate, the Swedish Forest Agency and the Swedish University of Agricultural Sciences (SLU) conduct forestry impact assessments every five years. The latest was conducted in 2015 and Södra chose the scenario that best reflected Södra’s forest management strategy.

BIODIVERSITY
Information about protected areas, considerations in regeneration harvesting and nature-conservation measures is compiled from official statistics, forest management plans, member statistics, production monitoring systems and Green Balance Sheets.

ENERGY
Information about energy consumption within and outside the organisation is produced in different ways: direct measurements of electricity and heating, calculations based on fuel consumption and calculations based on transport mode, transported volume and transport distance. The conversion figures have different origins and varying accuracy: measurements of biofuels’ calorific values, specific calorific values from suppliers, general calorific values from the Swedish Environmental Protection Agency, transportation factors from carriers and standard values for transportation factors from the Network for Transport Measures (NTM) and the Swedish Environmental Protection Agency. Internally generated heating and cooling are reported solely as fuel consumption. Energy for passenger transport is reported as fuel consumption for other transportation, and energy consumption outside Södra, respectively. Energy intensity, electricity and heat, are recognised per tonne pulp and per m³ sawn timber.

EMISSIONS
Direct and indirect greenhouse gas emissions are reported in comparison with base year 2015. This is the same base year as the targets for fossil-free production and fossil-free transportation. As of 2020, the GWP values for greenhouse gas emissions follow the IPCC’s report published in 2014, 28 for methane and 265 for nitrous oxide. Comparative figures for previous years have been calculated using the 1996 IPCC Guidelines for Global Warming Potential (GWP) values, 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 greenhouse gas emissions relate to the operations where Södra has operational control. Indirect greenhouse gas emissions are calculated on the basis of fuel consumption, 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 ‘Other indirect (Scope 3) greenhouse

gas emissions,’ respectively. Other emissions (nitrogen oxides, sulphur, dust and volatile organic compounds) are based on measured values, and calculations based on fuel consumption and transportation using emission factors from the Swedish Environmental Protection Agency, data from carriers, and standard values for emission factors from the NTM and the Swedish Environmental Protection Agency.

EFFLUENTS
Effluents are measured and analysed at the pulp mills with varying frequency. Both continuous and manual measurements occur. The mills’ accredited laboratory is responsible for measurements and analyses, and some analyses are performed by external laboratories.

WASTE BY TYPE AND DISPOSAL METHOD
Waste volume refers to the amount of waste disposed of, either by an external party or in Södra’s own landfill. Waste volumes temporarily stored internally are not monitored at Group level. Waste to material recycling includes waste for re-use, recycling and composting. It is assumed that energy is recovered from all waste incineration. Waste management by deep well injection is not applied. Hazardous waste is not classified according to treatment method.

NEW SUSTAINABLE PRODUCTS
The sustainability performance of a product or service is assessed using a model that identifies the positive and negative impacts for a number of sustainability aspects: responsible forestry, material efficiency, energy efficiency, water use, waste and recycling, circular and bio-based economy, use of chemicals, effluents, emissions, fossil greenhouse gas emissions, legal and regulatory compliance in the value chain, occupational health and safety, working conditions, business ethics and anti-corruption. Both direct impacts from Södra’s own operations and indirect impacts in the value chain (suppliers, forest owners, customers and society) are assessed. The impacts are quantified from 1 – Strongly negative impact to 5 – Highly positive impact.

EMPLOYEES
Information about employees is gathered by the central HR system, which covers all of Södra’s units in Sweden. In Sweden, occupational health and safety statistics are reported in the IA system (AFA Försäkring) and compiled. Foreign units report via digital forms. Occupational health and safety and sickness absence reporting applies to Södra’s employees. Subcontracted employees and contractors are managed by their respective employers. However, occupational injuries and incidents related to subcontracted employees and contractors are reported in Södra’s incident reporting system to improve health and safety at Södra’s workplaces. Södra reports LTAR (lost-time-accident rate), which is the number of occupational injuries with absence per million hours worked Days of absence from work are counted per working day, including the day of injury, and are reported as the number of days of absence from work per occupational injury. Absence due to occupational diseases is included in sickness absences.

BOARDS AND MANAGEMENT TEAMS
Information about the gender and age distribution on Boards and in management teams is gathered from the registration certificate of each Group company, see Note 5, and from surveys of the business areas.

SUPPLIERS
Information about Södra’s suppliers is gathered from supplier agreements and invoices in Södra’s accounting system. Suppliers are assessed by responsible purchaser and classified on the basis of geographic risk, assessed supply chain complexity and the supplier’s assessed ability to comply with the Södra Supplier Code with regard to human rights, working conditions, environmental considerations, bribery or other types of corruption.

Sustainability data

The sustainability data contains detailed information about the year’s performance in Södra’s six strategic focus areas for sustainability.

Climate-positive operations

FOSSIL-FREE PRODUCTION AND FOSSIL-FREE TRANSPORTATION – TARGET AND OUTCOME

Södra’s target is fossil-free production by 2020 and fossil-free transportation by 2030. Fossil carbon dioxide emissions from production were 70 ktonnes (70), which is 20 percent lower compared with the base year of 2015. Fossil carbon dioxide emissions from transportation were 227 ktonnes (207), which is 18 percent higher compared with 2015. Consumption of fossil fuel oil was slightly higher in 2020 compared with 2019. Due to the COVID-19 pandemic, investments that would have enabled the pulp mills to run without fossil fuel oil, even during start-up and operational disruptions, were postponed. Fossil carbon

dioxide emissions from transportation were higher in 2020 compared with 2019 due to higher transportation in total, particularly shipping. The proportion of renewable fuels for transportation was also slightly lower compared with previous years.

FOREST GROWTH – TARGET AND OUTCOME

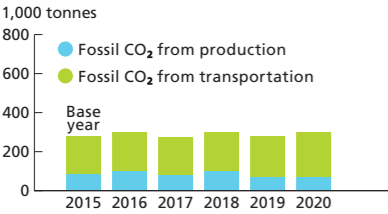
Södra’s target is that the annual rate of forest growth on its members’ estates shall be 20 percent higher in 2050 compared with the base year of 2015. In 2020, the average rate of forest growth on Södra members’ estates was 6.4 m³fo/ha per year (6.3), 5 percent lower compared with the base year of 2015. There can be

major variations from year to year and extreme weather conditions, such as the hot and dry summer of 2018, can also affect the outcome. The long-term trend for forest growth is an annual increase of about half a percent.

NET CARBON DIOXIDE SEQUESTRATION IN SÖDRA MEMBERS’ FORESTS

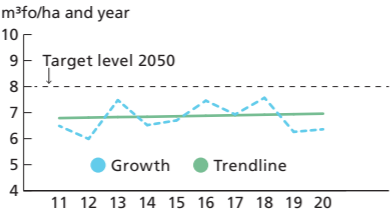
The growing stock in forests owned by Södra’s members is increasing, which is leading to carbon dioxide sequestration, with an average carbon dioxide uptake of 2.1 (5.3) million tonnes per year over the past five years. The long-term trend is an average carbon dioxide uptake of 4.1 million tonnes per year (linear trend for ten years, five-year averages).

Fossil-fuel free



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

Forest growth



2020 refers to the average growth rate during the 2014–2018 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.

| Key indicators fossil-fuel free | 2020 | 2019 | 2018 |
|---|------|------|------|
| Renewable fuels for production processes, % | 99.5 | 99.5 | 98.6 |
| Renewable fuels for operational machinery and internal transportation, % | 24 | 25 | 26 |
| Fossil carbon dioxide from production, operational machinery and internal transportation, ktonnes | 70 | 70 | 103 |
| – of which direct emissions, ktonnes | 27 | 28 | 63 |
| – of which from fossil fuels | 16 | 15 | 48 |
| – of which from chemicals | 11 | 13 | 15 |
| – of which indirect emissions (external harvesting contractors), ktonnes | 43 | 42 | 40 |
| Renewable fuels for transportation, % | 22 | 24 | 26 |
| Fossil carbon dioxide from transportation, ktonnes | 227 | 207 | 196 |
| – of which direct emissions, ktonnes | 0 | 1 | 1 |
| – of which indirect emissions (external carriers), ktonnes | 227 | 206 | 195 |

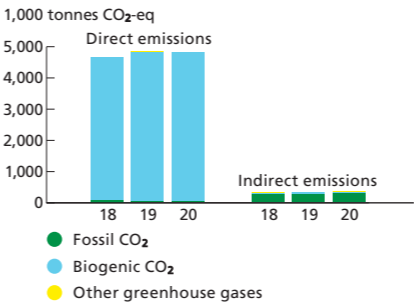
Comments

- » Södra’s efforts are focused on direct greenhouse gas emissions. To reduce indirect greenhouse gas emissions, Södra engages in business policy lobbying and collaborates with external parties.
- » Direct greenhouse gas emissions from use of chemicals are not included in the target for fossil-free production. However, they are included in the follow-up of Södra’s emissions from production.
- » During the year, 170 (181) GWh of renewable fuel was dispensed at Södra’s filling stations, representing 100 percent (99) of all fuel dispensed at the filling stations.
- » In 2020, Södra sold 35,981 tonnes (34,180) of crude tall oil for the production of crude tall diesel and tall oil-based chemicals.

| Greenhouse gas emissions | | 2020 | 2019 | 2018 |
|--|--------------|-------|-------|-------|
| CO ₂ eq (CO ₂ equivalents) ¹⁾ | 1,000 tonnes | 5,133 | 5,137 | 4,948 |
| Fossil CO ₂ | 1,000 tonnes | 297 | 277 | 299 |
| – for production | 1,000 tonnes | 26 | 26 | 61 |
| – for operational machinery and internal transportation | 1,000 tonnes | 44 | 44 | 42 |
| – for other transportation | 1,000 tonnes | 227 | 207 | 196 |
| Biogenic CO ₂ | 1,000 tonnes | 4,809 | 4,831 | 4,620 |
| – for production | 1,000 tonnes | 4,736 | 4,757 | 4,542 |
| – for operational machinery and internal transportation | 1,000 tonnes | 14 | 15 | 14 |
| – for other transportation | 1,000 tonnes | 59 | 59 | 64 |
| Other greenhouse gases | 1,000 tonnes | 28 | 29 | 29 |
| – for production | 1,000 tonnes | 23 | 24 | 24 |
| – for operational machinery and internal transportation | 1,000 tonnes | 1 | 1 | 1 |
| – for other transportation | 1,000 tonnes | 4 | 4 | 4 |

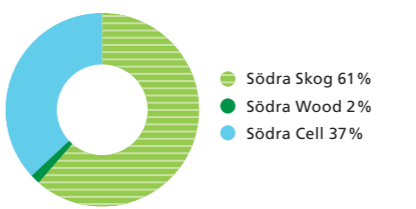
¹⁾ CO₂eq includes CO₂ and CH₄ (methane) and N₂O (nitrous oxide) (other greenhouse gases).

Direct and indirect GHG emissions



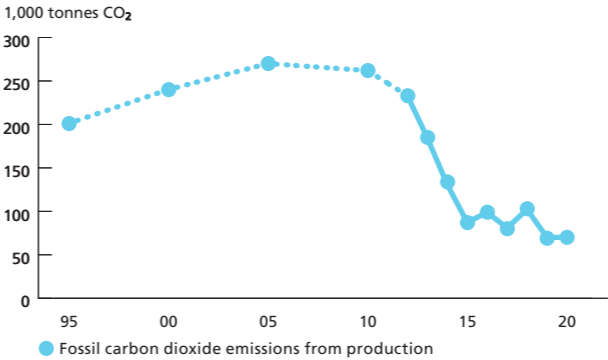
Emissions from production, operational machinery and internal transportation are direct (Scope 1) greenhouse gas emissions, excluding those from external harvesting contractors. Emissions from other transportation are other indirect (Scope 3) greenhouse gas emissions, excluding those from own haulage operations. Scope 3 emissions here are those generated by external harvesting contractors and carriers.

Fossil CO₂ emissions from production, operational machinery and internal transportation in 2020



Fossil carbon dioxide emissions from production, operational machinery and internal transportation were mainly derived from the use of fossil diesel in forestry and fossil fuel oil in the pulp mills. In 2020, total emissions were 70 ktonnes.

Fossil CO₂ emissions from production, 1995–2020



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

Fossil-fuel free activities

Several activities were carried out during the year that will reduce greenhouse gas emissions from Södra, and from Södra’s supply chain, in both the long and short term. The aim of the activities is to stimulate supply and demand for fossil-free alternatives, and to promote technological advances and business policy lobbying.

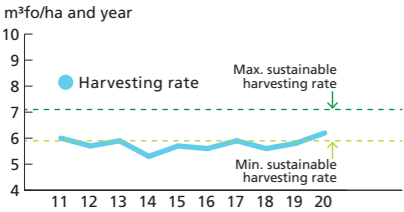
- » The world’s first fossil-free biomethanol plant was inaugurated at the pulp mill in Mönsterås.
- » Södra’s associate, Silva Green Fuel, commenced the construction of a demo facility for biodiesel production in Tofte, Norway.
- » The Fastwater project, funded by the European funding programme Horizon 2020, is conducting long-term tests of Södra’s biomethanol as a marine fuel with the aim of reducing greenhouse gas emissions from shipping.
- » The construction of a timber terminal in Dalsland will make it possible to shift wood raw material from truck to rail, which will reduce greenhouse gas emissions from transportation.
- » A feasibility study on the production of aviation biofuel from forest biomass together with KLM and other partners was completed.
- » Södra’s own harvesting teams began testing electrical power saws. The aim is to reduce reliance on fossil fuels and spread knowledge amongst Södra’s members.
- » In partnership with fuel company Aspen, Södra began testing a blend of biofuel and alkylate fuel as fuel for clearing and power saws.

Sustainable forestry

SUSTAINABLE HARVEST RATE – TARGET AND OUTCOME

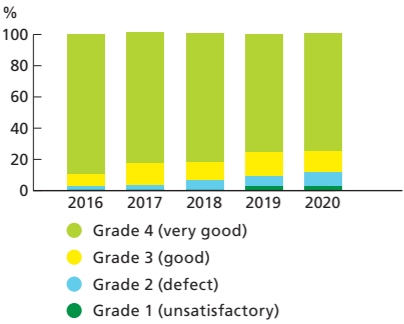
Södra's target is to harvest within the recommended sustainable harvest rates. In 2020, the harvest rate was 6.2 m³fo per hectare and year (5.8), which was within sustainable harvest rates. The sustainable harvest rate for Södra's members is 5.9–7.1 m³fo per hectare and year, corresponding to a total of 11–13 million m³sub per year, based on the current affiliated forest area.

Sustainable harvest rate



2020 refers to the mean for 2016–2018, in the same way as for other years. The sustainable harvest rate is based on the forestry impact assessment carried out by the Swedish Forest Agency and Swedish University of Agricultural Sciences in 2015. The harvest rate is based on the National Forest Inventory's data for Götaland.

Impacts on soil and water in the Green Balance Sheet

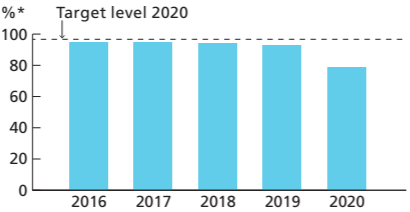


In 2020, 89 percent of the regeneration harvest sites were approved in the Green Balance Sheet with regard to impacts on soil and water.

CONSIDERATIONS IN REGENERATION HARVESTING – TARGET AND OUTCOME

Södra's target for considerations in regeneration harvesting is an approval rate of 95 percent by 2020. In 2020, the outcome was 79 percent (93). The outcome was lower in 2020 due to shortcomings in cultural environment considerations and not leaving stumps around cultural heritage sites. Nor were Södra's own targets for leaving forest residue (branches and treetops) met. This measure is intended to increase the amount of dead wood in managed forests. The follow-up of cultural heritage stumps and forest residue has recently been added to the Green Balance Sheet and in 2021, active efforts will be carried out to achieve a better result. In 2020, a total of 391 sites (379) were audited in the Green Balance Sheet,

Considerations in regeneration harvesting



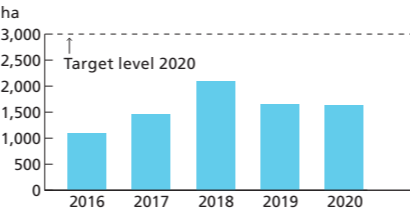
* The rate of approved regeneration harvesting sites in the Green Balance Sheet.

corresponding to 1,832 hectares (1,791) (regeneration harvests, thinning, nature-conservation measures and regeneration operations). The Green Balance Sheet report is available at sodra.com

NATURE-CONSERVATION MEASURES – TARGET AND OUTCOME

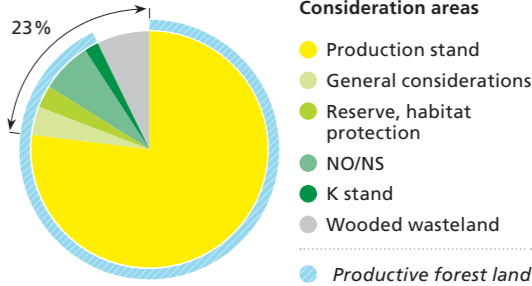
The target for nature-conservation measures is an area corresponding to 3,000 hectares per year until 2020. The outcome for 2020 was 1,636 hectares (1,643). The continued low area is due to the prioritisation of harvest resources in efforts to control the widespread spruce bark beetle outbreak. Another limiting factor is that nature-conservation measures can only be carried out at certain times of the year.

Nature conservation measures



| Consideration areas – areas on Södra members' estates in Götaland | 2020 | 2019 | 2018 |
|---|---------|---------|---------|
| Wooded wasteland¹⁾ | | | |
| area ²⁾ (ha) | 182,000 | 177,000 | 176,000 |
| percentage of wooded forest land (%) | 6.7 | 6.7 | 6.8 |
| Official site protection (reserve, habitat protection) | | | |
| area (ha) | 84,000 | 81,000 | 84,000 |
| percentage of productive forest land (%) | 3.1 | 3.1 | 3.3 |
| Voluntary set-asides (NO/NS)³⁾ | | | |
| area (ha) | 141,000 | 142,000 | 142,000 |
| percentage of regeneration harvest-ready forest (%) | 85 | 85 | 85 |
| percentage of productive forest land (%) | 7.8 | 8.0 | 8.1 |
| of which NO (%) | 3.7 | 3.8 | 3.9 |
| of which NS (%) | 4.1 | 4.2 | 4.2 |
| Management Target K (combined production and environmental targets in addition to general considerations)⁴⁾ | | | |
| area (ha) | 45,000 | 43,000 | 42,000 |
| percentage of productive forest land (%) | 2.5 | 2.4 | 2.4 |
| General considerations in regeneration harvesting | | | |
| percentage of production stands (%) | 4.5 | 4.5 | 4.7 |
| Annual regeneration harvesting (a rotation period of 80 years) | | | |
| percentage of production stands (%) | 1.25 | 1.25 | 1.25 |

¹⁾ Wooded wasteland is low-productive land with some degree of high conservation value.
²⁾ The same percentage of wooded wasteland as in Götaland in its entirety has been used.
³⁾ The voluntary set-aside area relates to members with forest management certification. About 3,000 hectares of the voluntary set-asides are protected by temporary nature conservation agreements.
⁴⁾ The management target K area relates to members with forest management certification. Under management target K, a production target applies for 65 percent of the area, and a nature-conservation target for 35 percent.



23 percent of the wooded forest land has a main objective other than production.

More about consideration areas

Wooded forest land consists of productive forest land and wooded wasteland. The productive forest land grows by at least one 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 connected area. Habitat protection and nature conservation agreements on forest land are formed by the Swedish Forest Agency or a county administrative board to protect smaller areas. Nature reserves, habitat protection areas or nature conservation agreements on land owned by Södra members are covered by agreements between individual members and either the Swedish Forest Agency or the county administrative board. There are regulations for formally protected areas describing why the site is protected and any forestry measures. General considerations apply to all

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

VALUE OF FOREST LAND, VOLUNTARY SET-ASIDES 2020

The voluntary set-aside area with nature conservation considerations (NO/NS) on land owned by Södra's members (PEFC-certified) was just over 141,000 hectares. The average value of this forest area was SEK 22 billion, with a variation between SEK 16–27 billion. The price interval is based on average prices for forest land according to price statistics from Ludvig & Co, and the average price of redeemed land (habitat protection) from the Swedish Forest Agency.

Resource efficiency

ELECTRICITY AND HEATING CONSUMPTION – TARGET AND OUTCOME

Södra's target is that electricity and heating consumption will have declined at least 10 percent by 2025 compared with 2015. In 2020, electricity and heating consumption for pulp was 7 percent (electricity) and 15 percent (heating) lower compared with the base year of 2015, while electricity and heating

consumption for sawn timber was 5 percent (electricity) and 14 percent (heating) lower. The outcome for pulp is due to a continuous improvement programme combined with a high level of efficient production. The outcome for sawn timber is due to a continuous improvement programme combined with a high level of efficient production, with investments in kilns and boiler optimisation.

Electricity and heating consumption – Pulp

| kWh/tonnes of pulp | Target level 2025 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|--------------------|-------------------|-------|-------|-------|-------|-------|-------|
| Electricity | 672 | 698 | 699 | 701 | 727 | 792 | 747 |
| Heating | 3,175 | 3,002 | 3,172 | 3,105 | 3,261 | 3,572 | 3,528 |

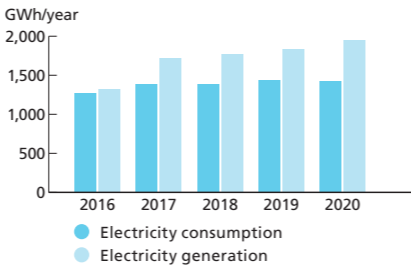
Electricity and heating consumption – Sawn timber

| kWh/m³ sawn timber | Target level 2025 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|--------------------|-------------------|------|------|------|------|------|------|
| Electricity | 57 | 60 | 62 | 63 | 64 | 65 | 64 |
| Heating | 236 | 225 | 224 | 241 | 248 | 251 | 262 |

NET ELECTRICITY DELIVERIES – TARGET AND OUTCOME

The target is that annual electricity generation shall exceed electricity consumption and in 2020, net electricity deliveries amounted to 530 GWh (397). Net electricity deliveries were historically high.

Electricity consumption and electricity generation

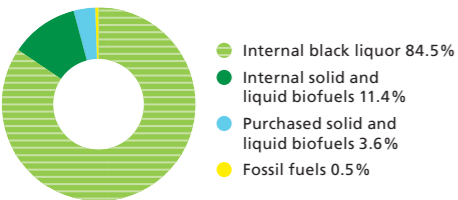


| Fuel consumption | | 2020 | 2019 | 2018 |
|---|-----|--------|--------|--------|
| Renewable fuels, total | GWh | 14,359 | 14,279 | 13,618 |
| Internal black liquor | GWh | 11,947 | 12,068 | 11,377 |
| Internal solid and liquid biofuels | GWh | 1,620 | 1,347 | 1,487 |
| Purchased solid and liquid biofuels | GWh | 792 | 864 | 754 |
| – for production | GWh | 511 | 584 | 455 |
| – for operational machinery and internal transportation | GWh | 55 | 56 | 55 |
| – for other transportation | GWh | 226 | 224 | 244 |
| Fossil fuels, total | GWh | 1,029 | 950 | 1,032 |
| Fuel oil | GWh | 51 | 45 | 170 |
| Fossil vehicle fuels | GWh | 956 | 886 | 842 |
| – for operational machinery and internal transportation | GWh | 171 | 168 | 160 |
| – for other transportation | GWh | 785 | 718 | 682 |
| Other fossil fuels | GWh | 22 | 19 | 20 |

Comments

- » In 2020, more internal solid and liquid biofuels were used than purchased solid and liquid biofuels. In the pulp mill at Värö, the lime kiln was fuelled with a high proportion of internal wood powder. Market demand for solid biofuels was low due to the mild weather, which meant that more bark was used as internal fuel.
- » Fuel consumption for other transportation was higher than in previous years due to higher total transportation. The proportion of renewable fuel for other transportation was also slightly lower compared with previous years.

Fuel consumption for production 2020



Södra consumed fuel equivalent to 14.1 TWh for production purposes. 0.5 percent of this figure was fossil fuel, mainly fuel oil. Otherwise, biofuels were used, most of which comprised the lignin released in the production process at the pulp mills. The pulp mills recycle the cooking chemicals used in pulp production, while simultaneously generating energy. The sawmills burn bark and other biofuels to generate heat for wood drying.

| Electricity and district heating | | 2020 | 2019 | 2018 |
|---|-----|-------|-------|-------|
| Electricity | | | | |
| Electricity consumption | GWh | 1,452 | 1,459 | 1,411 |
| – for production, operational machinery and internal transportation | GWh | 1,426 | 1,433 | 1,384 |
| – for other transportation | GWh | 26 | 26 | 27 |
| Purchased electricity | GWh | 144 | 159 | 160 |
| – for production, operational machinery and internal transportation | GWh | 118 | 133 | 133 |
| – for other transportation | GWh | 26 | 26 | 27 |
| Electricity generation | GWh | 1,956 | 1,830 | 1,772 |
| Electricity sales | GWh | 648 | 530 | 521 |
| Proportion of renewable electricity | % | 99.6 | 99.7 | 99.5 |
| District heating¹⁾ | | | | |
| Purchased district heating, total | GWh | 2 | 3 | 5 |
| – from steam | GWh | 2 | 3 | 5 |
| – from secondary heat ²⁾ | GWh | 0 | 0 | 0 |
| District heating sold, total | GWh | 385 | 405 | 430 |
| – from steam | GWh | 98 | 108 | 139 |
| – from secondary heat | GWh | 287 | 297 | 291 |

¹⁾ District heating relates to external purchasing and external sales.

²⁾ Secondary heat is excess heat from the process. No additional fuel is required.

| Energy consumption within and outside Södra | 2020 | 2019 | 2018 |
|---|---------------|---------------|---------------|
| Renewable fuels | 14,359 | 14,279 | 13,618 |
| within Södra | 14,147 | 14,070 | 13,390 |
| outside Södra | 212 | 209 | 228 |
| Fossil fuels | 1,029 | 950 | 1,032 |
| – within Södra | 79 | 73 | 200 |
| – outside Södra | 950 | 877 | 832 |
| Purchased electricity | 144 | 159 | 160 |
| – within Södra | 118 | 133 | 133 |
| – outside Södra | 26 | 26 | 27 |
| Purchased district heating | 2 | 3 | 5 |
| – within Södra | 2 | 3 | 5 |
| – outside Södra | 0 | 0 | 0 |
| Total | 15,534 | 15,391 | 14,815 |
| – within Södra | 14,346 | 14,279 | 13,728 |
| – outside Södra | 1,188 | 1,112 | 1,087 |

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

| External energy deliveries, GWh | 2020 | 2019 | 2018 |
|--|--------------|--------------|--------------|
| Electricity | 530 | 397 | 388 |
| District heating | 385 | 405 | 430 |
| Solid biofuels (forest fuel, bark, pellets, and residual products) | 3,551 | 4,060 | 3,874 |
| Total | 4,466 | 4,862 | 4,692 |

In 2020, external energy deliveries totalled approximately 4,500 GWh.

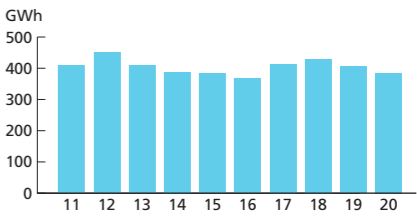
Comments

- » Most of Södra's electricity generation comes from renewable energy sources. Electricity is generated at the pulp mills in Mönsterås, Mörrum and Värö, and by six wind turbines in Mönsterås, with a total power output of 14 MW.
- » The high figure for electricity generated in 2020 was a result of high pulp production, and high availability and utilisation factors for the pulp mills' turbines.
- » District heating deliveries were lower in 2020 compared with 2019, mainly due to the mild weather conditions.

Comments

- » Renewable fuels are mainly used within Södra for pulp production.
- » Fossil fuels are mainly used outside Södra for the transportation of raw materials to mills and products to customers.

External district heating deliveries



Södra delivers district heating from the pulp mills in Mönsterås, Mörrum and Värö, and the sawmill in Kinda to neighbouring communities. In 2020, external district heating deliveries were 385 GWh. About 75 percent of external district heating deliveries comprises industrial excess heat. District heating is also delivered internally within Södra. The pulp mills in Mönsterås and Värö supply the sawmills at the combined facilities with district heating.

Resource efficiency, cont'

| Raw material use ¹⁾ | | 2020 | 2019 | 2018 |
|-----------------------------------|---------------|------|------|------|
| Wood raw material ²⁾ | million m³sub | 12.6 | 12.7 | 12.0 |
| Sawn timber ³⁾ | 1,000 m³ | 145 | 178 | 207 |
| Chemicals ⁴⁾ | 1,000 tonnes | 336 | 360 | 338 |
| Packaging materials | 1,000 tonnes | 6.7 | 6.0 | 5.8 |
| Water | million m³ | 82 | 79 | 83 |
| Other raw materials ⁵⁾ | 1,000 tonnes | 6 | 6 | 11 |

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

²⁾ Wood raw material include sawlogs, pulpwood, fuel wood and forest residues used in Södra's industries.

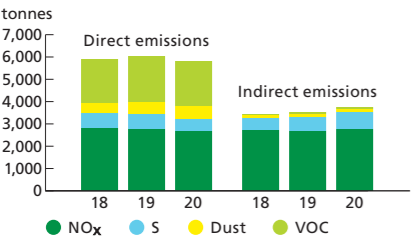
³⁾ Sawn timber relates to external purchasing.

⁴⁾ Chemicals relates to purchased chemicals. Consumption mainly takes place in the pulp mills, in digesters and bleachers. The alkaline cooking chemicals are almost completely recovered, while energy is also generated. Chemicals for bleaching are partly manufactured on site, but also purchased on an ongoing basis. The hazard category of the chemicals varies, but is most commonly corrosive, oxidising and toxic.

⁵⁾ Other raw materials mainly comprise insulation and gypsum in Trivselhus.

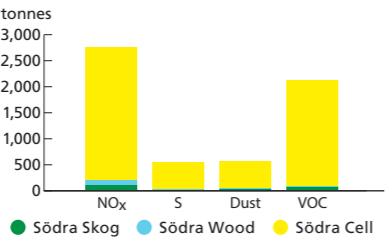
| Emissions | | 2020 | 2019 | 2018 |
|---|-------|-------|-------|-------|
| NO _x (nitrogen oxides as NO ₂) | tonne | 5,425 | 5,406 | 5,499 |
| S (gaseous sulphur as SO ₂) | tonne | 1,286 | 1,318 | 1,235 |
| Dust | tonne | 682 | 666 | 583 |
| VOCs (volatile organic compounds) | tonne | 2,145 | 2,166 | 2,036 |

Other direct and indirect emissions



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

Other emissions from production, operational machinery and internal transportation in 2020



The pulp mills account for the largest proportion of emissions, comprising nitrogen oxides, sulphur, dust and volatile organic compounds. Nitrogen oxides are also emitted by forestry machinery.

| Effluents ¹⁾ | | 2020 | 2019 | 2018 |
|--|----------|--------|--------|--------|
| Wastewater | 1,000 m³ | 72,100 | 69,800 | 69,400 |
| AOX (halogenated organic compounds) | tonne | 98 | 96 | 99 |
| TOC (total organic carbon) | tonne | 8,204 | 8,198 | 9,393 |
| COD (chemical oxygen demand) | tonne | 22,857 | 22,802 | 26,421 |
| BOD ₇ (biochemical oxygen demand) | tonne | 1,695 | 1,369 | 1,930 |
| TSS (total suspended solids) | tonne | 2,457 | 2,131 | 2,154 |
| Total N (nitrogen) | tonne | 196 | 192 | 219 |
| Total P (phosphorus) | tonne | 22 | 17 | 20 |

¹⁾ Effluents from the pulp mills are reported. Treated wastewater maintains high quality and complies with the EU's Industrial Emissions Directive. Following treatment, the wastewater is discharged into the Kattegatt or Baltic seas and not reused.

Comments

» The use of chemicals was lower year-on-year despite unchanged production output in the pulp mills. The main reason was generally fewer disturbances in lime kiln operations at the pulp mills.

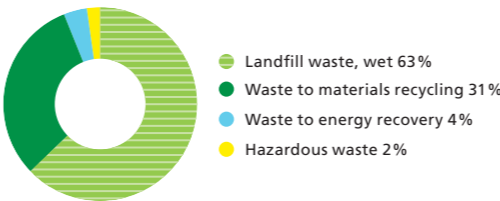
» The pulp mills use surface water from the Emån, Mörrum and Viskan rivers. Water use has remained stable in recent years.

| Waste ¹⁾ | | 2020 | 2019 | 2018 |
|--|--------------|------|------|------|
| Waste to materials recycling | 1,000 tonnes | 27 | 28 | 31 |
| Waste to energy recovery ²⁾ | 1,000 tonnes | 3.5 | 2.6 | 3.6 |
| Landfill waste, wet | 1,000 tonnes | 55 | 41 | 49 |
| Hazardous waste | 1,000 tonnes | 1.8 | 1.0 | 0.8 |

¹⁾ Waste to materials recycling, waste to energy recovery and landfill waste refers to non-hazardous waste.

²⁾ It is assumed that energy is recovered from all incineration of waste.

Waste management 2020



The landfill waste is mainly sent to Södra's own landfill sites and comprises inorganic materials, such as green liquor sludge, ash and lime sludge from the pulp mills. Hazardous waste is mainly comprised of oily wastes. In 2020, the total weight of Södra's waste was 87,475 tonnes.

PERMIT VIOLATIONS

Environmental permits for Södra's mill operations regulate effluents, emissions and noise, using guideline values, limits and/or constraints. Any exceedance of the guideline values must be reported to the supervisory authority and an action plan is required to avoid future exceedances. Exceedance of limits is subject to criminal liability. A constraint is considered a limit from the moment it is exceeded.

In 2020, Södra's activities exceeded guideline values, but no limits or constraints. Södra Skog exceeded guideline values for suspended solids in wastewater for six peat bogs. The Falkenberg nursery exceeded its water withdrawal threshold from the Ätran River. Södra Wood Långasjö exceeded the guideline value for noise. Södra Cell Mönsterås exceeded the guideline value for noise. Södra Cell Mörrum exceeded guideline values for sulphur and dust emissions to air, chlorate in wastewater and noise, as well as conditions for own landfill use. Södra Cell Värö exceeded guideline values for suspended solids and total organic carbon in wastewater, and noise.

In addition to exceeding these guideline values, several other environmental incidents were reported to the relevant supervisory authority in 2020, including fire, oil and chemical discharges, and operational disruptions in wastewater treatment equipment.

COMPLAINTS

» During the year, Södra's industrial activities received 69 (48) external complaints. Most were related 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 45 (23) formal comments, mainly related to forestry measures performed. The higher number of formal comments was the result of improved internal reporting.

Comments

» In 2020, the amount of landfill waste was higher than in previous years due to increased final top covers for Södra's own landfills and higher volumes of industrial waste due to operational disturbances.

Responsible employer and committed employees

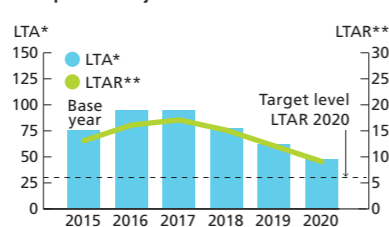
SICKNESS ABSENCE – TARGET AND OUTCOME

Sickness absence shall not exceed 3 percent by 2020, and in 2020, sickness absence was 3.8 percent (3.3). The outcome for the year reflected effects associated with the COVID-19 pandemic. Measures to prevent COVID-19 clusters by creating good conditions for remote work and a secure home working environment were successful.

OCCUPATIONAL INJURIES – TARGET AND OUTCOME

Södra has a zero accident vision and the target is to reduce the lost-time-accident rate (LTAR) by 15 percent per year until 2020. In 2020, the number of lost-time-accidents (LTA) was 47 (62) and the lost-time-accident rate (LTAR) was 9 (12). These results are attributable to Södra's systematic and long-term efforts to reduce occupational injuries and achieve the company's zero-accident vision.

Occupational injuries



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

GENDER EQUALITY – TARGET AND OUTCOME

At least 30 percent of Södra's employees shall be women by 2020. In 2020, the proportion of female employees was 23 percent (23). The outcome shows that measures taken to improve gender equality failed to achieve the desired effect. Södra needs to step up its efforts to systematically address a change to ensure a skills pipeline.

ATTRACTIVE EMPLOYER – TARGET AND OUTCOME

The target for Södra's employees who would recommend Södra as an employer is an eNPS score of 60 or higher by 2020. The eNPS score in the 2020 employee satisfaction survey was 13 (2018: 14). Employee satisfaction surveys are conducted every other year. The outcome shows that employees perceive Södra as attractive, but more work is required. Södra reviews its employee offering on a regular basis and is planning to introduce a Group-wide training programme to prevent workplace bullying and harassment.

Occupational injuries

Södra takes comprehensive measures to identify and eliminate hazards in the workplace, including safety inspections, internal audits, hazard inventories, risk assessments, risk investigations, management of risk observations, adverse event reporting, training, emergency preparedness exercises and personal protective equipment (PPE).

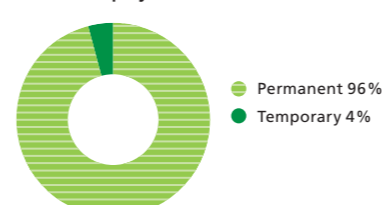
Södra uses the Group-wide web-based IA system (Occupational Health and Safety Information System, AFA Försäkring) to register and control adverse events in the workplace. The pulp mills use a risk matrix with consequence and probability to determine the harm severity of the events.

Some of the most common workplace hazards that can cause harm are contact with hazardous substances, exposure to extreme temperatures, contact with sharp objects and being struck by a flying/falling object. Accidents often occur in conjunction with activities during service disruptions. The most common causes of serious injuries and fatalities are traffic and operational machinery, falls from a height, being struck by a flying/falling object, contact with hazardous substances, trapping and crushing incidents and exposure to extreme heat.

In 2020, serious accidents occurred due to falls, contact with a hazardous substance, trapping or crushing incidents and exposure to extreme heat.

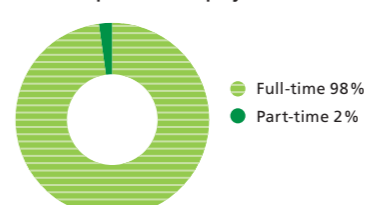
Based on investigations by the Swedish Work Environment Authority and the police, prosecutors closed the case of a fatal accident in 2019 involving a contractor at the pulp mill in Mönsterås.

Form of employment



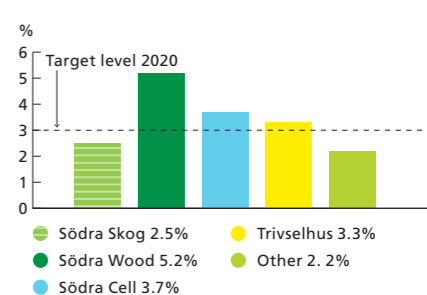
Permanent: 3,020 employees (2,997), of whom 78 percent (78) were men and 22 percent (22) women
 Sweden: 2,844 employees (2,844), other countries: 176 employees (153).
Temporary: 121 employees (153), of whom 68 percent (58) were men and 32 percent (42) women. Sweden: 117 employees (150), other countries: 4 employees (3).

Full-time/part-time employees



Full-time: 3,063 employees (3,069), of whom 78 percent (78) were men and 22 percent (22) women
 Sweden: 2,844 employees (2,844), other countries: 176 employees (153).
Part-time: 78 employees (81), of whom 59 percent (56) were men and 41 percent (44) women

Sickness absence 2020



| Employees | 2020 | 2019 | 2018 |
|--|-------|-------|-------|
| No. of employees | 3,141 | 3,150 | 3,141 |
| – men | 2,427 | 2,426 | 2,437 |
| – women | 714 | 724 | 704 |
| Women, % | 23 | 23 | 22 |
| Women managers, % | 22 | 20 | 20 |
| Employee turnover ¹⁾ , % | 5.3 | 9.6 | 11.5 |
| Wages, salaries and social security contributions, SEK million | 2,276 | 2,326 | 2,362 |
| Occupational health and safety, number | | | |
| Incidents, including risk observations | 4,768 | 5,490 | 6,241 |
| Occupational injuries without absence | 346 | 410 | 510 |
| Lost-time-accidents (LTA) ²⁾ | 47 | 62 | 77 |
| Fatal accidents | 0 | 0 | 0 |
| Lost days per injury | 6.7 | 6.0 | 8.0 |
| Hours worked (million) | 5.0 | 5.0 | 5.2 |
| Lost-time-accident rate (LTAR) ³⁾ | 9 | 12 | 15 |
| Sickness absence⁴⁾, % | | | |
| Men | 3.4 | 3.0 | 3.3 |
| Women | 4.9 | 4.4 | 4.9 |
| Total | 3.8 | 3.3 | 3.6 |
| Level of education, % | | | |
| Basic education | 5.9 | 6.6 | 7.6 |
| – men | 5.2 | 5.8 | 6.7 |
| – women | 0.7 | 0.8 | 0.9 |
| Upper-secondary school | 61.0 | 58.9 | 60.0 |
| – men | 49.1 | 47.3 | 48.4 |
| – women | 11.9 | 11.6 | 11.6 |
| University studies, less than 120 credits | 14.2 | 14.8 | 14.8 |
| – men | 11.2 | 11.7 | 11.8 |
| – women | 3.0 | 3.1 | 3.0 |
| University studies, more than 120 credits | 18.1 | 18.9 | 16.7 |
| – men | 11.3 | 11.6 | 10.0 |
| – women | 6.8 | 7.3 | 6.7 |
| Postgraduates/Licentiate | 0.8 | 0.8 | 0.9 |
| – men | 0.5 | 0.5 | 0.6 |
| – women | 0.3 | 0.3 | 0.3 |

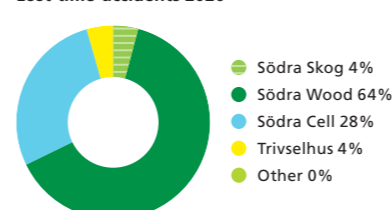
¹⁾ Employee turnover is estimated as new employees plus departures, divided by the average number of employees.

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

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

⁴⁾ Including occupational diseases.

Lost-time-accidents 2020



Age distribution, %

| Age category | 2020 | | | 2019 | | | 2018 | | |
|--------------------|-------|----------|-----------|-------|----------|-----------|-------|----------|-----------|
| | Total | Managers | Employees | Total | Managers | Employees | Total | Managers | Employees |
| <30 years | 14 | 0 | 14 | 15 | 0 | 15 | 16 | 0 | 16 |
| – men | 10 | 0 | 10 | 10 | 0 | 10 | 11 | 0 | 11 |
| – women | 4 | 0 | 4 | 5 | 0 | 5 | 5 | 0 | 5 |
| 30–50 years | 51 | 6 | 45 | 51 | 6 | 45 | 50 | 6 | 44 |
| – men | 38 | 4 | 34 | 39 | 4 | 35 | 38 | 4 | 34 |
| – women | 13 | 2 | 11 | 12 | 2 | 10 | 12 | 2 | 10 |
| >50 years | 35 | 4 | 31 | 34 | 4 | 30 | 34 | 4 | 30 |
| – men | 29 | 4 | 25 | 28 | 4 | 24 | 29 | 4 | 25 |
| – women | 6 | 0 | 6 | 6 | 0 | 6 | 5 | 0 | 5 |
| Average age, years | 44 | — | — | 44 | — | — | 44 | — | — |

Responsible business

FOLLOW-UP OF THE SUPPLIER CODE – TARGET AND OUTCOME

The target is that by 2020, the Supplier Code will be included in all of Södra's supplier agreements, that all suppliers holding supplier contracts with Södra will be risk-assessed, and that prioritised suppliers will be evaluated on the basis of the requirements in Södra's Supplier Code.

In 2020, the proportion of suppliers who had signed the Södra Supplier Code was 77 percent (79), excluding harvesting assignments and wood deliveries, which are not covered by the Code. The proportion of Södra's purchasing value for which suppliers had signed the Supplier Code was 97 percent (97). The proportion of Södra's purchasing value for which suppliers had undergone a risk assessment was 95 percent (95). The risk assessment resulted in a prioritised classification for 67 suppliers (67). The proportion of high-risk suppliers who completed a self-assessment was 87 percent (63) and the proportion of prioritised suppliers who were monitored on site (a sustainability audit) was 10 percent (18). A total of 97 percent (81) of the prioritised suppliers were evaluated.

The implementation rate for including the Supplier Code in supplier agreements was somewhat lower in 2020 compared with previous years. However, the proportion of Södra's purchasing value for which the Supplier Code had been signed remained unchanged. In 2020, Södra's purchasing organisations were focused on improving their processes and their efforts to assess and evaluate suppliers continued. Risk assessments of sales agents were initiated in 2020. Due to the COVID-19 pandemic, there were fewer audits than planned during the year. Some audits were carried out as 'desktop' reviews with subsequent remote verification.

SUSTAINABILITY-RELATED CRITERIA FOR INVESTMENTS AND BUSINESS TRANSACTIONS

The target is that Södra will incorporate sustainability-related criteria into investment decisions and business transactions by 2020. A Group-wide effort to create criteria and processes has commenced and will continue during the coming strategy period.

| Purchasing and suppliers – purchasing category | No. of suppliers | Purchasing costs by geographic location for contracted party, % |
|---|----------------------|--|
| Wood raw material ¹⁾ (sawlogs, pulpwood and sawn timber) | 23,535 ²⁾ | 93% Sweden, 2% other Nordic countries, 4% rest of Europe and 1% rest of world |
| Forestry contracting services ³⁾ (independent contractors) | 446 | 92% Sweden and 8% rest of Europe |
| Transport services ⁴⁾ (transportation of wood raw material and products) | 133 | 76% Sweden, 1% other Nordic countries, 21% rest of Europe and 2% rest of world |
| Input products ⁴⁾ (process chemicals, fuels, energy and packaging materials) | 122 | 56% Sweden, 10% other Nordic countries and 34% rest of Europe |
| Indirect material and services ⁴⁾ (investments, operating materials, vehicles, IT, travel, office supplies and services) | 612 | 93% Sweden, 5% other Nordic countries and 2% rest of Europe |

¹⁾ Comprises suppliers with annual sales to Södra of more than SEK 100,000.
²⁾ Of which 11,939 harvesting assignments, 11,492 wood deliveries and 104 external suppliers. Harvesting assignments and wood deliveries are not covered by the Södra Supplier Code.
³⁾ Comprises suppliers with annual sales to Södra of more than SEK 100,000, for forestry contractors more than SEK 50,000.
⁴⁾ Comprises suppliers with annual sales to Södra of more than SEK 1,000,000 for Södra's central purchasing organisation, and more than SEK 50,000 for Trivselhus AB.

| Key indicators Supplier Code and supplier review | 2020 | 2019 | 2018 |
|--|------|------|------|
| Suppliers that have signed the Södra Supplier Code, % | 77 | 79 | 88 |
| Södra's purchasing value for which suppliers have signed the Supplier Code, % | 97 | 97 | 98 |
| Södra's purchasing value for which a risk assessment of suppliers was performed, % | 95 | 95 | 94 |
| No. of prioritised suppliers based on the risk assessment | 67 | 67 | — |
| – supplier self-assessments, % | 87 | 63 | — |
| – suppliers monitored on-site (sustainability audit), % | 10 | 18 | — |
| No. of reviewed suppliers | 157 | 171 | 147 |
| No. of non-compliant suppliers | 0 | 0 | 5 |
| – suppliers with agreement to address the cause of non-compliance, % | 0 | 0 | 60 |
| – suppliers where the review led to termination of their contract, % | 0 | 0 | 0 |

Comments

- » Södra's largest purchasing categories are wood raw material, contracting and transport services, input products and indirect material and services.
- » Södra's contracted suppliers are pre-dominantly based in Sweden and the EU, which simplifies evaluation and control.
- » In 2020, the biggest changes in the supply chain were a lower proportion of imported wood raw material and a higher proportion of indirect material and services purchased from other Nordic countries and Europe.

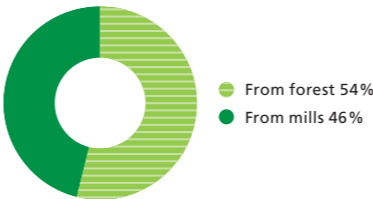
Comments

- » Supplier assessment results have not been included for 2018 due to a change in the reporting policy.
- » The target for risk assessment and supplier review ended in 2020, so the target follow-up for 2020 is based on the 2019 risk assessment.
- » In 2020, the review process was mainly focused on securing requirements specification for supply chain control, workplace safety and working conditions.
- » In total, somewhat fewer suppliers were reviewed in 2020 compared with 2019 and no cases of non-compliance were identified in relation to environmental or social conditions.

| Products and services from Södra | | 2020 | 2019 | 2018 |
|---|---------------|-------|-------|-------|
| Products from Södra¹⁾ | | | | |
| Seedlings (own production) | million | 26 | 25 | 25 |
| Wood raw material | million m³sub | 1.9 | 1.8 | 1.5 |
| Biofuel (from forests and mills) | GWh | 3,551 | 4,060 | 3,874 |
| Peat for material use ²⁾ | 1,000 m³l | 204 | 171 | 250 |
| Sawn timber ³⁾ | 1,000 m³ | 1,792 | 1,766 | 1,715 |
| Interior wood products | 1,000 m³ | — | — | 32 |
| By-products of wood for material use | 1,000 tonnes | 409 | 464 | 517 |
| Cellulose pulp | 1,000 tonnes | 1,864 | 1,869 | 1,786 |
| Tall oil | 1,000 tonnes | 36 | 34 | 39 |
| Turpentine | 1,000 tonnes | 1.7 | 1.6 | 1.4 |
| Biomethanol | 1,000 tonnes | 0.8 | — | — |
| Lime sludge | 1,000 tonnes | 66 | 56 | 18 |
| Houses | no. | 260 | 285 | 441 |
| Forestry services from Södra | | | | |
| Harvesting ⁴⁾ | million m³sub | 8.9 | 8.7 | 8.1 |
| Forest management ⁵⁾ | 1,000 ha | 124 | 127 | 106 |

¹⁾ Deliveries of products relates to external deliveries.
²⁾ Peat for material use relates to peat litter, horticultural peat and block peat.
³⁾ Sawn timber is presented excluding subcontracting.
⁴⁾ Harvest volume relates to harvested roundwood from the field organisation in Sweden and the Baltics.
⁵⁾ Forest management relates to forestry operations, excluding regeneration harvesting.

Biofuel 2020



Biofuels are used in a variety of ways in Södra's value chain. Forest residues (branches and treetops) are a by-product of harvesting and used as fuel in thermal power stations. Bark from the pulp mills is used for internal energy generation and sold on the market as biofuel. The sawmills contribute with bark, wood chips and shavings. The diagram shows the division between biofuels from forests and biofuels from industry, a total of about 3,600 GWh.

OTHER PRODUCT LABELLING

- » All grades of paper pulp produced by Södra Cell are approved for the production of eco-labelled paper products under the Nordic Swan and EU Ecolabels, and hold Blue Label certification (an international allergy label). All paper pulp is also approved for the production of paper and cardboard that may come into contact with food, according to German and US food standards. Every year, as part of its customer offering, Södra Cell communicates the origins of its wood raw material as well as environmental data, including carbon dioxide emissions, at product level.

Sustainable innovation

PRODUCTS WITH BETTER SUSTAINABILITY PERFORMANCE – TARGET AND OUTCOME

Södra's sustainable innovation target is that the company will have commercialised at least three products with a better sustainability performance than today's options by 2020. In 2020, five new products with a better sustainability performance than today's options were commercialised: fossil-free biomethanol, OnceMore®dissolving pulp, paper pulp for wet-press moulded packaging, the 'Min skogsgård' app

Comments

- » Biofuel deliveries were lower in 2020 compared with previous years due to lower demand resulting from mild weather conditions.
- » Biomethanol was a new product in 2020 from the pulp mill at Mönsterås.
- » Lime sludge deliveries increased compared with previous years due to disruptions in one of the pulp mills' lime kilns.

| Certified products according to FSC® or PEFC | 2020 | 2019 | 2018 |
|--|------|------|------|
| Products with either FSC® or PEFC certification, % | 64 | 62 | 70 |

The percentage of Södra's revenue from external sales of physical products derived from sales of products with either FSC® or PEFC certification. The percentage of certified products was higher in 2020 compared with 2019 due to a higher proportion of sales in Europe where demand for certified products is high.

EXTERNAL EVALUATIONS

French company EcoVadis, which conducts Corporate Social Responsibility (CSR) assessments of companies, awarded Södra a top rating in the packaging, pulp and paper sector. In 2020, Södra's score was 73 of a possible 100, and the company received a platinum medal following two consecutive years with a gold medal. The average score in the assessments is 46.

- » Södra is certified according to the Recycled Claim Standard (RCS) and can produce and sell certified OnceMore®dissolving pulp. The certification is used to communicate that the product contains at least 5 percent recycled material. Södra is certified by Control Union, CU 1059293.
- » There has been an Environmental Product Declaration (EPD) for Södra's CLT since 2020. The EPD communicates the environmental performance or impact of a product or material over its lifetime.
- » All house models produced by Trivselhus under the Movehome brand carry the Nordic Swan Ecolabel.

GRI content Index

General disclosures

| GRI Standard | Disclosure | Description | Comments | Reference |
|-----------------------------------|------------|--|--|------------------|
| Organisational profile | | | | |
| GRI 102: General disclosures 2016 | 102-1 | Name of the organisation | | Inside cover |
| | 102-2 | Activities, brands, products, and services | | 1, 3 |
| | 102-3 | Location of headquarters | | 155 |
| | 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. | 68, 70 |
| | 102-5 | Ownership and legal form | | 142–143 |
| | 102-6 | Markets served | | 33, 68 |
| | 102-7 | Scale of the organisation | | 3, 47 |
| | 102-8 | Information on employees and other workers | Temporary employees are used during peak periods. Contractors are used extensively for forestry operations and large-scale industrial projects, such as investments. Read more about suppliers and contractors on page 130. Seasonal variations in number of employees are just over 1 percent of the total number of employees. | 70, 119, 128–129 |
| | 102-9 | Supply chain | | 130 |
| | 102-10 | Significant changes to the organisation and its supply chain | | 104, 130 |
| | 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. | 53 |
| | 102-12 | External initiatives | Södra signed the UN Global Compact In 2020. Södra intends to endorse other external charters, principles and initiatives but has not signed them. | 114 |
| | 102-13 | Memberships of associations | | 112 |
| Strategy | | | | |
| GRI 102: General disclosures 2016 | 102-14 | Statement from senior decision-maker | | 6–7 |
| Ethics and integrity | | | | |
| GRI 102: General disclosures 2016 | 102-16 | Values, principles, standards, and norms of behaviour | | 36, 38, 114–118 |
| Governance | | | | |
| GRI 102: General disclosures 2016 | 102-18 | Governance structure | | 114–118, 142–147 |
| Stakeholder engagement | | | | |
| GRI 102: General disclosures 2016 | 102-40 | List of stakeholder groups | | 112 |
| | 102-41 | Collective bargaining agreements | 96.3% (96.8) of Södra's employees are covered by collective bargaining agreements. For Södra's employees in Sweden, the rate was 100% (100). | |
| | 102-42 | Identifying and selecting stakeholders | | 112 |
| | 102-43 | Approach to stakeholder engagement | | 111–112 |
| | 102-44 | Key topics and concerns raised | | 112 |
| Reporting practice | | | | |
| GRI 102: General disclosures 2016 | 102-45 | Entities included in the consolidated financial statements | | 100, 110 |
| | 102-46 | Defining report content and topic boundaries | | 110–111 |
| | 102-47 | List of material topics | | 110–111 |
| | 102-48 | Restatements of information | | 103–104 |
| | 102-49 | Changes in reporting | | 103–104 |
| | 102-50 | Reporting period | | 110 |
| | 102-51 | Date of most recent report | | 110 |
| | 102-52 | Reporting cycle | | 110 |
| | 102-53 | Contact point for questions regarding the report | | 155 |
| | 102-54 | Claims of reporting in accordance with the GRI Standards | | 110 |
| | 102-55 | GRI content Index | | 132–134 |
| | 102-56 | External assurance | | 110, 135 |

List of material 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 | 8–9, 52–53, 91–94, 111, 114–115, 118, 133, 142–147 | |
| | GRI 103-2 | The management approach and its components | | | | |
| | GRI 103-3 | Evaluation of the management approach | | | | |
| | GRI 201-2 | Financial implications and other risks and opportunities due to climate change | Omission of the quantification of expected future revenue and costs arising from Södra's climate-change risks and opportunities, no data is available. In the Group strategy until 2025, Södra's climate-change risks and opportunities will be a top priority, entailing intensified efforts to increase positive impacts and minimise negative impacts, to collect and quantify data and as well as presentation and reporting. | | 20–21, 52–53, 89, 91–94, 115 | |
| GRI 205: Anti-corruption 2016 | GRI 103-1 | Explanation of the material topic and its boundary | | Within Södra | 38, 53, 111, 114, 116–118, 133 | |
| | GRI 103-2 | The management approach and its components | | Outside Södra for Södra's suppliers and customers | 116–117, 130 | |
| | GRI 103-3 | Evaluation of the management approach | | Boundary related to Board and management to Board of Directors and Group Senior Management | | |
| | GRI 205-2 | Communication and training about anti-corruption policies and procedures | Omission of number of Board members who completed web training, no data is available. Omission of division per employee category, no data is available. Omission of division per region, immaterial. Code of Conduct and Supplier Code include anti-corruption. Employees and business partners are informed about the Codes via the intranet and sodra.com, where any major changes to the Codes are also communicated. | Business partners are restricted to suppliers | | |
| Environmental topics | | | | | | |
| GRI 301: Materials 2016 | GRI 103-1 | Explanation of the material topic and its boundary | | Within Södra | 34, 42–43, 52–53, 111, 114–115, 118, 133 | |
| | 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 | | | 126 | |
| GRI 302: Energy 2016 | GRI 103-1 | Explanation of the material topic and its boundary | | Within Södra Outside Södra for external harvesting contractors and transportation | 19–21, 34–35, 42–43, 53, 111, 114–115, 118, 133 | |
| | GRI 103-2 | The management approach and its components | | | 119, 124–125 | |
| | GRI 103-3 | Evaluation of the management approach | | | | |
| | GRI 302-1 | Energy consumption within the organisation | | | | |
| | GRI 302-2 | Energy consumption outside of the organisation | | | | |
| | GRI 302-3 | Energy intensity | Energy intensity, electricity and heating, is restricted to within Södra for pulp and sawn timber. | | | 18, 119, 124 |
| GRI 304: Biodiversity 2016 | GRI 103-1 | Explanation of the material topic and its boundary | | Within Södra Outside Södra for Södra members' and suppliers of wood raw material | 18, 26–27, 52–53, 111, 114–115, 118, 127, 133 | |
| | GRI 103-2 | The management approach and its components | | | 119, 123, 127 | |
| | GRI 103-3 | Evaluation of the management approach | | | | |
| | GRI 304-3 | Habitats protected or restored | | | | |
| | Own | Considerations in regeneration harvesting | | | | 18, 113, 119, 122 |
| | Own | Nature-conservation measures | | | | 18, 113, 119, 122 |
| GRI 305: Emissions 2016 | GRI 103-1 | Explanation of the material topic and its boundary | | Within Södra Outside Södra for external harvesting contractors and transportation | 18, 20–21, 35, 53, 111, 114–115, 118, 133 | |
| | GRI 103-2 | The management approach and its components | | | 18, 119–121 | |
| | GRI 103-3 | Evaluation of the management approach | | | | |
| | GRI 305-1 | Direct (Scope 1) GHG emissions | | | | |
| | GRI 305-3 | Other indirect (Scope 3) GHG emissions | | | | |
| | GRI 305-7 | NO _x , SO _x and other significant air emissions | Nitrogen oxides, sulphur, dust and volatile organic compounds are reported. | | | 119, 126 |
| GRI 306: Effluents and waste 2016 | GRI 103-1 | Explanation of the material topic and its boundary | | Within Södra | 35, 53, 111, 115, 118, 133 | |
| | GRI 103-2 | The management approach and its components | | | 35, 119, 126 | |
| | GRI 103-3 | Evaluation of the management approach | | | | |
| | GRI 306-1 | Effluents | | | | |
| | GRI 306-2 | Waste by type and disposal method | Omission of reporting of waste volumes stored on site as this is not monitored at Group level, no data is available. | | | 119, 127 |
| 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 | 19, 38, 52, 111, 116–118, 133 | |
| | GRI 103-2 | The management approach and its components | | | 116–117, 130 | |
| | GRI 103-3 | Evaluation of the management approach | | | | |
| | GRI 308-2 | Negative environmental impacts in the supply chain and actions taken | | | | |

| GRI Standard | Disclosure | Description | Comments | Boundary | Reference |
|---|------------|---|---|---|--|
| Social topics | | | | | |
| GRI 403: Occupational health and safety 2018 | GRI 103-1 | Explanation of the material topic and its boundary | | Within Södra Outside Södra for Södra's suppliers and customers | 19, 36–37, 53, 111, 115–116, 118, 134 |
| | GRI 103-2 | The management approach and its components | | | |
| | GRI 103-3 | Evaluation of the management approach | | | |
| | GRI 403-1 | Occupational health and safety management system | | | 115–116 |
| | GRI 403-2 | Hazard identification, risk assessment and incident investigation | | | 116, 128 |
| | GRI 403-3 | Occupational health services | Södra's employees have access to occupational health services. | | 116 |
| | GRI 403-4 | Worker participation, consultation, and communication on occupational health and safety | | | 116 |
| | GRI 403-5 | Worker training on occupational health and safety | | | 116–117 |
| | GRI 403-6 | Promotion of worker health | Södra's employees have access to health promotion activities. | | 116 |
| | GRI 403-7 | Prevention and mitigation of occupational health and safety impacts directly linked by business relationships | Restricted to impacts linked to Södra's suppliers and Södra's products and services. | | 38, 53, 116–117, 130–131 |
| | GRI 403-9 | Work-related injuries | Only Södra's employees are included in the presentation of work-related injuries, not subcontracted employees or contractors. Omission due to non applicability. Omission of number of work-related injuries when travelling to or from work, not applicable. | | 119, 128 |
| GRI 405: Diversity and equal opportunity 2016 | GRI 103-1 | Explanation of the material topic and its boundary | | Within Södra | 19, 36, 53, 111, 116, 118, 134 |
| | 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 | | | 70, 119, 128–129 |
| GRI 406: Non-discrimination 2016 | GRI 103-1 | Explanation of the material topic and its boundary | | Within Södra | 36, 53, 111, 115–116, 118, 134 |
| | GRI 103-2 | The management approach and its components | | | |
| | GRI 103-3 | Evaluation of the management approach | | | |
| | Own | Training in non-discrimination policies | | | 113, 116 |
| GRI 414: Supplier social assessment 2016 | GRI 103-1 | Explanation of the material topic and its boundary | | Within Södra Outside Södra for Södra's suppliers | 19, 38, 52, 111, 116–118, 133 |
| | 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 | | | 116–117, 130 |
| GRI 417: Marketing and labelling 2016 | GRI 103-1 | Explanation of the material topic and its boundary | | Within Södra Outside Södra for Södra members and customers | 27, 38–39, 52–53, 111, 114, 117–118, 134 |
| | GRI 103-2 | The management approach and its components | | | |
| | GRI 103-3 | Evaluation of the management approach | | | |
| | Own | Forest certification and certified products | | | 113, 122, 131 |
| Own topics | | | | | |
| Forest growth | GRI 103-1 | Explanation of the material topic and its boundary | | Within Södra Outside Södra for Södra's members | 18, 20, 52, 111, 114, 118, 120, 134 |
| | GRI 103-2 | The management approach and its components | | | |
| | GRI 103-3 | Evaluation of the management approach | | | |
| | Own | Forest growth, Annual rate of forest growth on Södra members' estates | | | 18, 113, 119–120 |
| Sustainable harvest rate | GRI 103-1 | Explanation of the material topic and its boundary | | Within Södra Outside Södra for Södra's members | 18, 26, 53, 111, 114–115, 118, 122, 134 |
| | GRI 103-2 | The management approach and its components | | | |
| | GRI 103-3 | Evaluation of the management approach | | | |
| | Own | Harvest rate on land owned by Södra members | | | 18, 113, 119, 122 |
| New products and services | GRI 103-1 | Explanation of the material topic and its boundary | | Within Södra | 19, 42, 52, 111, 117–118, 131, 134 |
| | GRI 103-2 | The management approach and its components | | | |
| | GRI 103-3 | Evaluation of the management approach | | | |
| | Own | New sustainable products | | | 19, 113, 119, 131 |
| Attractive employer | GRI 103-1 | Explanation of the material topic and its boundary | | Within Södra | 19, 37, 53, 111, 115–116, 118, 134 |
| | GRI 103-2 | The management approach and its components | | | |
| | GRI 103-3 | Evaluation of the management approach | | | |
| | Own | Employees who would recommend Södra | | | 19, 113, 119, 128 |

Assurance Report

Auditor's Limited Assurance Report on Södra Skogsägarna ekonomisk förening's Sustainability Report. This is a translation of the original report in Swedish.

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

Introduction

We have been engaged by the Board of Directors of Södra Skogs-ägarna ekonomisk förening to undertake a limited assurance of Södra Skogsägarna ekonomisk förening's Sustainability Report for the year 2020. The company 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 Group Management are responsible for the preparation of the Sustainability Report, including the statutory sustainability report, in accordance with the applicable criteria and the Annual Accounts Act. The criteria are described on page 110–111 and 113 of the Sustainability Report, and consists of the parts of the GRI (Global Reporting Initiative) Sustainability Reporting Standards which 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 Sustain-ability Report based on the limited assurance procedures we have performed. Our assignment is limited to the historical information that is presented and thus does not include future-oriented information.

We conducted limited assurance procedures in accordance with ISAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information issued by IAASB.

A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other limited assurance procedures. 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 Interna-tional Standards on Auditing and generally accepted auditing standards in Sweden.

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 Skogs-ägarna 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 would become aware of all significant matters that could have been identified if an audit was performed. The conclusion based on a limited assurance engagement, therefore, does not provide the same level of assurance as a 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 suitable for the preparation of the Sustainability Report.

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

Conclusion

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

Växjö, 17 February 2021



Martin Johansson
Authorised Public Accountant

Madeleine Edberg
Authorised Public Accountant

Åsa Ekberg
Special member of FAR

Sustainability Report in accordance with the Swedish Annual Accounts Act

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

The statutory sustainability report consists of the following pages and areas:

- » Business model: pages 12–13
- » Risks and risk management: pages 52–53
- » Sustainability performance: pages 20–21, 26–27, 34–39 and 42–43
 - Policies and governance: pages 114–118
 - Results: pages 18–19, 120–131 and the table below
- » Other sustainability disclosures (including materiality assessment): pages 110–113 and 119

For more information about where the various sustainability-related data can be found, refer to the GRI Content Index on pages 132–134. The statutory sustainability report also includes Trivselhus AB.

| Sustainability topics | Reference |
|----------------------------------|---|
| Environment | Climate-positive operations (pages 20–21), Sustainable forestry (pages 26–27), Resource efficiency (pages 34–35), Responsible business (pages 38–39), Sustainability data (pages 120–127 and 131) |
| Social conditions and employment | Responsible employer and committed employees (pages 36–37), Responsible business (page 38), Sustainability data (pages 128–130) |
| Human rights | The reporting on human rights relates to Södra’s operations and supply chain on the basis of work with the Code of Conduct, Supplier Code and targets. Responsible employer and committed employees (pages 36–37), Responsible business (page 38), Governance and sustainability organisation (pages 116–117), Sustainability data (page 130) |
| Anti-corruption | Responsible business (page 38), Governance and sustainability organisation (pages 116–117), Sustainability data (page 130) |

Auditor’s report on the statutory sustainability report

To the Annual General Meeting of Södra Skogsägarna ekonomisk förening, Corp. ID. No. 729500-3789

Opinion
A statutory sustainability report has been prepared.

Engagement and responsibility

It is the board of directors who is responsible for the statutory sustainability report for the year 2020 and that it has been prepared in accordance with the Annual Accounts Act.

Växjö, 17 February 2021

The 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.

Martin Johansson
Authorised Public Accountant

Madeleine Edberg
Authorised Public Accountant

Carina Arvidsson Löw
Member Representative Auditor

Dick Stagmo
Member Representative Auditor

Corporate governance

Good conditions for profitable and sustainable forestry

Södra shall secure markets for its members' forest-based products at market prices and promote high forest production combined with nature conservation and cultural considerations.

36

Due to the COVID-19 pandemic, the Annual General Meeting was held remotely and addressed 36 motions that were discussed at virtual motion meetings.

36

Södra's members are organised into 36 forestry districts.

2.7 million

Södra's members combined own 2.7 million hectares of forest.

Södra stands firm on solid ground, even in challenging times

When times are tough, Södra shows its united strength. We faced many challenges in 2020 – a weak economy, a global pandemic and the widespread spruce bark beetle outbreak – and met them with flexibility and strength. At the same time, we continued to invest in a sustainable future.



Together, we are robust and flexible

2020 was a unique year in many ways. I usually say that we are robust and flexible. That is an unbeatable combination and shows how we can work together to overcome challenges by both stepping up and stepping back. The COVID-19 pandemic has had the greatest effect on all of us this year. It has forced people all over the world to change the way we meet and behave – at home, at work and every other situation.

Södra's united strength has been evident in many different ways, in our day-to-day activities as well as our long-term approach. Let me give you some examples:

- » We quickly adapted the way we work and meet to the pandemic's restrictions to prevent the virus from spreading.
- » We are developing more and more digital tools for our members and employees. We even saw the opportunities presented by digitisation when the AGM was held in June.
- » We are streamlining our manufacturing processes and exploiting residue flows to generate more benefits from every tree, including bioproducts, green electricity and district heating.
- » We are investing in research, developing new and innovative products and increasing our wood processing. That means we are driving the transition towards a more sustainable bioeconomy, taking climate action and building a forward-looking product portfolio – fully in line with our new Group strategy.

Record high production, but weak pulp prices

Thanks to the fantastic efforts of our employees, members and contractors, we handled the spruce bark beetle outbreak, wildlife damage and a recession in addition to the pandemic. The unique 1600 range prevented major economic losses from damaged wood for our members. We adapted and met market demand with record-high production of pulp and sawn timber. With the year's conditions and low pulp prices, we delivered operating profit of SEK 891 million. The Board's proposed profit distribution of SEK 598 million reflects the result and secures our financial strength.

Sustainable investments

Despite the many challenges of 2020, I would like to mention two occasions that brightened my autumn: In October, we inaugurated the world's first biomethanol plant at Mönsterås in a virtual ceremony with international speakers from Brussels and Washington. Another significant investment is the fauna passage that was built



in the Emån River at the Karlshammar power plant. Green electricity is generated there, and a natural current has been created in part of the waterway so that fish and other species can swim both upstream and downstream. The restored aquatic environment promotes both environmental and production aspects and is helping to increase fish abundance.

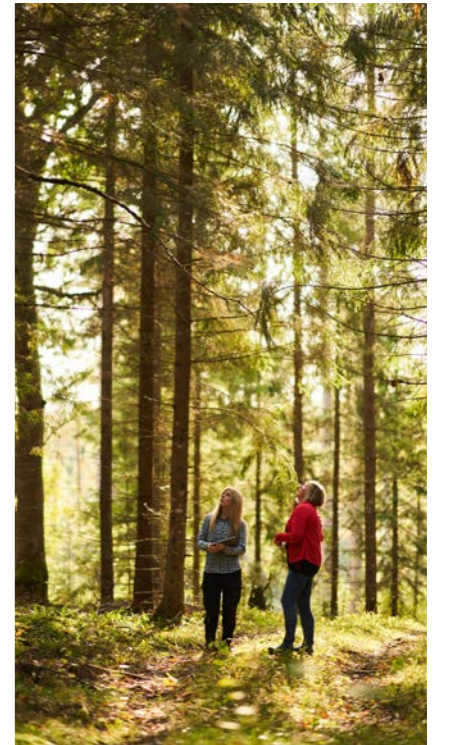
Since 2009, when Trivselhus became part of Södra as a pledge for wood sales after Cyclone Gudrun, we have been working hard to create a profitable operation, but have not succeeded. We are happy therefore that Trivselhus has now acquired a new owner, Svensk Husproduktion, with favourable conditions to develop the company in a positive direction.

The new sustainability targets will increase our focus on sustainability in 2021.

Forest Inquiry with the wrong focus

Active participation in the business policy dialogue is becoming increasingly important. We have strengthened our presence to ensure ownership and user rights for our members, who are protecting their forests and managing them for future generations. This is carried out through certification systems, green forest management plans and consideration for water, where ownership rights and freedom with responsibility are the cornerstones. Despite explicit formulation in the inquiry's terms of reference and the January Agreement, ownership rights were largely overlooked in the Forest Inquiry. In our view, ownership rights are central for private forest owners, for strengthening Sweden's leading position as a forest nation, and for the development of a circular bioeconomy.

We are also working to ensure a legally viable solution for the Species Protection Inquiry. There have been some unfortunate developments in recent years, in that forest owners who are combining their forest management with nature conservation are at risk of not being able to use their forests.



Thank you Peter Karlsson, and welcome Lotta Lyrå

Finally, I would like to thank Peter Karlsson who, after Lars Idermark left Södra after many successful years, meritoriously shouldered the role as Interim President during this challenging year. I would also like to welcome Lotta Lyrå as our new leader of Södra – forests are the future!

Lena Ek

Chair of the Board

Corporate Governance Report

Södra Skogsägarna ekonomisk förening (Södra) has its registered office in Växjö, Sweden. As of 2014, Södra Skogsägarna has applied a form of corporate governance in which the economic association is the Parent Company. 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. Where applicable, Södra works in accordance with the Swedish Corporate Governance Code.

The association’s purpose

The purpose of Södra Skogsägarna ekonomisk förening is to promote the financial interests of its members, which includes trading in, and processing of, the forest and forest-based products, mainly from the association’s members, and conducting industrial and/or financing activities. The association also aims to achieve a secure and appropriate market for its members’ forest-based products at market prices, to promote high-quality and valuable forest production combined with nature conservation, cultural and social considerations, to support and develop private forestry and to protect ownership rights.

Structure and organisation

Södra Skogsägarna ekonomisk förening is the Parent Company of a forest industry group that offers forestry services, sawn timber and timber building systems, as well as textile and paper pulp for the pulp market. The operations are 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 100.

Both owner and member

Södra owned by 53,000 forest owners in southern Sweden. The owners are members of the economic association, and contribute capital comprising at least one contribution for each hectare of forest land, although more than 200 contributions are voluntary. One contribution is equal to SEK 600.

A member must own, or lease, at least five hectares of forest land in the association’s membership area, which mainly comprises Götaland.

Every member is entitled to one vote, regardless of contributed capital or size of their forest estate. In 2020, the number of members grew by 729 (555) to 52,921 (52,192).

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 its 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. In 2020, Södra’s 36 forestry districts held their local annual meetings between 9 and 19 March. Meetings during the first week were conducted as planned, but all meetings in the second week were shortened due to the COVID-19 pandemic, and focused on statutory issues and local activities.

District councils

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. In addition, the district council appoints special representatives to deal with important issues, such as a nature

conservation representative, safety representative and wildlife representative. 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 2020. 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

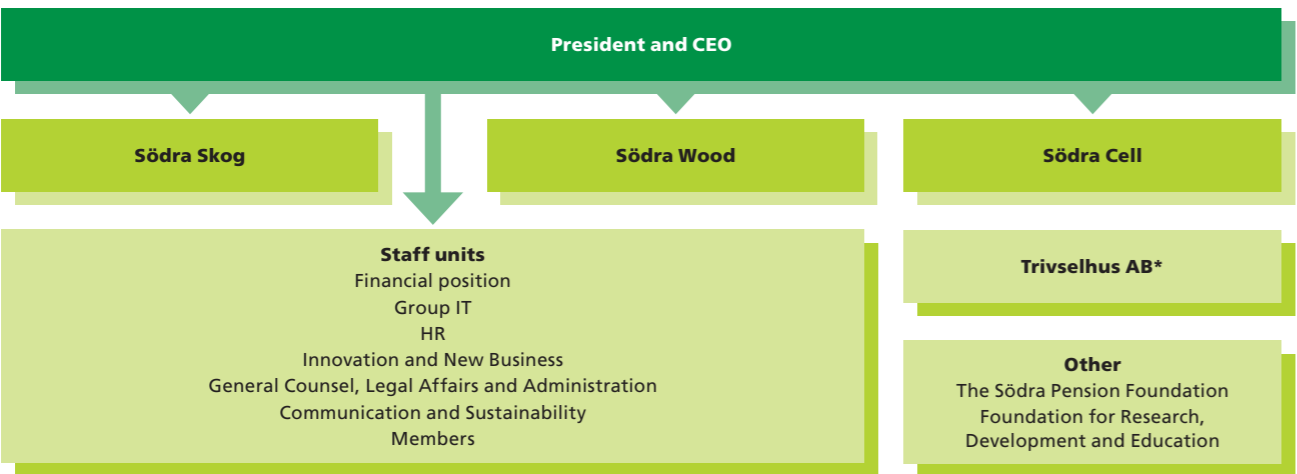
The Annual General Meeting (AGM) is Södra’s supreme decision-making body. The meeting consists of the 200 delegates elected at the local annual meetings, who each have one vote.

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.

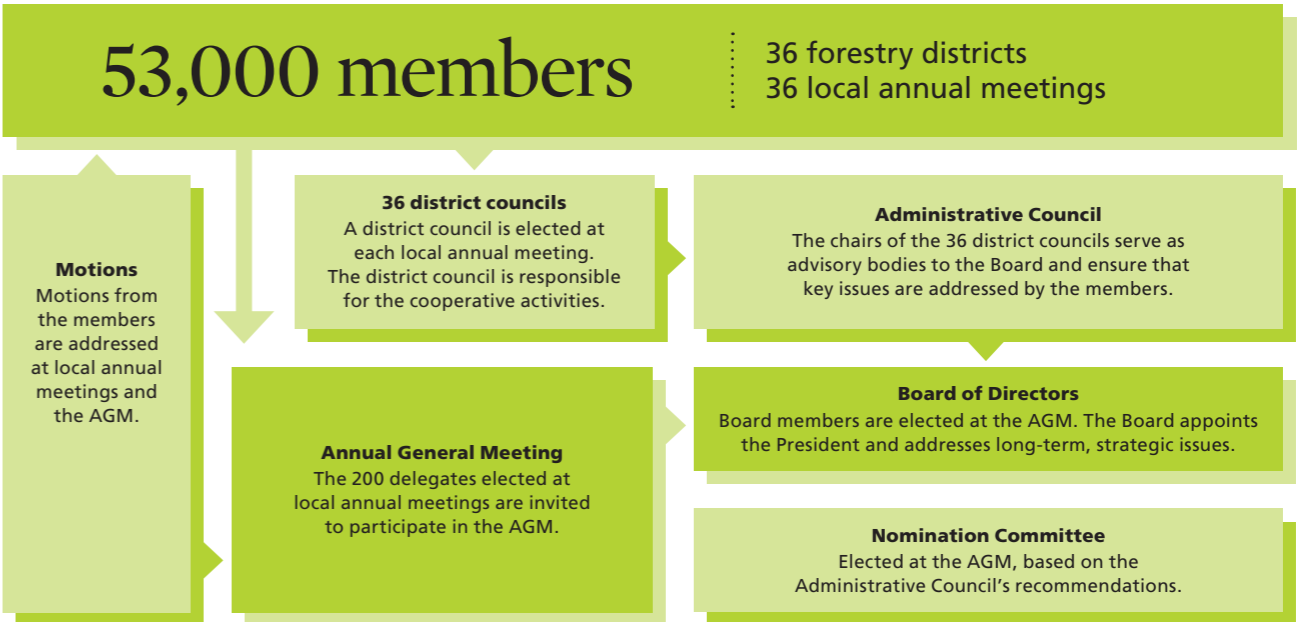
The AGM is held not later than six months after the end of the financial year. Written notice shall be sent to each delegate not less than four weeks, and not later than two weeks, before an Ordinary General Meeting, and not later than one week before an Extraordinary Meeting.

Due to the ongoing COVID-19-pandemic, the AGM was livestreamed on 3 June 2020 and streamed live from the head office in Växjö. In the weeks prior to the AGM, remote meetings were arranged where all AGM delegates could discuss the various motions. Questions were answered by the proposer, and a Board representative was able to present the Board’s view of the motion.

The Meeting resolved on the appropriation of profits and dealt with 36 motions, including issues related to pulpwood pricing, electric forest machines, representative roles in the district council and the Södra Model. In 2020, the Nomination Committee proposed that nine members be elected to the Board.



* In December, Södra divested Trivselhus to Svensk Husproduktion, with ownership to be transferred on 1 March 2021.





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. In 2020, the AGM was held remotely. It was streamed from Våxjö and delegates gathered in small local groups.

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-seven members and its composition should reflect the association’s membership and, if possible, the entire membership 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 2020 AGM, Magnus Johansson, Roger Johansson, Ann Marke, Lars Skogsberg and Ingemar Thorstensson were re-elected, and Mats Andersson was newly elected. At the Nomination Committee’s first meeting, Ingemar Thorstensson was elected Chairman.

Nomination process for the Board

Up to ten members are elected by the AGM, of whom at least two-thirds must be members of the association. All members may submit regular proposals to the Nomination Committee regarding candidates for the Board and auditors. Normally, the Administrative Council is encouraged to discuss matters in district councils in early autumn and submit proposals for both members and external candidates. The Nomination Committee interviews the candidates deemed suitably qualified for the diverse mix of skills sought after by the Board.

The Board’s composition

The Board has up to 13 ordinary members. Up to ten members are elected by the AGM and three are appointed by employees. The President is not a member of the Board.

The Board’s work

The Board manages Södra’s affairs in the Group based on the interests of the owners and is responsible for ensuring that the objectives, plans, strategies and policies meet the demands and expectations of the owners. The Board shall continuously monitor and evaluate the company’s performance and assess the Group’s financial situation. The Board shall ensure that fund management, internal control and risk management are adequate, and is responsible for ensuring that the organisation of the company is appropriate. In order to perform the duties, the Chairman of the Board is supported by a Presiding Committee. The Presiding Committee

consists of the Chairman, the Vice Chairman and the President.

In addition to the statutory meeting, the Board is to hold at least six meetings during the year. In 2020, the Board held 19 meetings, including one statutory meeting and 12 teleconference/Team meetings. At the statutory meeting after the AGM, the Vice Chairman of the Board is appointed.

The Board has detailed Rules of Procedure setting out the ordinary agenda items for Board meetings during the year. Recurring items include a follow-up and evaluation of the preceding year in February. 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 from within its ranks:
- » the Audit Committee
 - » the Finance Committee
 - » the Fees and Benefits Committee

The Audit Committee monitors and reviews the financial statements, risk management and the sustainability report. In 2020, the Committee consisted of Hans Berggren, Pål Börjesson and Karin Andersson, who was replaced by Magnus Hall on 3 June 2020. The Committee held six meetings.

The Finance Committee represents the Board in respect of financial risk exposure and financial policy compliance.

Board members as of the AGM in June 2020

| Board members | Function | Elected | Attendance | Fees paid (SEK 000s) | Contributed capital at 31 Dec 2020 | Committee |
|---------------------------------|-------------------------------|---------|------------|----------------------|------------------------------------|----------------------------|
| Lena Ek | Chairman | 2015 | 22/22 | 1,201 | 128,675 | Finance, Fees and Benefits |
| Paul Christensson | Vice Chairman | 2010 | 22/22 | 585 | 791,211 | |
| Kristina Alsér | Board member | 2020 | 9/22 | 185 | 80,000 | Fees and Benefits |
| Hans Berggren | Board member | 2015 | 22/22 | 307 | 358,856 | Audit |
| Pål Börjesson | Board member | 2017 | 21/22 | 351 | 1,229,380 | Audit |
| Magnus Hall | Board member | 2020 | 8/22 | 158 | 1,003,947 | Audit |
| Ulf Johansson | Board member | 2014 | 22/22 | 397 | 904,720 | Finance |
| Ylva op den Velde Hammargren | Board member | 2017 | 21/22 | 341 | — | Finance |
| Mats Sandgren | Board member | 2019 | 21/22 | 334 | — | Fees and Benefits |
| Employee representatives | | | | | | |
| Dan Andersson | Employee representative (PTK) | 2014 | 22/22 | | 1,040,163 | — |
| Pontus Johansson | Employee representative (LO) | 2015 | 21/22 | | — | — |
| Lars Nilsson | Employee representative (LO) | 2017 | 22/22 | | — | — |

December

- » Business situation
- » Determination of the business plan and financial plan 2021/2022
- » Determination of Investment plan with investment frameworks, Investment Policy, Financial Policy, Conduct and Supplier Code and Sustainability Policy
- » Review of Group strategy
- » Update on the spruce bark beetle in Europe
- » US report
- » Profit distribution
- » The Södra Model

October

- » Business situation
- » HR strategy
- » Quarterly report
- » Climate-positive investments
- » The Södra Model
- » Public Affairs

August

- » Business situation
- » Forest management certification, Södra
- » Purchasing activities
- » Brand strategy
- » Silva and SunPine

July

- » Quarterly report

February

- » Business situation
- » Annual Report, annual accounts and appropriation of profits
- » Group strategy

April

- » Business situation
- » Group strategy
- » CLT facility
- » Quarterly report

June

- » Statutory meeting (after the AGM)
- » Business situation
- » 2025+ strategy
- » Brand and sustainability strategy
- » Värö Expansion 2.0
- » Södra Cell Bioproducts
- » OnceMore® project
- » Unicon



In 2020, the Committee consisted of Lena Ek, Ulf Johansson, Ylva op den Velde Hammargren, the President and CFO. The Committee held eight meetings.

The Fees and Benefits Committee prepares matters related to remuneration principles and guidelines, 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 2020, the Committee consisted of Lena Ek, Mats Sandgren and Anders Roman, who was replaced by Karin Andersson on 18 February 2020, who was later replaced by Kristina Alsér on 3 June 2020. The Committee held seven 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 2020 AGM, Martin Johansson and Madeleine Edberg from PricewaterhouseCoopers AB were elected auditors, and Carina Arvidsson Löw and Dick Stagmo member representative auditors.

Internal control and risk management system

The Board and the President's responsibility for internal control is regulated by the Swedish Co-operative Societies' Act. Internal control is a process that provides the Board, management and other personnel with reasonable assurance regarding the achievement of objectives in effectiveness and efficiency of operations, the reliability of financial reporting, and compliance with applicable laws and regulation.

Södra's internal control is limited to financial reporting processes. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of external financial reporting in the form of interim

reports, year-end reports and annual 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.

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 2020 Corporate Governance Report on pages 142–146.

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.

Focus and scope of the audit

Our examination was conducted in accordance with FAR's auditing standard RevU 16, The auditor's examination of the corporate governance statement. This means that our examination of the Corporate Governance Report has another focus and is substantially less in scope compared with the focus and

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 2020.

Växjö, 17 February 2021



Martin Johansson
Authorised Public Accountant

Madeleine Edberg
Authorised Public Accountant

Important regulatory frameworks

External:

- » Co-operative Societies' Act
- » Companies Act
- » Annual Accounts Act
- » Swedish Corporate Governance 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

Board of Directors



Lena Ek

Chair. Born 1958.

Board member and Chair since 2015. Term of office expires in 2021. Master of Laws with a specialisation in international law. Honorary doctorate at the Faculty of Engineering at Lund University, Board member of Läns-försäkringar Östergötland, Board member the Royal Swedish Academy of Engineering Sciences, Board member of Royal Swedish Academy of Agriculture and Forestry. Chair of the European Forest Technology Platform, Board member of PEFC International, Chair of Mistra Geopolitics.

Previous experience: Includes Deputy Mayor, Chair of several national research projects, Board member of the Royal Institute of Technology, Board member of the University of Gothenburg, Government Offices coordinator of European Spallation Source (ESS) in Lund, Board member of the Riksdag's Committee on Finance, Board member of the European Parliament Committee on Industry, Research and Energy, Swedish Minister for the Environment. Board member of Södra 2000–2010.

Forest holding¹⁾: 18 hectares of productive forest land. Total contributed capital in Södra: SEK 128,675.

Paul Christensson

Vice Chairman. Born 1959.

Board member since 2010. Term of office expires in 2021. Vice Chair of LRF's Executive Committee, Chair the Federation of Swedish Farmers (LRF), Chairman of Agroväst.

Forest holding¹⁾: 230 hectares of productive forest land. Total contributed capital in Södra: SEK 791,211.

Kristina Alsér

Born 1956.

Board member since 2020. Term of office expires in 2021. Partner and Chair of Mercatus. Chair of the Swedish Agency for Economic and Regional Growth. Board member of the Kamprad Family Foundation for Entrepreneurship, Research & Charity. Head of Linnaeus University's external councils for donations and greater collaboration between academia and the business sector.

Forest holding: 31 hectares of productive forest land. Total contributed capital in Södra: SEK 80,000.

Pål Börjesson

Born 1962.

Board member since 2017. Term of office expires in 2021. Agronomist and professor of environmental and energy systems at the Faculty of Engineering at Lund University.

Forest holding: 126 hectares of productive forest land. Total contributed capital in Södra: SEK 1,229,380.

Mats Sandgren

Born 1955.

Board member since 2019. Term of office expires in 2021. Master of Science in Forestry. Chairman of Biometria and the Swedish Federation of Green Employers. Board member of Linnaeus University and the Confederation of Swedish Enterprise.

Forest holding: 375 hectares of productive forest land. Total contributed capital in Södra: 0.

Ylva op den Velde Hammargren

Born 1966.

Board member since 2017. Term of office expires in 2021. Mining engineer. Manager Product Line Management Engine, Vehicle Service Market at AB SKF. Board member of Nederman.

Forest holding: 0 ha. Total contributed capital in Södra: 0.

Hans Berggren

Born 1956.

Board member since 2015. Term of office expires in 2021. Agronomist. CEO and President of Sveriges Stärkelse-producenter economic association. Chairman of SolEdits AB, Board member of SLU Holding.

Forest holding¹⁾: 730 hectares of productive forest land. Total contributed capital in Södra: SEK 358,856.

Dan Andersson

Born 1961.

Alternate 2014, ordinary Board member 2015. Employee representative for the Swedish Federation of Salaried Employees in Industry and Services (PTK). Chairman of SSF-Ledarna at Södra Skog. Member of Södra's Group Council.

Forest holding: 135 hectares of productive forest land. Total contributed capital in Södra: SEK 1,040,163.

Ulf Johansson

Born 1971.

Board member since 2014. Term of office expires in 2021. Chairman of Falkenbergs Sparbank. Board member of Harplinge inköpsförening, LRF Forestry and the Safe Forest project.

Forest holding: 107 hectares of productive forest land. Total contributed capital in Södra: SEK 904,720.

Lars Nilsson

Born 1961.

Alternate 2017, ordinary Board member 2018. Employee representative of the Swedish Trade Union Confederation (LO). Chairman of the Swedish Pulp and Paper Workers' Union at Södra Cell Mönsterås. Member of Södra's Group Council.

Forest holding: 0 ha. Total contributed capital in Södra: 0.

Magnus Hall

Born 1959.

Board member since 2020. Term of office expires in 2021. Former CEO of Vattenfall. Chairman of the NTM media group and Göta Kanalbolaget.

Forest holding: 65.5 hectares of productive forest land. Total contributed capital in Södra: SEK 1,003,947.

Pontus Johansson

Born 1980.

Alternate 2015, ordinary Board member 2017. Employee representative for the Swedish Trade Union Confederation (LO). Chairman of the GS club at Södra Wood in Mönsterås. Member of Södra's Group Council.

Forest holding: 0 ha. Total contributed capital in Södra: 0.

Changes during the year

Karin Andersson and Anders Roman stepped down from the Board at the 2020 AGM.

Holding of total contributed capital pertains to conditions on 31 December 2020.

¹⁾ Jointly owned.

¹⁾ Jointly owned.

Group Senior Management



Lotta Lyrå
President and CEO. Born 1975.
MBA, Stockholm School of Economics. Employed 2020. Member of Group management since 2020.
Previous experience: McKinsey, senior positions at Södra and IKEA Group. Most recently President and CEO of Clas Ohlson.
Other assignments: Board member of the Confederation of Swedish Enterprise and the Swedish Forest Industries Federation.
Forest holding: 0 ha.
Total contributed capital in Södra: 0.

Magnus Björkman
President of Södra Cell Business Area. Born 1964.
MSc and MBA. Member of Group management since 2019.
Previous experience: Worked with issues related to liquid carton board deliveries at Tetra Pak International in Lund. Various production positions and CEO of StoraEnso Nymölla AB. Mill Manager at Södra Cell Mörrum and Marketing Manager at Södra Cell.
Forest holding: 0 ha.
Total contributed capital in Södra: 0.

Cristian Brolin
Chief Data Officer (CDO). Born 1976.
Computer Scientist. Employed 2017. Member of Group management since 2019.
Previous experience: Senior positions in IT, including CIO/CSO at Boss-media AB and IST AB. Responsible for the global data centre function at IGT and Lottomatica, stationed in Växjö, Stockholm, Rome and Montreal.
Other assignments: Board member of Vindro AB.
Forest holding: 0 ha.
Total contributed capital in Södra: 0.

Mattias Johansson
Chief Legal Officer and Director of Administration. Born 1972.
Master of Laws, MBA, Master of Laws, London School of Economics and Political Science. Employed 2007. Member of Group management since 2007.
Previous experience: Company lawyer at Saab AB, Södra and ABB Financial Services AB, law clerk at Västerås District Court.
Forest holding: 0 ha.
Total contributed capital in Södra: 0.

Peter Karlsson
CFO. Born 1976.
MBA. Employed 2016. Member of Group management since 2019.
Previous experience: Various positions in Södra, including President of Södra Interjör, CFO Elajo Invest and senior financial positions in the manufacturing industry.
Other assignments: Chairman of Trivselhus AB, Board member of Virserums Sparbank.
Forest holding: 0 ha.
Total contributed capital in Södra: 0.

Jörgen Lindquist
President of Södra Wood Business Area. Born 1965.
MBA. Employed 2015. Member of Group management since 2015.
Previous experience: CFO of Södra, CFO and Interim Vice President of the industrial division of Swedspan, Head of IKEA's development of a new furniture industry in the US, CFO and Vice President of the Axis Group and senior financial positions in the chemical and packaging sectors.
Other assignments: Board member of Ting i Trä AB.
Forest holding: 0 ha.
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, MSc in Chemical Engineering, Chalmers University of Technology. Employed 2014. Member of Group management since 2017.
Previous experience: Includes process engineering manager at Södra Cell Värö, Head of Production at Billerud-Korsnäs Gruvöns bruk, laboratory manager at Kvaerner Pulping and research engineer at Stora Enso.
Forest holding: 0 ha.
Total contributed capital in Södra: 0.

Olof Hansson
President of the Södra Skog Business Area. Born 1975.
Economist and MSc in Forestry. Employed 2003. Member of Group management since 2017.
Previous experience: Various positions at Södra, including Wood Supply Manager, Area Manager and Market Analyst.
Forest holding: 113 hectares of productive forest land.
Total contributed capital in Södra: SEK 378,257.

Anica Kabbenäs
Secretary and Executive Assistant. Born 1956.
Employed 1972.
Forest holding: 0 ha.
Total contributed capital in Södra: 0.

Christer Thörn
HR Director. Born 1966.
Officer with Major rank. Employed 2013. Member of Group management since 2013.
Previous experience: HR Director at TetraPak Carton Ambient and PartnerTech.
Forest holding: 0 ha.
Total contributed capital in Södra: 0.

Gustav Tibblin
Director of Members. Born 1958.
MSc in Forestry and MBA. Employed 1988. Member of Group management since 2017.
Previous experience: Includes head of by-products at Sodra Wood, Business Developer Södra, CFO Södra Cell and Administrative Director Södra Skog.
Other assignments: Board member of SunPine AB.
Forest holding¹⁾: 110 hectares of productive forest land.
Total contributed capital in Södra: 0.

Changes during the year

Lars Idermark stepped down as President and CEO on 19 February 2020 and was succeeded by Peter Karlsson as Interim President and CEO.

Lotta Lyrå became the President and CEO on 7 December 2020.

Stewen Nilsson was appointed Head of Operational Excellence on 1 January 2021.

Maria Baldin, former Director of Communications and Sustainability, stepped down from her position on 8 February 2021.

Holding of total contributed capital pertains to conditions on 31 December 2020.

¹⁾ Jointly owned.

¹⁾ Jointly owned.

Södra’s ABC – words and expressions

Bioeconomy

Bioeconomy refers to all economic activity derived from knowledge of biological processes and biotechnology, with the aim of achieving a sustainable way of living without depleting the earth’s finite resources.

Biofuel

Biofuels can be solid, liquid and gaseous. Solid biofuels include firewood, woodchips, pellets and briquettes. Liquid biofuels include ethanol, methanol, biodiesel and bio-oil. Gaseous biofuels include biogas, dimethyl ether and biomethane.

Biogenic carbon dioxide

Biogenic carbon dioxide contains carbon from biological processes. Fossil carbon dioxide contains carbon from fossil fuel deposits.

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.

Bioproducts

Bioproducts are our liquid forest products – biomethanol, tall oil and turpentine, which are grouped under the Liquid forest™ brand and produced in the mills where we also produce paper pulp and dissolving pulp.

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 in the Green Forest Management Plan.

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. Sawdust, for example, is a sawmill by-product.

Carbon dioxide equivalents

A standard unit for measuring greenhouse gas (GHG) 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 an addition to the FSC® Chain of Custody standards. It was developed for products that do not contain 100-percent FSC®-certified material, but that are manufactured under controlled conditions. Wood products often contain fibres from a variety of sources.

Cooking chemicals

Chemicals used in the digester at pulp mills to dissolve the lignin in the wood.

Cross-laminated timber (CLT)

A strong and rigid structural component with good dimensional stability. Södra’s CLT is made from FSC®/PEFC-certified raw material and is qualified for the Swedish market.

Dissolving pulp

Dissolving pulp is mainly made from birch wood and used to make fabrics such as viscose and lyocell. 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.

Even-aged forest management

Forest management with several stages, from planting/sowing to harvesting via regeneration, cleaning, thinning and regeneration harvesting.

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 (SKA). Based on a range of 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. New impact assessments are ongoing and the results will be presented in 2022.

Fossil fuels

Unlike renewable fuels, fossil fuels – such as coal, oil and natural gas – are formed slowly.

FSC®

The Forest Stewardship Council is an independent, international membership organisation that promotes an environmentally appropriate, socially beneficial and economically viable management of the world’s forests and has developed principles for forest management certification.

Global Reporting Initiative (GRI)

GRI develops globally applicable ‘Sustainability Reporting Guidelines’ to encourage companies to take responsibility for their economic, environmental and social impacts.

Green Balance Sheet

Södra compiles a Green Balance Sheet on an annual basis. Södra Skog’s auditors assess whether regeneration harvesting, thinning operations, nature-conservation measures and forest residue handling comply with PEFC and FSC® requirements for general environmental considerations, and whether Södra has complied with its 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 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 (GHG)

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 equivalent to 10,000 m².

ISO 14001

An international standard for environmental management systems.

ISO 45001

An international standard for occupational health and safety management systems.

ISO 50001

An international standard for energy management systems.

Lignin

Lignin is the substance that acts as a binding agent, and binds the cellulose fibres in wood. Valuable by-product of pulp production. Research is conducted to commercialise lignin-based carbon fibre for the production of lightweight materials that can be used to replace traditional heavyweight materials in, for example, cars.

Liquid biofuels

Vehicle fuels, such as biodiesel, HVO biodiesel, produced from renewable biomass.

LTA

Lost-time-accident. Occupational injury with absence.

LTAR

Lost-time-accident rate. The number of occupational injuries with absence per million hours worked.

m³l

Cubic metres of felled volume. Refers to the outer dimensions of the material and used for woodchips, for example.

m³fo

Forest cubic metres. Refers to the volume of the entire trunk above the stump, including tops and bark, but excluding branches. Generally used as a measure of standing volume.

m³sub

Cubic metres solid volume under bark. The volume of a tree trunk, excluding bark and treetops. Generally used as a measure in harvesting and the timber trade.

Market pulp

Södra produces paper pulp – both softwood and hardwood sulphate pulp – and dissolving pulp, which are sold on the pulp market to customers worldwide.

OnceMore®

The dissolving pulp produced in the OnceMore® process consists of cellulose from two separate sources – textile waste, and wood from sustainable forests. At present, textile waste accounts for 20 percent of the OnceMore® pulp.

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

Under Södra’s profit distribution model, members receive returns on the wood they have delivered, and the capital they have contributed, over the past year. The concept therefore includes dividends on wood deliveries and contributed capital, 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 into individually owned capital.

Recycled Claim Standard (RCS)

The aim of RCS is to increase the use of recycled materials. RCS certification of products sold to end-consumers requires certification and traceability through the supply chain. Through the RCS-certification, Södra can produce and manufacture RCS-certified OnceMore® dissolving pulp.

Regeneration harvesting

A system of harvesting where nearly all old-growth trees in a forest stand are removed to make room for the next generation. Also called final harvesting.

SE plants

SE plants are produced using somatic embryogenesis, a method based on clonal propagation of seeds. Many identical copies of a tree can be produced from a single seed, and desirable characteristics can be developed in the same way as with cuttings.

Sensitive biotopes

A physical environment that, due to its distinctive features, provides a habitat for plant or animal species that are sensitive to external factors.

Substitution

Substitution refers to replacing one thing with another. Substitution creates climate benefits when renewable forest-based products drive back products with a higher climate impact, such as steel, concrete, plastic and fossil-fuel energy.

Substitution factor

The substitution factor varies for each type of material. What we measure is the amount of fossil carbon emissions that are replaced per unit of biogenic carbon in forest products.

Tall oil

By-product of paper pulp production that can be used to replace fossil-based materials. Uses include the production of crude tall diesel and chemicals.

Tract

An area of forest designated for a particular type of management.

Tract directive

Written instructions for harvesting operations stipulating, for example, the maximum amount of wood to be harvested and the nature conservation measures required.

Wooded wasteland

Low-productive land with slow-growing trees. Low-productivity land is protected under the Swedish Forestry Act and only measures aimed at strengthening nature conservation values are permitted.

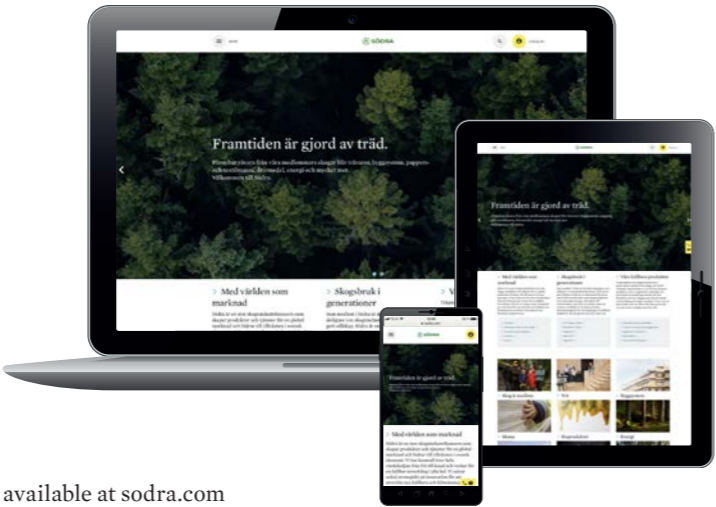
Financial information

Reporting calendar

Quarterly reports will be published on the following dates:

| | |
|--------------------|-----------------|
| Q1 | 20 April 2021 |
| Q2 | 16 July 2021 |
| Q3 | 21 October 2021 |
| Q4/Year-end report | February 2022 |

The Annual General Meeting for the 2020 financial year will be held on 1 June 2021 in Lund, Sweden.



The reports, as well as other information about Södra, are available at sodra.com

Contacts and addresses

High availability and good service are important in Södra's daily procedures. Here you can find the telephone numbers for Södra Skogsägarna ekonomisk förening and its business areas. For more information, visit sodra.com

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If you have any questions about the Annual Report or the Sustainability Report, please contact:
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This is Södra

Founded in 1938, Södra is Sweden's largest forest-owner association with 53,000 forest owners as its members. We are also an international forest industry group, with operations based on processing our members' forest raw material. Södra is one of the largest European suppliers of market pulp, and has one of the largest sawmill operations in Europe. In 2020, the wood volume was 17.4 million m³sub, sales amounted to SEK 20 billion and employees totalled 3,141.

Södra Skogsägarna
ekonomisk förening

| | |
|-----------|--|
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