



ANNUAL REPORT  
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## 1997 highlights

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- Consolidated result after financial net improved to SEK 592M (-318).
- Return on capital employed was 12 per cent (-3).
- Membership increased by 339 to 31,378. The affiliated area of forest land increased by approximately 30,000 hectares to more than 1.7 million hectares.
- Timber trading increased to 10.5 million m<sup>3</sup>fub (8.6).
- Production of pulp reached 1,188,000 tonnes (995,000) and of sawn timber 614,000m<sup>3</sup> (539,000). Deliveries of biofuels amounted to 2.0 million m<sup>3</sup>s (1.7).
- Investments amounted to SEK 356M (939).
- The average number of employees was 2,597 (2,604).
- A dividend is proposed, via interest on capital contributed, of SEK 19M and post-payments based on the value of the members' wood deliveries of SEK 173M.

### Annual Report

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# Comments on 1997

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President's Report

Group Review

Acquisition of wood and  
deliveries reached record levels.

# President's Report

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*Helge Eklund*

Helge Eklund

Last year's result meant a significant improvement compared with 1996 but nevertheless it does not meet the long-term earnings requirement. The result of SEK 592M includes extraordinary income of more than SEK 200M from a so-called lease-in/lease-out transaction with American banks relating to the Mörum pulp mill. The result of the pure business operations must be regarded as fairly weak. However, a bright spot is that SÖDRA's members were able to deliver wood to the planned extent. Unfortunately, the positive market trend was broken during the second half of the year. The price of sawn timber fell significantly due to overproduction in the industry. The market for pulp was also shaky because of excessive production and emerging problems in South-East Asia.

The assessment ahead of 1998 must be safeguarded with several reservations. During the budget work we anticipated a clearly successful year. We have been forced to revise that forecast. The financial crisis in South-East Asia has caused concern, not least for the pulp industry. A little into the new financial year, the market has been under significant strain with strong downward pressure on prices. In a situation in which several South-East Asian currencies have been substantially devalued, pulp-buyers first run down their stocks. However, I assume that the buyers will soon need to replenish their stocks which would provide for an improved balance between supply and demand and bring about a stabilisation of the pulp price. On condition that the crisis in South-East Asia does not deepen, I estimate that the pulp price will soon have reached its floor-level to be able to stabilise and rise again during the second or third quarter of this year.

For sawn timber, where prices at the end of 1997 finished up in what can almost be described as free-fall, my assessment is that we can expect a sobering-up within the sector so that overproduction is limited. In that case, it would lead to the price scenario being stabilised and followed by price increases. We expect that 1998 will be a tough year for our sawmills but we will gradually attain improved profitability again. Prices for saw logs were reduced as a result of the dramatic price fall, especially on whitewood products. Despite this, SÖDRA must nevertheless be said to pay good prices for the forest owner's timber.

Despite the reservations outlined above, I would nevertheless put a fairly optimistic view on our operations in a full-year perspective. Towards the end of 1997, SÖDRA's Board of Directors made several investment decisions of significant strategic importance, including the investment in a brand-new sawmill in Mönsterås. For the forest owners, i.e. SÖDRA's members and owners, timber is the predominant source of income. 70 per cent of the forest owner's net income from forestry emanates from saw logs compared with 29 per cent for pulpwood. The energy product ranges account for the remaining 1 per cent. It is thus of crucial importance for both SÖDRA and the forest owner that a modern, competitive sawmill industry exists which is able to take care of the logs in a cost-efficient manner, which has power to pay for the timber and which therefore helps maintain – and in the long term improve – profitability in the family forestry.

Through the building-up of its pulp industry into a world-leading position, SÖDRA has shown what can be achieved with a sometimes bold but always sound investment policy. Over the years, SÖDRA's members have invested enormous sums in the pulp mills but have also been able to reap success. It is reasonable that the sawmills will now also benefit from increased investments. The position of SÖDRA's own sawmills must be strengthened, not least against the background of the increasingly tough international competition. Our competitors in, among other countries, Finland and Austria find themselves in a strongly aggressive phase which we must be prepared to meet. In addition, the trend is towards



fewer and larger customers who call for fewer and larger suppliers. For SÖDRA, it is vital to be included in this select group and we will ensure that by showing by practical action and through future-oriented investments that we mean business with our sawmill company.

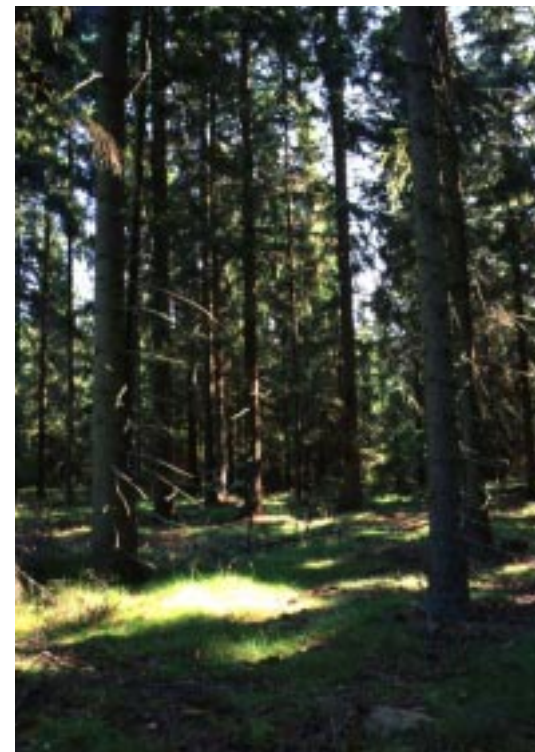
The investment in Mönsterås and in our other sawmills should also be linked to the investment in research and development which SÖDRA continues with undiminished vigour and which is described in a separate chapter in the Annual Report. A traditional bulk market like sawn timber is also becoming increasingly specialised. It is therefore necessary to develop and offer customer-adapted products. SÖDRA's increasing share of processed timber products and various types of new building systems are examples of how we work to strengthen our market position.

The globalisation of and the structural development within the forest industry will continue. SÖDRA is an internationally-operating company with an export share of 75-80 per cent. Our largest markets are not located in Sweden. To look after and strengthen our market positions we must be active in an international perspective. This means that SÖDRA's traditional strategies must be reviewed and renewed.

One such new orientation is the collaboration we have initiated with the Finnish company, Metsäliitto. As far as softwood is concerned, there are not many regions left in which to expand. In South America, mainly Chile, coniferous forest exists but it will probably be needed for the domestic increase in consumption. Russia has a large potential raw materials base but it is unlikely that it can be exploited industrially within the foreseeable future. Around the Baltic, there are also significant areas of felleable coniferous forest in the Baltic States, North-East Germany and Poland. There, we will see an industrial development over the next few years.

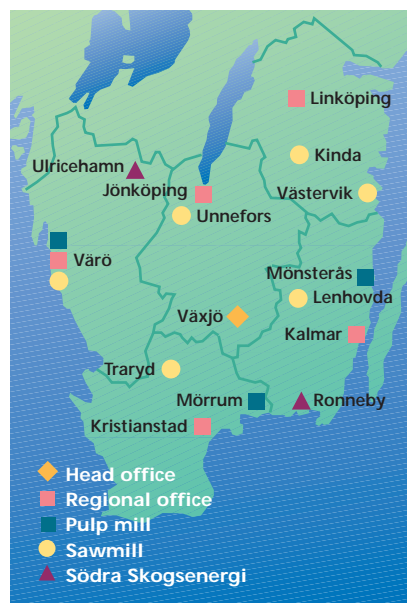
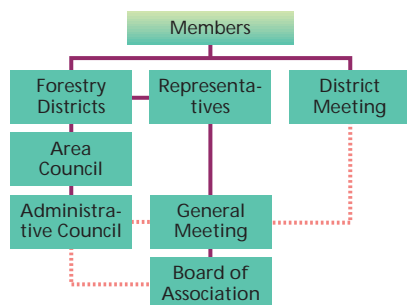
For SÖDRA it is necessary to monitor this development. The Baltic region is an immediate market for us with regard to fibre supply. If SÖDRA is to continue to play a dominant role as softwood pulp producer, we must be involved and influence, take an active part in what is happening and maybe to some extent try to control the development. If new pulp mills are built in our immediate surroundings we must thus be included as one of the players. Whether or not this means that we will involve ourselves in new pulp mills in Germany or the Baltic States, it is too early to say. However, we feel it is important for SÖDRA's members that we do not lose the control and influence so close to our core area and which, whether we want it or not, will influence the situation for the Southern Sweden forest owners. However, as a company we are too small to manage this entirely on our own. Through collaboration, partnerships and alliances we will however be provided with an opportunity to get involved in projects which aim to strengthen SÖDRA's role as a softwood fibre manufacturer and which provides us with an opportunity to control the wood market as far as that is possible.

SÖDRA's company structure is undergoing continuous renewal and restructuring – the building will never be completed. We must be keenly alive to the demands for change which, not least, the international development places on us. We will not be able to influence economic trends, world markets and foreign exchange rates. However, through judicious investments which provide us with strong competitive power we are able to equip ourselves to face the fluctuations which this industry is being subjected to at an ever-increasing rate, and thus get opportunities to fulfil our basic task, to safeguard the profitability of family forest farming. We do that not only through a far-sighted industrial strategy but also through a policy which aims to provide the owners with a sound yield even during years in which the result is less positive: proof that SÖDRA is today a solid, strong company. We will safeguard this economic strength.



The Baltic region is a common wood market on which SÖDRA is now increasing its activities in Germany and the Baltic States.

# Group Review



## A co-operative Company

SÖDRA is an economic association which is owned by more than 31,000 forest owners in Southern Sweden. Together, they own more than 1.7 million hectares of productive forest land which is equivalent to more than half the total private forest area in SÖDRA's area of operation. SÖDRA is the largest forest owner association in Sweden.

SÖDRA's task is to promote active, profitable and environmentally-friendly forest farming, to carry out timber trading and industrially process logs into sawn timber, paper pulp and biofuels. The task also includes looking after the members' economic policy interest. Over the years, SÖDRA has played an important role with regard to preventing impeding and unfair burdens on forest farming.

By co-operating in SÖDRA, the private forest owner is able to take advantage of the combined strength of a large organisation. Through SÖDRA's own process industry criteria are created for the long-term marketing of the logs at satisfactory prices.

The co-operative ownership-form also means that every member has one vote regardless of the size of his forest holding. Every member belongs to a forestry district which elects its representatives to the AGM of the Association. The chairmen of the forestry districts are members of the Administrative Council which is an advisory body. The General Meeting of the Association, which is held annually, is the highest decision-making body and appoints the Board of Directors of the Association.

## Operations

SÖDRA's operations are organised in five subsidiaries/divisions as well as service units and Group staff functions. The operating units act under their own profitability-responsibility within defined business areas. The industrial operations are carried out through the wholly-owned subsidiaries: Södra Timber, Södra Cell and Södra Skogsenergi.

### Södra Skog

Södra Skog is responsible for trading with wood, primarily from the Association's members. The members are also offered forestry services: felling, forest conservation, advice, etc. The operations are carried out in 51 forestry districts which together form five regions.

Södra Skog buys timber primarily from the members and sells it to SÖDRA's own and external industries. In 1997, timber trading amounted to 10.5 million m<sup>3</sup> of wood which is equivalent to approximately 10 per cent of total felling in Sweden. Of wood deliveries, 52 per cent went to SÖDRA's own pulp mills, 12 per cent to own sawmills, 5 per cent to Södra Skogsenergi and 31 per cent to external industries, mainly sawmills.

### Södra Timber

In 1997, Södra Timber's sawmills produced approximately 600,000 m<sup>3</sup> of sawn timber which was equivalent to 11 per cent of total production in Southern Sweden. 43 per cent of production was processed further through planing, finger-jointing, cutting to precise measurements, drying and other post-treatment. Nearly 75 per cent of production referred to whitewood products and the remainder redwood products, mainly for building purposes.

## Södra Cell

Södra Cell is one of the world's leading manufacturers of market pulp with production in Mönsterås, Mörrum and Värö. The pulp is mainly sold to paper mills in Western Europe. More than two-thirds of the pulp is used for manufacturing writing and printing paper, the remainder for board, tissue-paper and special-paper production. Production in 1997 of approximately 1.2 million tonnes was about 11 per cent of Sweden's total pulp production and 44 per cent of production of bleached kraft market pulp. More than 75 per cent of Södra Cell's production refers to TCF pulp, i.e. pulp which is bleached totally without chlorine chemicals.



## Södra Skogsenergi

Södra Skogsenergi is one of Sweden's biggest bioenergy companies and offers the largest product range in the sector. 1997 deliveries, 2.0 million m<sup>3</sup>s, are equivalent to 1.9 TWh of energy. In addition to fuel chips and peat, processed biofuels are produced in the form of pellets and wood powder. The fuel is sold to municipal thermal power-stations, industries, etc. Södra Skogsenergi accounts for approximately a quarter of total sales of biofuels in Southern Sweden.



## Financial targets

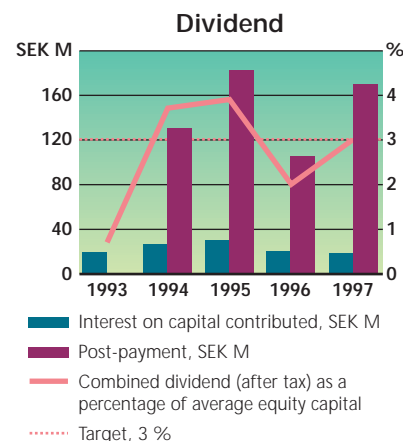
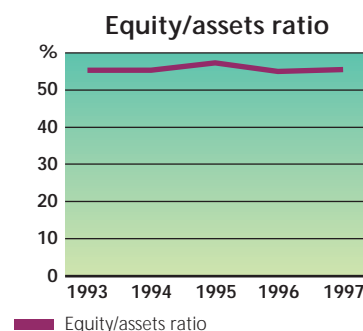
The Group's financial targets refer to return on capital, equity ratio and dividend to the owners. The targets apply over one business cycle, a view which is necessary taking into account the very considerable fluctuations in earnings which characterise SÖDRA.

Profitability is measured as return both of total capital employed and equity capital. The Group target for return on capital is set at 14 per cent (which is equivalent to a 13 per cent return on equity capital). During the last five-year period, return on capital employed averaged 15 per cent.

SÖDRA's operations are capital-intensive and strongly dependent on the economic trend. The high operating risk must therefore be balanced by low financial risks. The target for its financial strength – measured as traditional equity/assets ratio – has therefore been set at 55 per cent. This is a high target figure in comparison with other Swedish industries. At the 1997 year-end, the equity/assets ratio was 55 per cent.

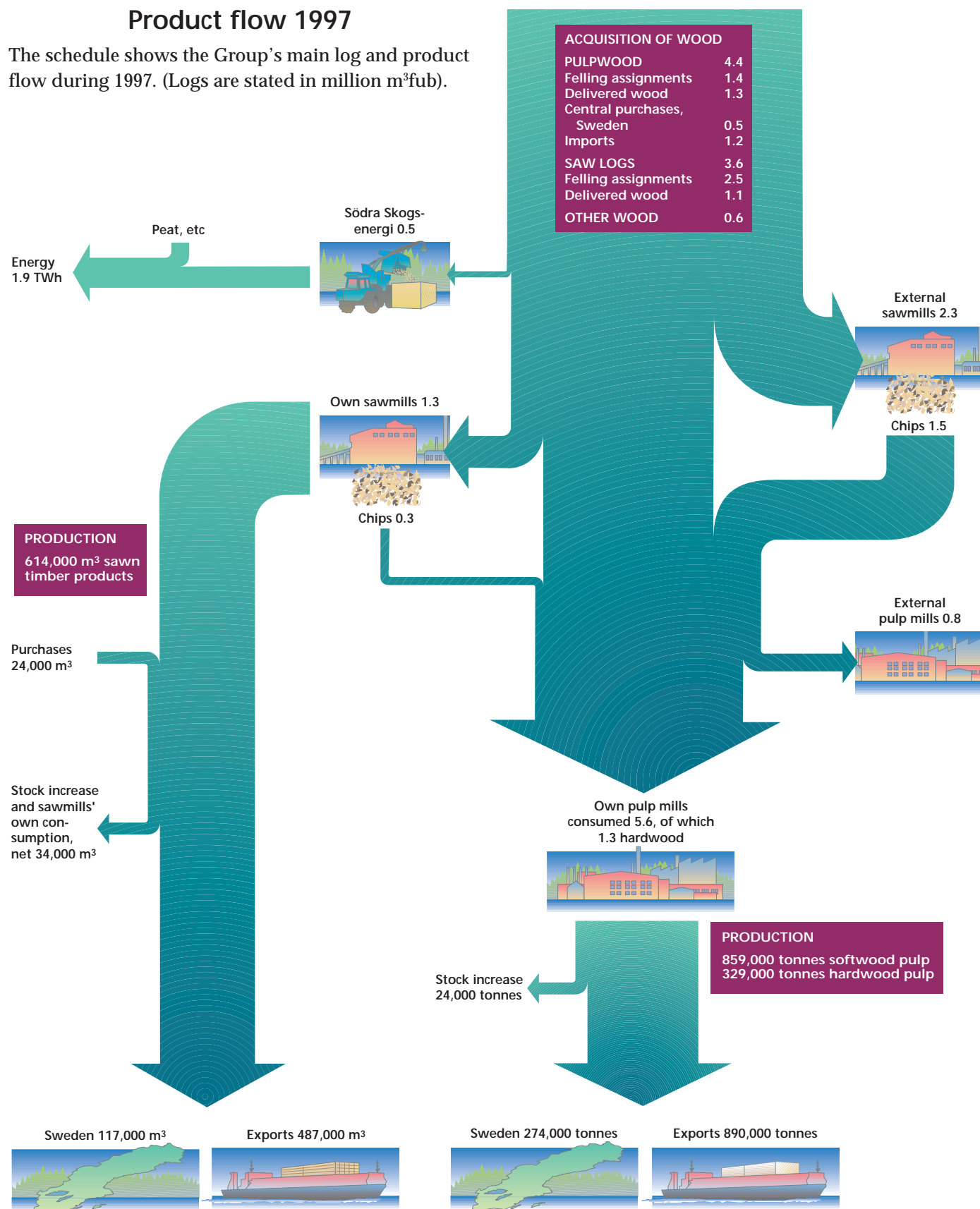
Dividend to the owners is paid in two forms: interest on capital contributed and post-payment. Post-payment is calculated on the value of the members' deliveries to the Association during the year. Of the current equity capital, capital contributed accounts for less than 10 per cent. The remaining equity capital consists of profits which have been built-up over the years. These remaining profits can be termed collective equity capital. The post-payment can be seen as a dividend on this collective equity capital.

The target for the combined dividend (interest on capital contributed and post-payment) is at least 3 per cent per annum after tax calculated on equity capital. For 1997, the Board of Directors proposes a dividend of 3 per cent, consisting of 5.5 per cent interest on capital contributed and post-payment of 8 per cent on the value of delivered wood. During the past five-year period, the combined dividend averaged 2.5 per cent.



## Product flow 1997

The schedule shows the Group's main log and product flow during 1997. (Logs are stated in million m<sup>3</sup>fub).





# Operations

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Södra Skog

Södra Timber

Södra Cell

Södra Finans

Södra Skogsenergi

R&D

Environment



Operating results of subsidiaries and divisions improved in most cases. Production and sales were high.

# Södra Skog

Operating income amounted to SEK 75M (-33). The improvement compared with the previous year was mainly due to the external costs which arose in 1996 on the work in storm-felled forests as well as rationalisation and larger wood volumes during 1997.

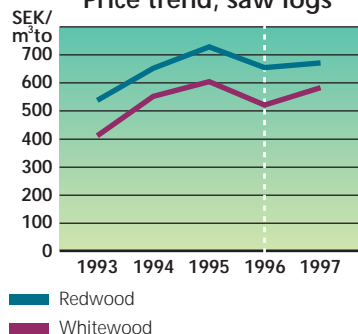
Sales amounted to SEK 4,246M (3,447), of which SEK 2,278M (1,905) was to SÖDRA's own industries.

## Record high wood volume

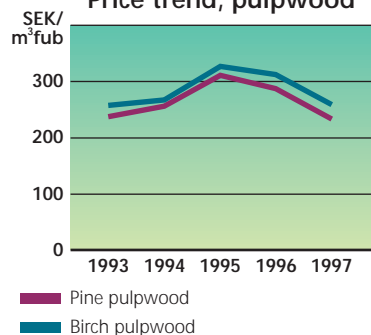


Kenth Ohlsson,  
Division Manager

### Price trend, saw logs



### Price trend, pulpwood



## Wood market

The year was characterised by satisfactory demand for all wood ranges. The sawmills operated at a very high rate and consumed a great deal of timber and SÖDRA's expanded pulp industry required more pulpwood.

Timber prices were raised around the turn of year. After that, the price for spruce remained stable throughout the year. The price of pine timber had a slightly rising trend until the beginning of the autumn. The spasmodic and periodically squeezed pulp market did not provide scope for any increase in the price of pulpwood.

Södra Skog's acquisition of wood amounted to 10.5 million m³fub (8.6). Members delivered 5.9 million m³fub (5.0) and other suppliers in Sweden 3.4 million m³fub (2.9). Imports increased to 1.2 million m³fub (0.7), of which the majority was hardwood. Imports of hardwood are very important for the Group's wood supply as the domestic supply is not enough.

Of Södra Skog's wood deliveries of 10.5 million m³fub, 5.5 million m³fub (4.3) was delivered to Södra Cell, 1.3 million m³fub (1.1) to Södra Timber and 0.5 million m³fub (0.5) to Södra Skogsenergi. External deliveries were 3.2 million m³fub (2.7).

## Forestry services

Södra Skog has an organisation for forestry services the task of which is to complement the members' own work in the forest. Services offered are felling, forest conservation, forest planning, seedlings and advice. Felling assignments constitute the predominant part of the operations and are steadily increasing. During the year, thinning operations increased significantly which was desirable, bearing in mind both the need for forest conservation and the large demand for wood.

Sales of seedlings increased to 23.6 million seedlings (23.3). SÖDRA is one of Sweden's leading suppliers of seedlings to private forestry. The area of prepared forestry plans, now exclusively so-called green plans, increased significantly to nearly 100,000 hectares (50,000).

## Environment

After the forest-owner movement left the Swedish FSC process (Forest Stewardship Council), SÖDRA began the work of creating its own model for forestry-environmental certification which takes into account the structure of small-scale family forestry. The model is based on the green forestry plan, nature value assessment before felling and environmental management systems in accordance with EMAS. During the year, preparations to introduce EMAS were underway in all regions.

The so-called green accounts were fully-developed and began to be used in practice. The green account means that the nature conservation which is shown in final fellings is rated. New routines for nature value assessment in all fellings were drawn up and will begin to be used during 1998. Nature value assessment is to be made before contracts for felling are signed.

The environmental training programme comprised, among other things, nature conservation and ecology for SÖDRA's nature conservation representatives as well as training of new forestry planners.

## Personnel and organisation

The average number of employees was 426 (420). The increase in staff is a result of the investment in the green forestry plans which brings about increased need for planners. A project which is aimed at work rotation for machine operators and more rational organisation has started to have an impact on forestry and the experience is positive. An extensive programme for skill development was produced during the year. The objective is that every staff member will be given further training.

## Prospects for 1998

At the beginning of 1998, pressure was very considerable on the prices for pulp and sawn timber. Prices for saw logs was reduced by approximately 7 per cent during the first quarter.

Demand for logs is expected to be high also in 1998 despite the current weak market situation. This means that the forest owners will extensively be able to deliver wood at the desired volume.

The environmental work continues with the objective of deploying SÖDRA's own model for forestry certification and to introduce environment management systems in accordance with EMAS. Green forestry plans for 150,000 hectares of forest will be produced which means a 50 per cent increase compared with 1997.

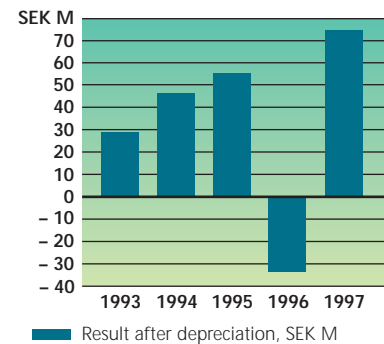
Operating income is expected to end up at a level which is normal for the operations.

## Operations

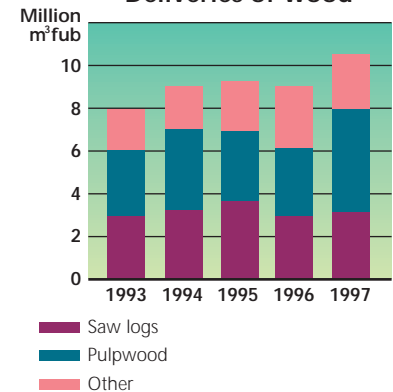
Södra Skog is SÖDRA's operating organisation for its members' forestry. The objective of the Division is to create the highest possible financial use for the members' forestry and at the same time attain the profitability target which the Board has set.

Södra Skog is responsible for the supply of wood to SÖDRA's pulp mills, sawmills and energy companies as well as to external industries. The operations are carried out in five regions which are organised in 51 forestry districts.

### Result



### Deliveries of wood



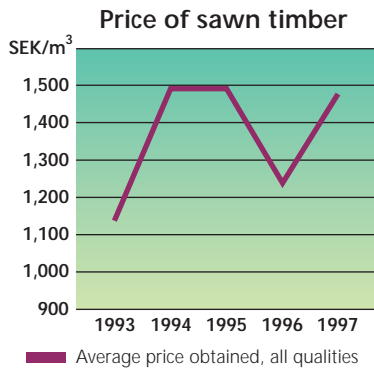
Facts	1997	1996
Sales, SEK M	4,246	3,447
of which, to own industries	2,278	1,905
Operating result, SEK M	75	- 33
Investments, SEK M	9	84
Employees	426	420
Deliveries of wood, million m³fub	10.5	8.6

# Södra Timber

Increasingly rapid  
fluctuations in the  
timber trend



Håkan Björklund,  
President



## Examples of products and markets

Product group	Type of product	Important markets
<i>Whitewood (450,000 m³)</i>		
Sawn	Construction timber	Great Britain
Specially dried	Glue-laminated wood	Japan
Further processed	Joists, panel	The Netherlands
<i>Redwood (164,000 m³)</i>		
Sawn	Construction and joinery timber	North Africa
Specially dried	Furniture and joinery timber	Denmark
Further processed	Strips, panels	Sweden

Operating income improved to SEK 30M (-20) mainly because of higher sales prices. Sales increased to SEK 1,129M (925) of which SEK 846M (687) related to exports.

## Market

During the first half of the year, the timber market was strong and prices rising. In mid-year, a change took place. The market weakened steadily during the autumn as oversupply in Sweden and other producer-countries put pressure on prices. Despite a significant price fall towards the end of the year, the average price obtained was 20 per cent above the previous year's level.

The development during 1997 is further proof that the timber market fluctuates more rapidly than before. There may be several explanations, including increasingly frequent transactions with fewer intermediaries and increased efforts to tie-up less capital in stocks.

Södra Timber's deliveries increased to 604,000 m³ (571,000). Of this, 487,000 m³ (466,000) was exported primarily to Great Britain, the Netherlands, Germany, Denmark and Japan. The domestic market remained weak as a result of low construction of new housing. The number of started apartments fell still further to approximately 10,000 which can be compared with approximately 60,000 per annum at the beginning of the 1990s. Deliveries in Sweden amounted to 117,000 m³ (105,000).

## Production

Swedish production of sawn timber was record high, 15.4 million m³ (14.2). Södra Timber's production increased to 614,000 m³ (539,000). The higher level is explained by, among other things increased capacity, improved capacity utilisation and ample supply of timber. Most sawmills exceeded previous production records.

43 per cent of production was processed further through, for example planing, special drying, stress-grading and finger-jointing.

Unit	Production m³	Whitewood/redwood %	Further processing %
Kisa	148,000	64 / 36	37
Västervik	56,000	37 / 63	15
Lenhovda	100,000	76 / 24	45
Unnefors	41,000	48 / 52	60
Värö	171,000	84 / 16	35
Algo	98,000	96 / 4	75
Total	614,000	73 / 27	43

Södra Timber has approximately 2,000 customers whose annual purchases vary between a parcel of timber products and 50,000 m³. The standard range includes some 100 qualities of products in addition to various dimensions and lengths. A development is underway towards increased specialisation at the sawmills with regard to concentration of type of wood as well as products and geographic markets.



## Investments

Investments amounted to SEK 80M (78) distributed on a large number of projects. Major new investments included trimming plants in Traryd and timber-grading in Unnefors as well as kilns in Kisa, Lenhovda and Traryd. Capacity at the finger-jointing plant in Kisa was increased following installation of a plane.

The year's environmental investments are estimated at SEK 3M. Special action was implemented to reduce noise at most sawmills, including measures in kilns and timber-handling, acquisition of new trucks with noise reduction and erection of noise-reduction barriers. The fine-tuning of the previously-installed climate-controlled watering plant at the Värö sawmill meant that water consumption was halved and COD discharges reduced by 40 per cent.

In December, a decision was made to build a new sawmill adjacent to the pulp mill in Mönsterås. The investment is approximately SEK 500M. The sawmill is expected to be completed in autumn 1999 with a capacity of 300,000 m<sup>3</sup> of sawn timber per annum. This will be the third sawmill which SÖDRA is building from scratch, after Kisa (1968) and Värö (1974).

## Personnel and organisation

The average number of employees was 505 (479). At the end of the year, a decision was made to close the sawmill in Örkelljunga which has 15 employees during 1998.

Work aimed at introducing EMAS as environmental management systems at the sawmills continued. The objective is that all mills will have been registered in 1998. In 1996, Lenhovda was the first sawmill to be approved in Sweden and Unnefors was registered in 1997.

During 1997-98, an extensive training programme is underway at all sawmills. Among other things, the need for individual development is charted. The training is concentrated on market issues, customer requirements, planning process and production economy.

## Prospects for 1998

At the beginning of 1998, the timber market was subjected to continued pressure and the result of the sawmill industry was at a clearly unsatisfactory level. The assessment is that the market balance will improve during the second half of the year, partly due to reduced production in Sweden and Finland and to Europe's timber consumption being maintained.

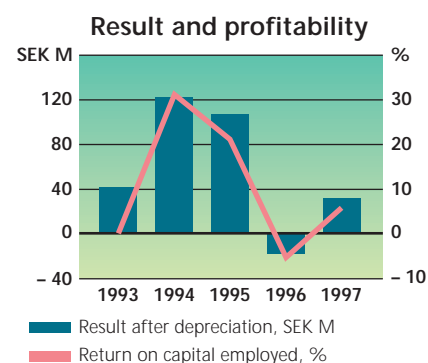
Operating income is expected to be lower than in 1997, mainly as a result of lower prices for finished products.

## Operations

Södra Timber produces sawn and processed timber products in Kisa, Värö, Västervik, Lenhovda, Unnefors and Traryd. Three-quarters of production is whitewood and the remaining portion redwood, mainly for building purposes. 80 per cent is exported, mainly to Western Europe but also to Japan, the Middle East and North Africa.

## Board of Directors

Helge Eklund (Chairman), Håkan Björklund (President), Patrik Fredell, Mats Hansson, Leif Häggsgård, Arne Karlsson, Christer Segerstéen, Göran Sturedahl. Deputy Members: Sven-Olov Isaxson, Ingemar Johansson, Roland Johansson.



Facts	1997	1996
Sales, SEK M	1,129	925
of which, exports	846	687
Operating result, SEK M	30	- 20
Return on capital employed, %	5	neg
Investments, SEK M	80	78
Employees	505	479
Production, 1,000 m <sup>3</sup>	614	539
Deliveries, 1,000 m <sup>3</sup>	604	571
of which, exports	487	466

# Södra Cell

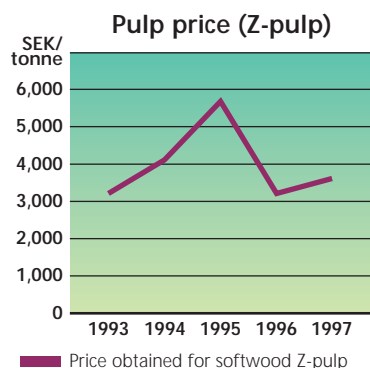
Operating income amounted to SEK 689M (-235). The improvement was due, among other things, to higher pulp prices, larger volume, lower production costs, fewer tunings of equipment and a leasing transaction which generated a net result of SEK 216M.

Sales increased to SEK 4,456M (3,478), of which SEK 3,428M (2,522) related to exports.

## Rapid fluctuations on the market



Tom Almgren,  
President



## Market

Demand for paper and board was high and production in Western Europe increased by 8 per cent, in the USA by 5 per cent and in Japan by 3 per cent.

Demand for pulp was record high both in Europe and in the USA. Total deliveries of bleached kraft market pulp to these markets increased by 5 per cent and 10 per cent, respectively. In Asia, demand developed much more spasmodically with significantly reduced purchases during the latter part of the year. Södra Cell's deliveries reached a new record level of 1,165,000 tonnes (1,010,000).

Producer stocks of pulp were comparatively high at the beginning of the year. In mid-year, the so-called Norscan stock had fallen to 1.6 million tonnes. Later, the stock again increased, to 1.8 million tonnes at the year-end.

The price of bleached softwood pulp was USD 560 per tonne at the 1996 year-end. During the first part of 1997, prices were under pressure to end up at a level of USD 500 during spring. Thereafter, a recovery started. In October, the quotation was USD 610 with expectations of a further rise. However, these were not realised. Instead, prices came under renewed pressure, partly as a result of the economic turbulence in Asia which had a negative effect on the pulp market.

The Swedish pulp industry was very competitive vis-à-vis the North American pulp industry. The USD rate which averaged SEK 7.62 (6.70) and periodically exceeded SEK 8.00 contributed to this. The competitive situation was less positive for hardwood pulp. The growing South-East Asian pulp industry had its already low production costs reduced in USD following the substantial devaluations which followed in the tracks of stockmarket crashes, etc.

## Production and investments

Sweden's total production of bleached kraft market pulp amounted to 2.7 million tonnes (2.4). At SÖDRA's pulp mills, 1,188,000 tonnes (995,000) was produced, of which 329,000 tonnes (310,000) was hardwood pulp. This is the largest production so far, primarily as a result of the previous year's extension of the Mönsterås mill but also because of production records at the Mörrum mill and the Värö mill. Production of chlorine-free pulp, Z-pulp, increased to 913,000 tonnes (851,000), equivalent to 77 per cent (85) of total production.

At the **Mönsterås** mill, investments amounted to SEK 116M (555) of which SEK 33M in environment conservation. Production reached 507,000 tonnes (394,000) of chlorine-free pulp, of which 228,000 tonnes was hardwood pulp.

At the end of the year, the production rate was 530,000 tonnes per annum after a great deal of work had been expended on improving operating stability. During the autumn stoppage, the digesters were reconstructed for a modification of the cooking technology. Changes were also implemented in the bleach plant and taken together these measures will provide for a stronger and more even pulp quality. In December, a decision was made to extend the mill's capacity from 550,000 tonnes to 750,000 tonnes per annum.

The higher production rate meant an increased burden on the mill's aerated lagoon for waste-water treatment. The treatment capacity was not sufficient to meet the guide values for the discharge of organic substances and suspended matter. A decision was therefore made to convert the external treatment plant to so-called active sludge technology. The preparatory work for introducing an environmental management system in accordance with EMAS was underway during the year.

Capacity utilisation in the new pellet plant was lower than anticipated. Annual production stopped at 27,000 tonnes. At the end of the year, production stabilised and at the same time, quality was improved. The criteria are therefore positive for attaining a higher production level in 1998.

At the **Mörum** mill, investments amounted to SEK 81M (56), of which SEK 32M in environment conservation. Production reached 376,000 tonnes (317,000), of which 101,000 tonnes was hardwood pulp. The largest investments related to equipment for making it possible to bleach pulp with peroxide on Line 1 and a weak and strong gas system for reducing sulphur and malodorous discharges. During the maintenance stoppage in the autumn, improvements were carried out in the digester plant which contributed to the fact that the production rate was especially high at the end of the year. The environmental management system in accordance with EMAS was completed with registration at the beginning of 1998.

At the **Värö** mill, investments of SEK 51M (179) were made, of which SEK 5M in environment conservation. Production amounted to 305,000 tonnes (284,000) of chlorine-free softwood pulp. All fully-bleached pulp was bleached with peracetic acid in combination with hydrogen peroxide. During the year, a decision was made to reinvest in a new wood-handling department. Work on developing the chlorine-free softwood pulp was intensified and resulted in a decision regarding an investment in the bleaching project TCF 90. Due to stricter demands on COD discharges a decision was made to invest in an external treatment plant. Extensive tests aimed at reducing nitrogen oxide discharges from the recovery boiler showed that the boiler was too highly loaded to enable known reduction technology to be applied. The authorities therefore granted a reduction of the guide value for discharges of nitrogen oxide from 1.5 to 2.0 kilos per tonne of pulp. The mill was EMAS-registered in December.

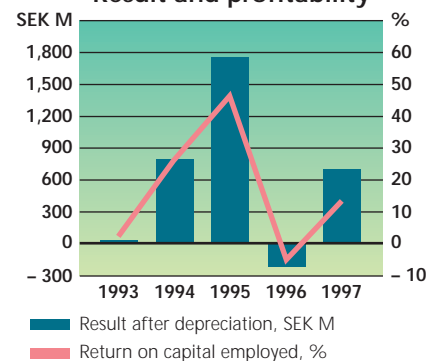
## Operations

Södra Cell is one of the world's leading manufacturers of market pulp with a capacity of 1.3 million tonnes per annum. Production takes place at pulp mills in Mörrum, Mönsterås and Värö. The pulp is mainly sold to paper mills in Western Europe. Two-thirds of production is used for manufacturing writing and printing paper, the remainder for board, tissue-paper and special-paper production.

## Board of Directors

Helge Eklund (Chairman), Tom Almgren (President), Stig Höckerfelt, Bengt-Åke Larsson, Bengt Rogerstam, Stig-Gunnar Rönnlund, Göran Sundström, Svein Wennerås, Lars-Eric Åström. Deputy Members: Carl von Friesendorff, Agne Karlsson, Jan-Åke Thomasson.

## Result and profitability



Facts	1997	1996
Sales, SEK M	4,456	3,478
of which, exports	3,428	2,522
Operating result, SEK M	689	-235
Return on capital employed, %	14	- 5
Investments, SEK M	250	813
Employees	1,482	1,521
Production, 1,000 tonnes	1,188	995
of which, hardwood pulp	329	310
Deliveries, 1,000 tonnes	1,165	1,010

## Pulp qualities

At SÖDRA's three mills, some 15 qualities are manufactured.

	Mörrum	Värö	Mönsterås
<i>Softwood pulp</i>			
Skogcell 70 Z		●	
Skogcell 70 TZ		●	
Skogcell 80 Z		●	●
Skogcell 80 TZ		●	●
Skogcell 80 FTZ		●	
Skogcell 85 Z		●	●
Skogcell 85 TZ		●	●
Skogcell 90 D	●		
Skogcell 90 TD	●		
Skogcell 90 RD	●		
Skogcell 90 Z		●	●
<i>Hardwood pulp</i>			
Skogcell Birch Z	●		●
Skogcell Aspen Z	●		

**Skogcell** is the "family name" for all Södra Cell's pulps. The figures 90, 70, etc denote brightness; 90 is the brightest fully-bleached pulp. T denotes softwood pulp with high tear strength. R is a softwood pulp with high tensile strength. D denotes that the paper is bleached with chlorine dioxide. Z denotes that the pulp is bleached totally without chlorine chemicals. F is flash-dried pulp.

**TCF** means totally chlorine-free, i.e. pulp which has been bleached totally without chlorine chemicals.

**ECF** stands for elemental chlorine-free and means that pulp is bleached with chlorine dioxide.

## Transport and stevedoring

The subsidiary, **Södra Shipping AB**, is responsible for procuring freight and outward transport on behalf of Södra Cell and Södra Timber. Loading of pulp amounted to 1,161,000 tonnes (1,018,000), of which 694,000 tonnes by sea.

Utilisation was high of the three time-chartered vessels, Timbus, Cellus and Forester. A changeover to using low-sulphur oil as fuel in the vessels cut sulphur discharges by approximately two-thirds calculated on an annual basis. To meet the mills' larger production and increased deliveries by sea, it was decided to replace Cellus with a new larger vessel in 1998.

For Södra Timber, transport of 605,000 m<sup>3</sup> (582,000) of sawn timber was carried out.

Operations in **Mönsterås Stuveri AB** consist mainly of unloading and loading vessels in the port at the Mönsterås mill. In total, 299,000 tonnes of pulp was loaded and 827,000 m<sup>3</sup> of pulpwood unloaded, the largest volumes so far.

## Personnel and organisation

The average number of employees fell to 1,482 (1,521). The management organisations of the mills were changed, partly to increase delegation and the decentralising of operations. The market organisation was strengthened and the new function for business development established. Activities aimed at developing skills was extensive. In addition to professional and basic training, investments were made in co-operation and communications development.

## Prospects for 1998

At the beginning of 1998, the pulp market was unstable and prices falling. The general economic deterioration and the turbulence in Asia affected the pulp market with regard to both sales and prices.

If the economic recovery in Europe continues and the US trend is maintained, there are positive criteria for a recovery in the pulp market during the latter part of the year. However, uncertainty remains significant as far as the continued development in Asia is concerned. At the present time, most indications are that operating income will not reach a satisfactory level during 1998.



# Södra Finans

## Return to normal result

Result after interest amounted to SEK 23M (138), a significant fall compared with the previous year but a normal result for Södra Finans.

Södra Finans' result is mainly decided by foreign exchange trading and external investments. Södra Finans is able to take its own currency positions, however only with the objective of reducing the Group's total currency risk. During 1997, SÖDRA had considerably smaller currency positions than in previous years. The SEK was stable against the European currencies and low and stable Swedish interest rates meant that forward premiums were lower than in the previous year. The results of the currency trading fell to SEK -4M (39).

The Group's units invest and borrow money in the internal bank, Södra Banken. Södra Finans borrows and makes the external investments which are required, taking into account the Group's policy. The result of this, the so-called net interest income, was SEK 34M (107), of which sale of bonds accounted for SEK 8M (74).

## The Group's foreign exchange policy and hedging

Sales by SÖDRA's industrial companies are mainly made in foreign currencies, whereas costs are almost exclusively in SEK. A strengthening of the SEK therefore has a negative effect on the companies' results, whereas a weakening has the reverse effect. The largest effect on the result is brought about by changes in the USD/SEK ratio.

The strengthening of the USD and the GBP and other currencies between 1996 and 1997 had the effect that the consolidated income and result before hedging measures was positively influenced by approximately SEK 340M. (Exchange rate fluctuations also have an indirect effect on the result via influence on producer prices, competitiveness and volumes, etc. However, the extent of such effects are difficult to calculate and are not included in this figure.)

To counter the effect on results of currency fluctuations, various hedging measures are implemented. Decisions regarding hedging are made by the industrial companies in consultation with Södra Finans. The result of these measures is included in the operating results of the companies. Södra Finans ensures that the Group's combined foreign exchange exposure is in line with the guidelines laid down by the Board of Directors. The hedging measures that were implemented in the form of forward contracts affected the year's consolidated result negatively by SEK 231M (compared with if no hedging had been made).

In addition, the Group's financial income and expenses were negatively affected by SEK 71M due to the fact that existing USD loans were written-up towards the end of the year as a consequence of the stronger USD.

At the year-end, the volume of USD which has been sold forward amounted to USD 600M, an increase of USD 100M over the beginning of the year.

The Group forward contracts relating to sold currency at 31 December 1997		Other currencies	
	USD M	Price	SEK M
Maturity 1998	340	7.45	
Maturity 1999	250	7.55	
Maturity 2000	10	7.90	
Total (USD M)	600*	7.50	
Translated into SEK at average 1997 forward rate (SEK M)	4,498		793
Translated into SEK at rate on 31 December 1997 (SEK M)	4,722		798
Difference (SEK M)	- 224		- 5
Of which, entered as income in 1997 accounts (SEK M)	- 44		- 5

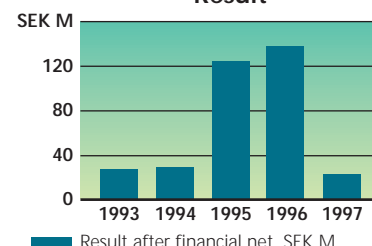
\*) Includes the 1997 portion of forward contract premiums and deductions with maturity in 1998-2000 by SEK -15M.

## Operations

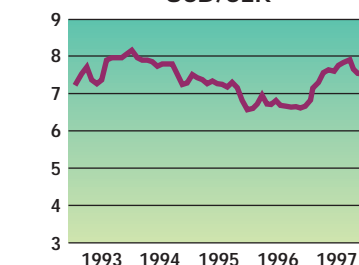
The operations of Södra Finans are carried out in four areas: Södra Banken is the Group's internal bank, Södra Reinsurance S.A. and Ltd are reinsurance companies, Södra Treasury Co is an international finance company and Södra Skogsägarna Leasing AB concentrates on financing on behalf of the operations.

Södra Finans is also the Group's finance staff function and sells financial services to subsidiaries and divisions. The average number of employees was 13 (12).

## Result



## USD/SEK



Average USD/SEK ratio in 1997 was 7.62 (6.70).

## Consolidated in-flow of currency

	1997	1996
SEK	52%	53%
USD	32%	31%
ECU	9%	9%
DEM	4%	4%
GBP	3%	3%
Other	<1%	<1%

# Södra Skogs- energi

High pace in the  
energy  
debate



Sören Romberg,  
President

Operating income amounted to SEK 1M (4). The fall was mainly due to a moderate price level and rising costs for forest industrial by-products.

Sales increased to SEK 221M (193). The average number of employees was 35 (36).

## Market

Demand for the company's products, wood and peat fuels, was satisfactory during most of the year. Deliveries increased to 1,962,000 m<sup>3</sup>s (1,714,000), equivalent to 1.9 TWh. Of the deliveries, 47 per cent referred to forest fuels, 38 per cent by-products from timber industries, 6 per cent peat and 9 per cent wood powder and pellets.

The abundant supply of biofuels meant increased price competition on the market. Despite this, sales prices started to turn up from previously low levels.

The competitiveness of biofuels vis-à-vis fossil fuels was strengthened partly through a doubling of the tax on carbon dioxide for industries and increased prices of crude oil.

In June, the Swedish Parliament adopted a long-awaited energy bill. In total, SEK 9.4 billion was allocated for energy conversion, of which SEK 3 billion was in the form of contributions for converting electrical heating systems in properties to, among other things, biofuels, for replacing electricity in district heating systems and for investment in thermal power. More than SEK 5 billion was allocated for research and development of new energy technology. The funds are expected to contribute to an increased market for biofuels of approximately 5 TWh over a 5-7 year period, of which approximately 2 TWh in Southern Sweden. Expectations of contributions made many house-owners wait in changing their heating systems. The market for small burners slowed down during more than 6 months to accelerate in the last quarter. The year's deliveries of pellets to the small-scale market nearly doubled.

## Production

Production at the plant in Ulricehamn (Södra Träpulver) amounted to 25,000 tonnes (34,000) of wood powder and 38,000 tonnes (31,000) of wood pellets. It was possible to sell the entire volume from Ulricehamn and the pellet plant at the Mönsterås pulp mill despite tough competition from imported pellets and new manufacturers. The added capacity in the industry was significant which means that it will probably take 2-3 years before the market is in balance.



Wood chips are the largest product range. Fraction, dry solid content and composition are decided in accordance with customers' requirements.



By-products from timber industries, such as sawmills, account for a significant portion of fuel deliveries.

The environmental work continued during the year, partly with preparations to introduce environmental management systems in accordance with EMAS at the plant in Ulricehamn.

Peat production was again hit by a cold summer with high rainfall which delayed and made operations more expensive. Thanks to good weather in August, it was possible to harvest 140 GWh (120) of peat.

Production of forest chips increased to 797,000 m<sup>3</sup>s (746,000) with continued high quality. Among other things, work concentrated on increasing "just-in-time deliveries" which made it possible to reduce stocks at the terminals.

## Raw materials

The raw materials for the company's production come mainly from SÖDRA's members or consist of by-products from timber processing industries. Demand for the sawmills' by-products increased from the board industry, thermal power stations and new pellet plants. The consequence was that prices of by-products increased significantly, whereas the price of wood chips remained more or less at the previous year's level.

## Prospects for 1998

The energy issues will be a hot subject also in 1998 when the first nuclear reactor in Barsebäck will be decommissioned. During the year, the funds set aside by the Government for energy conversion will begin to be distributed. The small-scale market, especially for pellets, is expected to enjoy significant growth over the next few years as well the market for pellets to boilers in the 100-500 kW range (small district heating plants and similar).

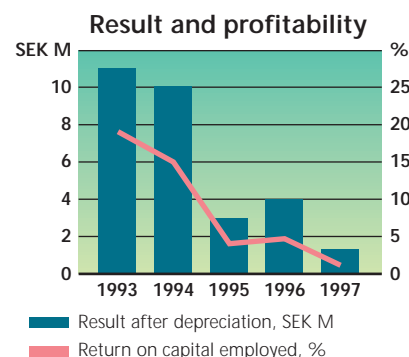
Despite the underlying positive growth for bioenergy, 1998 is also expected to be a financially tough year for Södra Skogsenergi mainly because of over-capacity in the industry. Efforts will concentrate on volume growth, price increase and continued rationalisation to maintain cost efficiency and competitiveness.

## Operations

Södra Skogsenergi, one of Sweden's largest bioenergy companies, produces and sells bioenergy in the form of wood chips, peat, wood powder and pellets. The company produces wood powder and pellets in Ulricehamn and markets pellets produced at the Mönsterås pulp mill. Its head office is located in Ronneby.

## Board of Directors

Helge Eklund (Chairman), Hemming Larsson (Deputy Chairman), Sören Romberg (President), Ivar Franzén, Carl-Gustaf Liderfelt, Kathleen Vogelius. Deputy Member: Jan-Olof Thorstensson.



Facts	1997	1996
Sales, SEK M	221	193
Operating result, SEK M	1	4
Return on capital employed, %	2	5
Investments, SEK M	3	4
Employees	35	36
Total deliveries, 1,000 m <sup>3</sup> s	1,962	1,714
of which, forest chips	973	845
peat	111	165
wood powder	82	115
pellets	94	60
Total deliveries, TWh	1.9	1.6



Processed fuels, mainly pellets and wood powder, have high energy content and constitute an excellent alternative to oil.



Fuel peat with high energy content and low sulphur content. Following extraction, the land is restored.

# R&D

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The annual contribution for research and development, R&D, in the Swedish forest industry is estimated at approximately SEK 2 billion. The completely predominant part of the R&D work takes place in the larger companies. The remaining portion is carried out at universities and research institutions. Both the industry and the Government have expressed their intention to increase the investments. This is partly against the background that the R&D contributions are smaller than in many other industries and that the forest industry is the largest individual source of income for the Swedish economy.

During 1997, many new interesting projects were announced within the industry. In addition, the Government presented a new research programme, partly in collaboration with the industry, with a focus on four areas: development and spread of technology, forest industrial research, timber technology research, and new training locations and professorships. SÖDRA's hope and ambition is that a significant proportion of these investments will be made in Southern Sweden. This, seen against the background of the regional distortion which prevails and the fact that only just over 10 per cent of public R&D funds reach Southern Sweden although the region represents approximately 40 per cent of the forestry value and one-third of the forest growth takes place there.

During 1997, SÖDRA invested more than SEK 25M in various R&D activities. Half the funds were used for own projects whereas the other half were invested in projects which were operated together with other companies or organisations.

SÖDRA's own research is most extended on the pulp side with special emphasis on the region's log properties, cooking, bleaching and fibre/paper knowledge. On the forest side and on the timber side, research is primarily carried out through collaboration with external research institutions and universities. The investment in R&D activities has increased in recent years, partly in the timber segment in which a number of projects are currently in progress aimed at making possible increased use of timber in building.

The forest grows most in Southern Sweden. It would be natural if more public R&D funds are invested in Southern Sweden.





## Södra Cell

At the R&D department in Mörrum, work is focused especially on the areas log properties, cooking, bleaching and fibre/paper knowledge. Important objectives are to ensure that the logs are utilised in the best possible way, that the consumption of chemicals and discharges is limited and that the right quality of pulp is attained in collaboration with the customers. The department has 16 staff and works for all three mills. A couple of years ago, Värö was at the centre. In the past two years, the extensions of Mönsterås and Mörrums have required significant contributions, for example in connection with choice of technology and chemicals as well as process optimisation issues.

### **Some major projects/events during 1997:**

A new office and laboratory section was inaugurated in Mörrum. In the laboratory is found basic equipment including chipper, digester, screening equipment and bleaching equipment for peroxide, ozone and chlorine dioxide as well as equipment for paper-testing.

A project was underway with selective choice of clearing wood aimed at tailor-making products for specific customers. Improved product properties were achieved but limitations on the volume of clearing wood hold back larger production.

Optimisations of the cooking process were made in all three mills. By increasing the so-called kappa number, i.e. milder cooking, the fibre-strength is better retained. The disadvantage is that stronger bleaching is then required which may reduce fibre-strength. The right balance between cooking and bleaching is therefore important.

The bleaching projects were concentrated on reducing the use of bleaching chemicals. Lower volumes of chemicals affect the fibre-strength positively while at the same time the bleaching cost is reduced. The results arrived at led to improvements in all three mills and formed support for investments in Värö and Mönsterås.

In the area “closed-loop bleach plants” work continued aimed at finding various solutions for increasing still further restoration of process water to the mills.

The paper technology development work was mainly carried out as projects in collaboration with customers with the objective of improving or developing new pulp qualities.

During the year, the contact with various institutes and universities strengthened. Industrial post-graduate training was started which means that scientists employed by Södra Cell carry out research training aimed at the industry under the leadership of professors at the Royal Institute of Technology, KTH.

In addition, Södra Cell participated in several external projects through different research organisations inside and outside Sweden, including Skogsindustrins Tekniska Forskningsinstitut, the Swedish University of Agricultural Sciences, and ESPRA, a US pulp technology centre. The projects were mainly directed at basic research into cooking and bleaching.

Södra Cell's costs for R&D operations in 1997 amounted to SEK 14.5M, of which SEK 6.5M referred to support to external research institutions.



Optimisation of the cooking process was made in SÖDRA's three pulp mills aimed at attaining the right balance between cooking and bleaching.



In a hangar in Cardington in Great Britain, a six-storey building is being constructed of timber. The intention is to carry out various tests and to demonstrate to European customers how such a building can be constructed.

### Research foundation

SÖDRA also supports research and development through the independent research foundation, Södra Skogsägarna's Foundation for Research, Development and Training. The foundation was established in 1995 when SÖDRA allocated SEK 100M to the operation.

The purpose of the foundation is to promote R&D at university level or similar which is of importance for forestry or forest industrial operations in Southern Sweden. Among major projects which the foundation has supported since its establishment are noted bioenergy research at Växjö University and the project, Southern Sweden Forest Research.

In 1997, the foundation granted new contributions totalling SEK 4.3M to, among other things, the research programme, Private Forestry (which concentrates on financial, environmental, production and information issues of private forestry) and to research at the Royal Institute of Technology relating to bleaching of TCF pulps. An ongoing project which is aimed at increasing the use of wood frames in large buildings was granted increased funds. Funds were also provided for a professorship in construction technology with concentration on timber-framed construction at the Lund Institute of Technology with placement at Växjö University.

### Södra Timber

In the sawmill industry and the timber-mechanical industry, the structure with many small units and strong product differentiation, meant that it was not quite as simple to gather around central projects as it was in, for example the pulp and paper industry. Six years ago SÖDRA on its own initiative started a large timber research project following a decision to invest SEK 5.5M per annum for six years. The orientation was to support Swedish timber research with the objective that the use of Southern Swedish timber should increase in the long term. The background was, among other things, that over a number of years the sawn timber had lost market shares to competing materials.

The work has been very successful and in 1997 led to a decision that the programme would be expanded and extended. From 1998, the figure will be SEK 9M per annum for six years. Of this, SEK 5M refers to research located at institutes and universities and SEK 4M will go to industry research and own product development. The industry research is carried out through TräForsk and Träinformation.

From 1998, Södra Timber's research department will comprise 5 staff. Product development is carried on in, among other places, Hultsfred.

The R&D work concentrates mainly on two areas: basic research into the link between the properties of the logs and the demands placed on the end-product, and the development of new products and building systems of timber.

### The largest projects and activities during 1997 were:

Continued research in construction of multi-storey buildings of wood.

Development of building systems of solid wood, the SÖDRA wall, etc.

Development of noise-suppression screens and other products of timber.

Participation as a supplier of timber to a six-storey sample-building of timber in Great Britain.

During the year, SÖDRA decided to support the build-up of training, research and development in the forest, timber and bioenergy areas at the university in Växjö. Södra Timber is responsible for the timber side, partly through the creation of a couple of industrial post-graduate posts.

The report, Development Resources for the Southern Sweden Forest Industry, was produced during the year. The report contains a charting of research and training resources with a link to the forest industry and makes recommendations for action.

Södra Timber's costs for the R&D operation in 1997 amounted to SEK 6M, of which SEK 4M referred to support for various external projects.

During 1998, the experience from construction of the buildings on Wälludden will become useful in phase 2 of the same project which comprises another four multi-storey buildings.

## Södra Skog

Forest research is mainly carried out at the Swedish University of Agricultural Sciences and the industry research institute, SkogForsk. Södra Skog's R&D activities are mainly carried out through collaboration with these research institutes and other universities, institutes, machine manufacturers and other interested parties in the forest industry.

Södra Skog contributes to the financing of SkogForsk and participates in various advisory groups of the operations. Here, research is concentrated on four central issues for the future: product value and production efficiency, environmentally-adapted forestry, new organisation structures and new forest farming materials. Within these, a large number of projects are carried out relating to, for example, fuel and transport systems, forest management and nature conservation, improvement of spruce and deciduous trees in Southern Sweden, forest fuel systems, etc.

### **During 1997, some the most important projects were:**

SkogForsk completed an assignment which, among other things, referred to planning of demonstration areas and production of training material for thinning operations.

Since 1989, SÖDRA and Vattenfall have together run the project, Skogskraft, with the objective of developing systems for vitality fertilising following withdrawal of wood fuels. The two latter projects, forest vitalisation in old forest and forest vitalisation following withdrawal of slash residues, were completed during 1997.

Södra Skog participates in the project, Improved Utilisation of Hardwood for Further Processing. The project is aimed at increasing the supply of domestic industrial wood of oak, beech, ash, birch and elder and as a result achieve increased profitability in hardwood forestry.

Södra Skog's cost for the R&D operations in 1997 amounted to SEK 4.5M, of which SEK 3M referred to support for external projects.

## Södra Skogsenergi

The main R&D work is carried out via SkogForsk and TorvForsk through partnership in the development company, Termiska Processer AB, and Bioenergi-gruppen i Växjö AB as well as through various collaboration projects with universities and institutes.

Research, development and training in the biotechnology area for small and medium-size combustion plants is carried out through Bioenergi-gruppen.

Ash restoration is a prioritised development area for which a Groupwide project group was appointed during the year. The project will be completed during spring 1998.

Södra Skogsenergi also participates in a project called Smålandsaska in collaboration with the Nature Conservation Board, thermal power stations and fuel suppliers in Småland.

Another ash project is carried out in collaboration with Vattenfall in Nässjö with the objective of reburning poorly burnt-out ash, granulating the ash and restoring it to the forest land.

During the year, Södra Skogsenergi started a wet-land project with the objective of studying how the biodiversity can be enriched and the water quality raised on after-treatment of a completed peat-cutting.



Improved utilisation of hardwood is a project aimed at increasing profitability in hardwood forestry.



Södra Transport's development work refers mainly to computerised solutions aimed at improving communication. Computers and printers have been placed on a trial basis in two of the company's own log trucks with a link to the transport manager. The transport planning system is being developed to improve the capacity utilisation of the trucks and Södra Transport is taking part in producing a national road database which will make possible very detailed information with regard to where wood is to be found for collection in the forest.



# Environ- ment

"Environmental Report 1997" is published in Swedish and English and is available on request from SÖDRA, Group Staff Information, SE-351 89 Växjö, Telephone +46 470-890 00, Fax +46 470-217 38.

The environmental policy and the nature conservation policy can also be ordered separately.

Environmental costs and environmental investments in 1977, SEK M

Licensing matters, supervision, etc	8.1
Personnel and training	9.5
Environmental charges and taxes	31.7
Running/maintenance, testing	15.1
Total costs	64.4
Environmental investments	73.0

Burden on the environment and wood consumption in SÖDRA's own industry (tonnes)

	1997	1996
<b>Into air</b>		
NO <sub>x</sub>	5,200	4,600
SO <sub>2</sub>	2,900	2,900
CO <sub>2</sub> -fossil	336,000	373,000
<b>Into water</b>		
AOX	69	56
COD	38,800	34,400
Nitrogen	410	410
Phosphorus	55	43
Wood consumption, 1,000 m <sup>3</sup> fub	7,300	6,400

The seven most important discharge parameters for the Group and the wood consumption.

SÖDRA's environmental work is controlled by an environment policy and a nature conservation policy which were adopted in 1995. These are reproduced in full in the separate publication "Environmental Report 1997".

**Environmental management systems.** In accordance with the environment policy, every company/division is to introduce environment management systems. Work on this has been in progress for a couple of years, first within the industrial operations and now also on the forestry side. All pulp mills, sawmills and regions have, or are in the process of introducing environmental management systems in accordance with EMAS. The same applies to units in Södra Skogsenergi and on the transport side. So far, the sawmills in Lenhovda and Unnefors as well as the Värö pulp mill have been EMAS-registered.

From an operations viewpoint, the responsibility for the environmental work lies on the respective companies/divisions. During 1997, a number of environment-improving measures were implemented. These are reported in the separate environmental report.

**Costs for the environmental work.** "Environmental costs" reported here are partly estimated. Some costs are relatively easy to define, for example training, supervision, environmental charges and taxes as well as costs for specific environmental projects. Other costs are significantly more difficult to separate as the environmental portion is often included as part of a larger entity, for example operating and maintenance costs. In total, the year's "environmental costs" are estimated at SEK 64M (see table). The largest item, SEK 28M, is the carbon dioxide tax on fossil fuels.

For damage to the environment from previous operations, SEK 0.3M was paid during 1997 for deterioration in eel fishing close to the Mörrum mill.

No estimate has been made of the "environmental income". Such additional income exists as a consequence of previous environmental investments but to measure them is complicated and unreliable. On calculation of "environmental investments" there are also problems from a definition viewpoint. It is often difficult to separate what constitutes the environmental portion of an investment, for example in the process of a pulp mill. Subject to this, the Group's investment in environment conservation is estimated at SEK 73M (250).

SÖDRA's strategy is to have well-invested plants which are at the forefront of technology and the environment. Over the past 15 years, investments in environment conservation have amounted to approximately SEK 2 billion. In 1997, depreciation of and interest on these investments amounted to around SEK 200M.

**Environmental inventories.** As a support for its environmental work, SÖDRA carries out annual inventories of the units' use of resources and discharges. The report, which comprises some 40 parameters, shows the total discharges which SÖDRA's operations give rise to including those which arise on production of raw materials which SÖDRA buys-in and in the outward transport of the finished products to the customers.

The increase of approximately 15 per cent in nitrogen oxide discharges (NO<sub>x</sub>) is linked to a 20 per cent production increase at the pulp mills and increased transport work. Despite this, the "fossil" carbon dioxide discharges (CO<sub>2</sub>-fossil) reduced by 10 per cent thanks to significantly-reduced (35 per cent) consumption of fuel oil at the pulp mills. The increase in phosphorus discharges is connected with disruptions in the external treatment plant for waste water at the Mönsterås mill. Reconstruction of the external treatment plant is in progress.

The Group's total use of fossil fuels (fuel oil and diesel) was 4,200 TJ (5,100). This can be compared with the Group's sales of biofuels of 6,900 TJ (6,000).





# Annual Report 1997

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The bulk of products are exported,  
mainly to Western Europe.

# Directors' Report

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Södra Skogsägarna  
Economic Association  
with subsidiaries  
(organisation number  
729500-3789)

## Market and production

The international economic trend was in line with expectations until the autumn. In Europe, the moderate recovery continued and in the USA, the strong economic situation which has lasted several years continued. At the beginning of the autumn, forecasts indicated that the continuation into 1998 would also be good. Then, the economic and financial crisis which loomed large in Asia came as a surprise for most people – a change which also had considerable impact on the markets for pulp and sawn timber.

Positive international demand for paper and board contributed to record high deliveries of bleached kraft pulp. Volumes to Europe and the USA increased by 5 and 10 per cent, respectively. On the increasingly important Asian market, demand developed considerably more spasmodically with significantly lower purchases during the latter part of the year. The price for bleached sulphate pulp was under pressure during the first half of the year to register a low of USD 500 during late spring. Thereafter, a recovery started. In October, the quotation was USD 610 with expectations of a further rise. However, these were not fulfilled. Instead, the price was again squeezed down to below USD 550 at the beginning of 1998. The average price received by Södra Cell in SEK was 13 per cent above the previous year's level.

Production at SÖDRA's three pulp mills amounted to a record high 1,188,000 tonnes (995,000), of which 329,000 tonnes (310,000) was hardwood pulp. The increase is mainly explained by the raised capacity in Mönsterås but also by a high pace in Mörrum and Värö.

During the first half of the year, the timber market was strong and prices on the way up. In mid-year, there was a change. The market weakened, partly because of oversupply in Sweden and other producer countries. Prices fell strongly towards the end of the year. Despite that, the average price obtained was 20 per cent above the level of the previous year.

Production at SÖDRA's seven sawmills increased to 614,000 m<sup>3</sup> (539,000). Most mills exceeded previous production records.

From a volume viewpoint, 1997 was also a record year for Södra Skog. Acquisition of wood and deliveries increased to 10.5 million m<sup>3</sup>fub (8.6). Of the deliveries, 5.5 million m<sup>3</sup>fub (4.3) were made to Södra Cell, 1.3 million m<sup>3</sup>fub (1.1) to Södra Timber, 0.5 million m<sup>3</sup>fub (0.5) to Södra Skogsenergi and 3.2 million m<sup>3</sup>fub (2.7) to external parties, of which the majority was to sawmills.

Timber prices were raised around the turn of the year by approximately SEK 55/m<sup>3</sup> to for spruce and approximately SEK 40/m<sup>3</sup> to for pine. Spruce timber prices were then stable during the year. Pine timber prices had a slightly rising trend until the beginning of the autumn. The spasmodic and periodically squeezed pulp market did not provide scope for any increase of the pulpwood price. The price of softwood remained unchanged at SEK 240/m<sup>3</sup>fub during the whole year.

## Results and profitability

The consolidated result after financial net improved to SEK 592M (-318). At the start of the year, a loss result was reported. With the rise in the price of pulp, earnings were raised during the second and third quarters. Towards the end of the year, the earnings curve turned towards zero as a result of falling pulp and timber prices. During the beginning of 1998, the result level remains unsatisfactory. Ahead of the second half of the year there are expectations that it will again be possible to raise prices and improve earnings.

Return on capital employed was 12 per cent (-3). During the five-year period, 1993-1997, return averaged 15 per cent.

## Financial position

At the year-end, the equity/assets ratio amounted to 55 per cent (55) and the share of risk-bearing equity was 65 per cent (64).

Liquid assets, i.e. short-term investments and cash, increased during the year to SEK 1,703M (964). In addition, the Group had access to binding credit promises of SEK 1,344M at the year-end.

The net loan liability, i.e. the difference between liquid funds and financial liabilities, improved from SEK -925M at the start of the year to SEK -321M at the year-end.

#### **Investments**

The year's investment expenditure amounted to SEK 356M (939), of which SEK 250M (813) within Södra Cell.

During the year, a decision was made to expand capacity at the Mönsterås pulp mill by 200,000 tonnes to 750,000 tonnes. The expansion will be completed during 1999. In addition, a decision was made to build a new sawmill with a capacity of 300,000 m<sup>3</sup> adjacent to the Mönsterås mill. The sawmill is expected to be ready for operation in late summer 1999. The combined investment expenditure for the expansion is estimated at approximately SEK 1.9 billion, including required extension of port, etc.

#### **Research and development**

The Group's costs for R&D emanate from SÖDRA's own research and from the support given to external research projects. In 1997, these costs totalled more than SEK 25M.

SÖDRA's own research is most developed on the pulp side with special emphasis on the areas log properties, cooking, bleaching and fibre/paper knowledge. On the forestry side and on the timber side, research is mainly carried out through collaboration with external research institutes and universities. Investments in R&D activities have increased in recent years, partly on the timber side in which a number of projects are currently underway aimed at making possible increased use of timber in construction of multi-family buildings, etc.

#### **Members**

At the year-end, 31,378 (31,039) forest owners were members of SÖDRA. Together, the members own 1,714,813 hectares of forest (1,684,367) which is more than half of the individually-owned forests in SÖDRA's area of operation.

#### **Other information**

The Competition Authority's decision in 1996 to forbid SÖDRA to fix prices for saw logs and pulpwood on external sales was appealed against by SÖDRA to the Stockholm City Court. The City Court's judgement in November 1997 meant that SÖDRA was acquitted. The City Court found, among other things, that the operations had not been damaging to competition. The Competition Authority has appealed against the judgement of the City Court to the Market Court and has repeated that it is of the opinion that SÖDRA's pricing "significantly prevents, limits or distorts competition on the market". The Market Court, which is the final court of appeal is expected to pass judgement on the matter during the second half of 1998.

During the year, the Swedish Parliament passed a resolution regarding changes in the legislation relating to economic associations. Among other things, these mean that the ceiling for dividend on contributions is abolished and that distributable profits may be transferred to members' activities if an association so wishes. The changes came into force on 1 January 1998.

Södra Cell carried out a leasing transaction with two American banks as counterparty. The transaction meant that equipment at the Mörrum mill has been leased-out and leased-in. Rental income and expenses are paid in advance in line with practice for this type of transaction which means that SEK 216M net was added to the Group and is credited to the year's results.

A decision was made to close the sawmill in Örkelljunga during 1998.



# Profit and Loss Account

SEK M		Group		Parent Company	
		1997	1996	1997	1996
Net sales	Note 1	7,751.8	6,084.5	4,242.8	3,444.0
Change in stock		98.8	- 107.4	-	-
Capitalised work on own account		3.5	22.3	-	-
Other operating income	Note 2	356.1	462.4	90.1	54.3
Operating expenses					
Raw materials and supplies		- 2,671.0	- 2,190.7	- 1.9	- 2.1
Goods for resale	Note 3	- 1,228.0	- 1,292.3	- 3,467.7	- 2,849.8
Personnel costs	Note 23	- 1,030.2	- 993.6	- 211.0	- 197.8
Other costs	Note 4	- 2,082.6	- 1,767.6	- 606.8	- 516.0
Planned depreciation	Note 5	- 478.5	- 531.9	- 9.7	- 11.4
<b>Operating result</b>		<b>719.9</b>	<b>- 314.3</b>	<b>35.8</b>	<b>- 78.8</b>
Financial income and expenses	Note 6	- 128.1	- 3.8	218.1	211.9
<b>Result after financial income and expenses</b>	Note 7	<b>591.8</b>	<b>- 318.1</b>	<b>253.9</b>	<b>133.1</b>
Group contributions	Note 8	-	-	10.9	20.5
<b>Result before taxes</b>		<b>591.8</b>	<b>- 318.1</b>	<b>264.8</b>	<b>153.6</b>
Taxes	Note 9	- 115.7	113.2	-	- 0.4
<b>Result for the year</b>		<b>476.1</b>	<b>- 204.9</b>	<b>264.8</b>	<b>153.2</b>

Net sales and operating result by Business Area (SEK M)	Net sales		Operating result	
	1997	1996	1997	1996
Södra Skog	4,246	3,447	75	- 33
Södra Skogsenergi	221	193	1	4
Södra Timber	1,129	925	30	- 20
Södra Cell	4,456	3,478	689	- 235
Södra Finans	-	-	2	32
Other	603	518	- 77	- 62
Intra-Group deliveries	- 2,903	- 2,476	-	-
<b>Total</b>	<b>7,752</b>	<b>6,085</b>	<b>720</b>	<b>- 314</b>
Financial income and expenses			- 128	- 4
<b>Consolidated result after financial income and expenses</b>			<b>592</b>	<b>- 318</b>



Group sales increased to SEK 7,752M (6,085). Exports accounted for SEK 4,304M (3,224).

Other operating income amounted to SEK 356M (462). This included SEK 216M from a lease-in/lease-out transaction relating to equipment at the Mörrum pulp mill.

Operating income improved to SEK 720M (-314). The result included exchange losses on forward contracts of SEK 231M compared with exchange gains of SEK 300M in the previous year. The improvement in earnings over 1996 is mainly explained by larger sales volumes and higher prices for pulp as well as sawn timber and logs. At the same time, cost increases were limited. At the pulp mills, the higher volumes and lower wood costs had the effect that average production cost per tonne was 14 per cent lower than in the previous year.

On a comparison with 1996, it should also be taken into account that last year's result was charged with additional costs for handling storm-felled timber and that fine-tuning of new equipment at the pulp mills brought about extra costs.

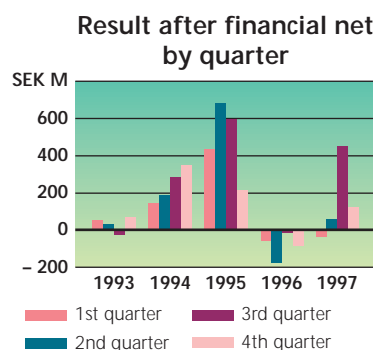
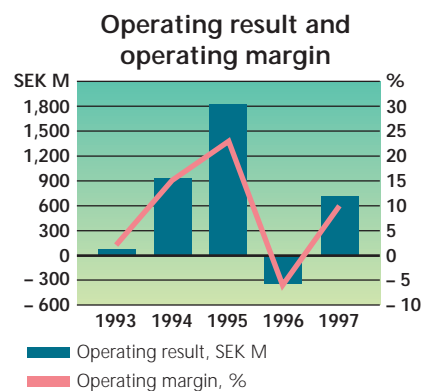
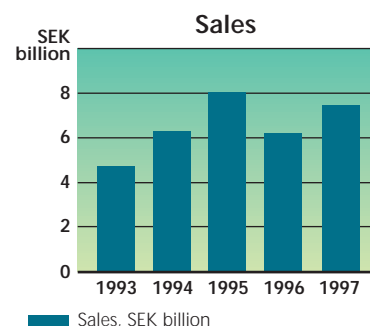
Depreciation was reduced to SEK 478M (532) primarily because the old Mönsterås plant was depreciated in full in 1996.

The results of Södra Cell, Södra Skog and Södra Timber improved significantly compared with the poor outcome in 1996. The result of Södra Finans fell to a more normal long-term level.

Financial income and expenses amounted to SEK -128M (-4), including exchange losses on USD loans of SEK 71M. Financial income and expenses in the previous year included profit on sale of bonds of SEK 74M.

Result after financial income and expenses improved to SEK 592M (-318). On 1 January, the result level was below zero. With the rise in the price of pulp in late spring, earnings were improved during the second and third quarters. Towards the end of the year, the earnings trend again turned down, mainly as a result of falling pulp and timber prices.

Consolidated net sales by market (SEK M)	1997	Share of total, %	1996	Share of total, %
Sweden	3,448	45	2,861	47
Germany	1,411	18	1,020	17
The Netherlands	426	5	303	5
Italy	418	5	326	5
France	404	5	260	4
Great Britain	365	5	296	5
Austria	343	4	300	5
Norway	138	2	99	2
Switzerland	130	2	111	2
Denmark	97	1	83	1
Eire	57	1	44	1
Asia	251	3	99	2
Africa	86	1	81	1
Other	178	3	202	3
	<b>7,752</b>	<b>100</b>	<b>6,085</b>	<b>100</b>



# Balance Sheet

SEK M		Group 1997	1996	Parent Company 1997	1996
<b>Assets</b>					
Fixed assets					
Tangible fixed assets	Note 10	5,147.2	5,279.0	158.9	159.8
Financial fixed assets	Note 11	8.2	34.0	1,332.8	1,363.1
<b>Total fixed assets</b>		<b>5,155.4</b>	<b>5,313.0</b>	<b>1,491.7</b>	<b>1,522.9</b>
Current assets					
Stocks	Note 12	761.8	633.4	39.6	38.8
Receivables	Note 13	1,069.1	1,102.3	723.8	542.3
Short-term investments	Note 14	1,520.1	868.1	1,733.4	1,298.1
Cash and bank		183.3	95.6	153.5	84.1
<b>Total current assets</b>		<b>3,534.3</b>	<b>2,699.4</b>	<b>2,650.3</b>	<b>1,963.3</b>
<b>Total assets</b>		<b>8,689.7</b>	<b>8,012.4</b>	<b>4,142.0</b>	<b>3,486.2</b>
<b>Equity capital and liabilities</b>					
Equity capital	Note 15				
Restricted equity					
Capital contributed		352.4	325.3	352.4	325.3
Restricted reserves		2,453.6	2,166.2	885.3	877.6
		<b>2,806.0</b>	<b>2,491.5</b>	<b>1,237.7</b>	<b>1,202.9</b>
Non-restricted equity					
Retained profits		1,526.0	2,145.2	406.9	388.2
Result for the year		476.1	- 204.9	264.8	153.2
		<b>2,002.1</b>	<b>1,940.3</b>	<b>671.7</b>	<b>541.4</b>
<b>Total equity capital</b>		<b>4,808.1</b>	<b>4,431.8</b>	<b>1,909.4</b>	<b>1,744.3</b>
Untaxed reserves	Note 16	-	-	67.0	67.1
Provisions					
Provisions for pensions	Note 17	554.0	528.6	291.7	288.6
Other interest-bearing provisions		6.7	-	-	-
Provisions for taxes	Note 18	830.8	720.5	-	-
<b>Total provisions</b>		<b>1,391.5</b>	<b>1,249.1</b>	<b>291.7</b>	<b>288.6</b>
Liabilities					
Interest-bearing liabilities	Note 19	1,463.7	1,359.9	1,324.6	1,012.5
Operating liabilities	Note 20	1,026.4	971.6	549.3	373.7
<b>Total liabilities</b>		<b>2,490.1</b>	<b>2,331.5</b>	<b>1,873.9</b>	<b>1,386.2</b>
<b>Total equity capital and liabilities</b>		<b>8,689.7</b>	<b>8,012.4</b>	<b>4,142.0</b>	<b>3,486.2</b>
Pledged assets	Note 21	824.1	1,194.3	200.7	200.2
Contingent liabilities	Note 22	78.7	50.3	249.5	232.8

The Balance Sheet was mainly affected by the year's positive result and limited investments. Total assets increased to SEK 8,690M (8,012).

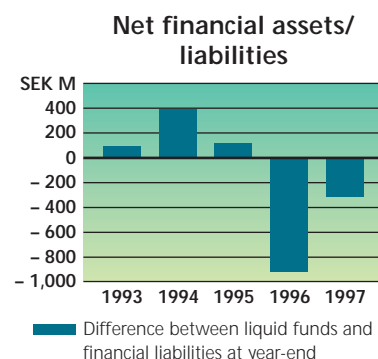
Liquid assets, i.e. cash and short-term investments, increased to SEK 1,703M (964). In addition, the Group had at its disposal credit promises of SEK 1,344M at the turn of year.

Total equity capital increased by SEK 376M to SEK 4,808M (4,432). At the year-end, capital contributed represented 7 per cent and other equity capital 93 per cent of total equity capital.

Financial liabilities increased to SEK 2,024M (1,889). Of the increase, SEK 71M emanated from increased borrowing from members and as much from write-up of existing USD loans.

The difference between liquid assets and financial liabilities improved from SEK -925M to SEK -321M during the year.

At the year-end, the equity/asset ratio amounted to 55 per cent (55) and the share of risk-bearing capital to 65 per cent (64).



#### Average capital employed,

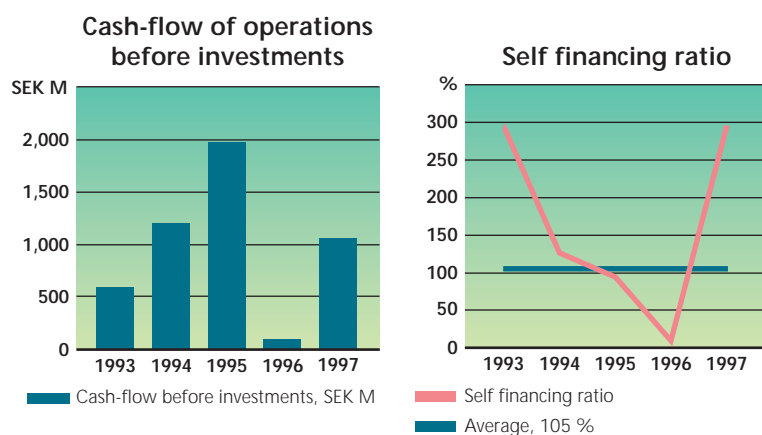
SEK M	1997	1996
Södra Skog	261	270
Södra Skogsenergi	83	85
Södra Timber	599	545
Södra Cell	5,050	4,868
Groupwide	25	41
	6,018	5,809
Deferred tax liability	- 776	- 780
Liquid assets	1,334	1,172
<b>Total</b>	<b>6,576</b>	<b>6,201</b>

Equity capital, SEK M	1997	1996	1995	1994	1993
Capital contributed	352	325	299	268	243
Other equity capital	4,456	4,107	4,512	3,276	2,588
<b>Total equity capital</b>	<b>4,808</b>	<b>4,432</b>	<b>4,811</b>	<b>3,544</b>	<b>2,831</b>
Capital contributed per member (SEK)	11,200	10,500	9,600	8,800	8,200
Total equity capital per member (SEK)	153,200	142,800	154,200	116,300	95,300

# Source and Application of Funds Statement

SEK M	Group		Parent Company	
	1997	1996	1997	1996
Result after financial income and expenses	591.8	- 318.1	253.9	133.1
Planned depreciation	478.5	531.9	9.7	11.4
Result from sale of fixed assets, write-downs, etc	26.3	25.4	-	- 0.9
Group contributions	-	-	10.9	20.5
Taxes	- 5.5	- 6.1	-	- 0.4
<b>Funds generated from the year's operations</b>	<b>1,091.1</b>	<b>233.1</b>	<b>274.5</b>	<b>163.7</b>
Charge in				
Operating receivables (increase -)	33.2	129.1	- 181.6	72.0
Stocks (increase -)	- 128.4	264.4	- 0.8	28.7
Operating liabilities (increase +)	54.8	- 538.5	175.6	- 72.5
<b>Net financing from the year's operations</b>	<b>1,050.7</b>	<b>88.1</b>	<b>267.7</b>	<b>191.9</b>
Change in financial receivables (increase -)	- 0.5	- 0.8	- 0.9	66.5
Investments in shares and participations	-	- 51.2	-	- 0.7
Investments in other fixed assets	- 355.8	- 938.6	- 11.4	- 85.3
Sale of fixed assets	9.1	42.6	33.8	54.0
<b>Financial surplus (+)/deficit (-) after investments</b>	<b>703.5</b>	<b>- 859.9</b>	<b>289.2</b>	<b>226.4</b>
Dividend/post-payment to members	- 126.8	- 200.3	- 126.8	- 200.3
Change in capital contributed (increase +)	27.1	26.4	27.1	26.4
<b>Change in net loan liability (increase -)</b>	<b>603.8</b>	<b>- 1,033.8</b>	<b>189.5</b>	<b>52.5</b>

Change in liquid assets (increase +)	739.7	- 416.8	504.7	50.3
Change in financial liabilities (increase -)	- 135.9	- 617.0	- 315.2	2.2
<b>Change in net loan liability (increase -)</b>	<b>603.8</b>	<b>- 1,033.8</b>	<b>189.5</b>	<b>52.5</b>



## Source and Application of Funds Statement for 1993-1997 in summary (SEK M)

Funds generated from the operations	5,011
Increase in working capital	- 114
<b>Net financing from the operations</b>	<b>4,897</b>
Investments in fixed assets	- 4,652
Sale of fixed assets	492
<b>Financial surplus after investments</b>	<b>737</b>
Dividend and post-payment to members	- 521
Increase in capital contributed	127
<b>Decrease in net loan liability</b>	<b>343</b>



# Notes to the Financial Statements

Notes to the Parent Company and Consolidated Profit and Loss Accounts and Balance Sheets (all amounts shown in the tables are in SEK M unless otherwise stated).

## General

From 1997, the new Annual Accounts Act is applied which primarily has involved changes in the format of the Profit and Loss Accounts and Balance Sheets. The comparative year has been adapted to the new rules. Other changes are shown in the notes.

## Accounting principles

### Consolidated Accounts

The Consolidated Accounts comprise the Parent Company, Södra Skogsägarna Economic Association, and all subsidiaries in which the Parent Company held more than 50 per cent of the number of votes.

The Consolidated Accounts have been prepared in accordance with the Swedish Financial Accounting Standards Council's recommendation number 1.

### Associated companies

Shares in external companies with a proportion of equity of more than 20 per cent have not been reported as associated companies where the holding is of immaterial importance or does not refer to a long-term holding.

### Foreign subsidiaries

On translation of the profit and loss accounts as well as assets and liabilities of the foreign subsidiaries into SEK, the balance sheet date rate is applied. The translation difference is included in the year's result.

### Receivables

Receivables are entered at the amounts by which they are expected to be realised.

### Receivables and liabilities in foreign currency

Receivables and liabilities in foreign currency are valued at the balance sheet date rate.

Forward contracts relating to hedging of future currency flows are reported as result in the same period as underlying flows. The forward contract premium/deduction is accrued over the tenor of the forward contract.

Other forward contracts are translated at the year-end at the balance sheet date rate taking into account the forward contract premium/deduction.

Exchange rate differences and long-term loans in foreign currencies are reported under financial income and expenses in the Profit and Loss Account. Other exchange rate differences are reported as Other operating income and Other expenses, respectively.

### Stocks

Finished goods are valued at the lower of acquisition value and actual value. Raw materials, semi-manufactured goods and other stock products are valued at the lower of acquisition and replacement value. Required deduction is made for obsolescence.

### Planned depreciation

Depreciation according to plan is calculated on the acquisition value of the fixed assets. Depreciation rates for machinery and equipment are:

6%	Pulp mills and sawmills
8-12%	Workshop machinery and equipment
20%	Mobile transport equipment, computers

Leasing assets are depreciated with attention being paid to term and residual value in accordance with the respective lease contract. Buildings and land improvements are depreciated by 1.75-5 per cent which conforms to permissible tax depreciation. The basis for depreciation of buildings also includes revaluations.

The surplus value of fixed assets which arises on application of acquisition accounting in the Consolidated Accounts, is included in the basis for depreciation.

## Profit and Loss Account

### Note 1. Net sales

As net sales are reported invoiced sales including reimbursement for delivery costs and sales commission. These reimbursements have not previously been included in sales. The comparative year, 1996, has been adjusted taking into account the change in principle. Of the Parent Company's sales, SEK 2,285.2M (1,912.0) consisted of deliveries to subsidiaries. Purchases from subsidiaries amounted to SEK 217.4M (159.0).

### Note 2. Other operating income

The Group's Other operating income in 1997 includes profit on a lease-in/lease-out transaction of SEK 216.2M. In 1996, exchange gains on forward contracts were included at SEK 300.0M.

### Note 3. Goods for resale

As goods for resale is mainly reported the Group's cost for sale of wood raw material to external customers. In the Parent Company, deliveries to subsidiaries are added.

### Note 4. Other costs

The Group's Other costs include exchange losses on forward contracts of SEK 231.0M in 1997.

### Note 5. Planned depreciation

	Group		Parent Company	
	1997	1996	1997	1996
Buildings	41.6	36.7	0.4	0.4
Land improvements	8.4	7.1	-	-
Machinery	370.5	427.8	-	-
Equipment	58.0	60.3	9.3	11.0
	478.5	531.9	9.7	11.4

### Note 6. Financial income and expenses

	Group		Parent Company	
	1997	1996	1997	1996
Group contributions	-	-	142.5	124.8
Dividend on shares in subsidiaries	-	-	72.0	31.0
Dividend on shares in non-Group companies	0.1	0.1	-	-
Interest income from Group companies	-	-	26.8	37.8
Interest income from others	82.1	187.1	62.4	147.5
Interest expenses to Group companies	-	-	7.6	14.8
Interest expenses to others	110.4	145.3	65.8	113.7
Exchange rate differences on loans	71.3	14.4	10.0	1.7
Capital gain on sale of shares	-	1.7	-	1.0
Write-down of shares	26.3	33.0	-	-
Other	2.3	-	2.3	-
	128.1	3.8	218.0	211.9

In the Annual Accounts for 1996, capital gain and write-down were included in operating result.

Interest expenses include interest on pension provisions for the Group of SEK 18.9M (30.3) and of SEK 10.7M (16.9) for the Parent Company.

Received Group contributions equivalent to normal dividend from subsidiaries are reported as financial income in the Parent Company's Profit and Loss Account. Other Group contributions are reported as appropriations (Note 8).

The Parent Company received the following Group contributions:

	1997	1996
Södra Cell AB	142.5	123.0
Södra Skogsenergi AB	-	1.8
	142.5	124.8

**Note 7. Result after financial income and expenses**

The following items of a one-off nature are included in result after financial income and expenses:

Group	Other operating income		Financial income and expenses		Total	
	1997	1996	1997	1996	1997	1996
Write-down of shares	-	-	- 26.3	- 33.0	- 26.3	- 33.0
Result on lease-in/lease-out transaction	216.2	-	-	-	216.2	-
	216.2	-	- 26.3	- 33.0	189.9	- 33.0

**Note 8. Group contributions**

In addition to financial Group contributions as per Note 6, the Parent Company received the following Group contributions:

	1997	1996
Södra Skogsägarna Leasing AB	2.1	3.6
Södra Råvaror AB	-	0.3
Entreprenadservice i Växjö AB	0.3	0.3
Södra Transport AB	8.5	7.6
Södra Data AB	-	8.7
	10.9	20.5

**Note 9. Taxes**

	Group	
	1997	1996
Income tax	- 5.5	- 6.1
Deferred tax relating to appropriations	- 110.2	119.3
	- 115.7	113.2

During 1995, the County Administrative Court delivered judgement in two litigations relating to Södra Cell AB.

In one litigation, the County Administrative Court rejected a claim by the tax authority that the dividend of SEK 565.2M, which was received from the subsidiary, Södra Treasury Company in 1991, should be taxed. The tax authority appealed to the Administrative Court of Appeal. No provision was made for additional tax. In February 1998, the Administrative Court of Appeal rejected the tax authority's claim.

In the second litigation, the County Administrative Court accepted the tax authority's claim regarding calculation of loss on sale of shares in 1989. The Company has appealed to the Administrative Court of Appeal. Required tax has been paid.

**Balance Sheet****Note 10. Tangible fixed assets**

Group	New construction in progress	Buildings, land and land improvements	Machinery	Equipment	Forest land	Total
Opening acquisition value	15.2	1,262.6	7,672.7	577.8	123.3	9,651.6
Investments	84.8	24.8	195.8	49.8	0.6	355.8
Reclassifications	- 18.9	3.8	13.8	1.3	-	-
Sales/scrapplings	-	- 2.8	- 10.9	- 23.3	-	- 37.0
<b>Closing acquisition value</b>	81.1	1,288.4	7,871.4	605.6	123.9	9,970.4
Opening depreciation	-	- 559.9	- 3,445.2	- 374.4	- 0.2	- 4,379.7
Sales/scrapplings	-	0.9	9.9	17.1	-	27.9
The year's depreciation according to plan	-	- 49.7	- 370.5	- 58.0	- 0.1	- 478.3
<b>Closing accumulated depreciation according to plan</b>	-	- 608.7	- 3,805.8	- 415.3	- 0.3	- 4,830.1
Opening appreciation	-	3.1	-	-	4.0	7.1
Sales/scrapplings	-	-	-	-	-	-
Net depreciation of written-up amount	-	- 0.2	-	-	-	- 0.2
<b>Closing appreciation</b>	-	2.9	-	-	4.0	6.9
Closing residual value according to plan	81.1*	682.6	4,065.6	190.3	127.6	5,147.2
Tax assessment value	-	2,745.0	-	-	124.3	2,869.3

\*) of which, advances to suppliers 0 (1.2).

Parent Company	New construction in progress	Buildings, land and land improvements	Machinery	Equipment	Forest land	Total
Opening acquisition value	-	15.8	-	92.7	118.4	226.9
Investments	-	1.4	-	9.4	0.6	11.4
Sales/scrapplings	-	- 0.4	-	- 11.5	-	- 11.9
<b>Closing acquisition value</b>	-	16.8	-	90.6	119.0	226.4
Opening depreciation	-	- 2.4	-	- 64.7	-	- 67.1
Sales/scrapplings	-	-	-	9.3	-	9.3
The year's depreciation according to plan	-	- 0.4	-	- 9.3	-	- 9.7
<b>Closing accumulated depreciation according to plan</b>	-	- 2.8	-	- 64.7	-	- 67.5
Closing residual value according to plan	-	14.0	-	25.9	119.0	158.9
Tax assessment value	-	24.8	-	-	114.9	139.7

### Note 11. Financial fixed assets

Group	Shares and participations	Long-term receivables	Total
Opening acquisition value	77.4	5.4	82.8
Additional assets	–	0.6	0.6
Deductible assets	– 0.2	–	– 0.2
<b>Closing acquisition value</b>	<b>77.2</b>	<b>6.0</b>	<b>83.2</b>
Opening write-downs	– 48.8	–	– 48.8
Deductible assets	–	–	–
The year's write-downs	– 26.2	–	– 26.2
<b>Closing write-downs</b>	<b>– 75.0</b>	<b>–</b>	<b>– 75.0</b>
Closing residual value	2.2	6.0	8.2

Parent Company	Shares and participations in		Long-term receivables from		Total
	Group companies	External companies	Group companies	External companies	
Opening acquisition value	1,348.7	0.1	10.0	4.3	1,363.1
Additional assets	–	–	0.2	0.7	0.9
Deductible assets	– 31.1	– 0.1	–	–	– 31.2
<b>Closing acquisition value/book value</b>	<b>1,317.6</b>	<b>–</b>	<b>10.2</b>	<b>5.0</b>	<b>1,332.8</b>

Specification of shares in subsidiaries	Org no.	Reg. office	Number	Holding %	Nominal value	Book value
<i>Operating</i>						
Södra Cell AB	556072-7348	Växjö	50,000	100	500.0	1,051.8
Södra Timber AB	556004-5998	Växjö	1,000	100	10.0	150.0
Södra Skogsenergi AB	556091-8764	Växjö	20,000	100	2.0	15.3
Södra Treasury Co		Eire	1,000,000	50	10.4	10.4
Södra Skogsägarna Leasing AB	556280-1943	Växjö	5,000	100	50.0	61.1
Södra Reinsurance SA		Luxembourg	4,999	100	12.0	11.1
Södra Reinsurance Co Ltd		Eire	3,999,999	100	4.0	4.0
Södra Transport AB	556242-4654	Växjö	10,000	100	1.0	2.1
Södra Skogsplantor AB	556217-0588	Växjö	1,000	100	0.1	0.1
Entreprenadservice i Växjö AB	556255-3106	Växjö	2,500	100	0.25	0.3
Södra Esti AS		Estonia	400	100	0.2	0.2
<i>Non-operating</i>						11.2
<b>Total shares in subsidiaries</b>						<b>1,317.6</b>

The Parent Company's ownership in Södra Treasury Co is 50 %. The remaining 50 % is held by the subsidiary, Södra Reinsurance SA.

### Note 12. Stocks

	Group		Parent Company	
	1997	1996	1997	1996
Raw materials and supplies	361.9	273.6	33.6	33.3
Products under production	38.2	23.4	–	–
Finished products and goods for resale	356.1	331.3	0.4	0.4
Work in progress on behalf of another party	5.6	5.1	5.6	5.1
	<b>761.8</b>	<b>633.4</b>	<b>39.6</b>	<b>38.8</b>

### Note 14. Short-term investments

	Parent Company	
	1997	1996
Financial receivables from subsidiaries	352.6	627.8
External investments	1,380.8	670.3
	<b>1,733.4</b>	<b>1,298.1</b>

Short-term investments have been valued at the lower of acquisition value and actual value.

### Note 13. Receivables

	Group		Parent Company	
	1997	1996	1997	1996
Trade debtors	773.4	617.3	165.4	114.1
Receivables from Group companies	–	–	281.6	80.4
Prepaid tax	–	0.4	–	7.6
Other receivables	175.8	291.5	125.8	154.0
Prepaid expenses and accrued income	119.9	193.1	151.0	186.2
	<b>1,069.1</b>	<b>1,102.3</b>	<b>723.8</b>	<b>542.3</b>

Prepaid expenses and accrued income in 1997 refer to:

	Group	Parent Company
Interest income	8.8	7.6
Insurance premium and insurance compensation	96.3	65.4
Anticipated dividend from Södra Cell AB	–	72.0
Other	14.8	6.0
	<b>119.9</b>	<b>151.0</b>

**Note 15. Equity capital**

Capital contributed (Group and Parent Company)	
Opening balance on 1 January 1997	325.3
Capital contributed, paid up by members	33.0
Capital contributed, paid out to resigned members and excess capital contributed, paid out	- 5.9
<b>Closing balance on 31 December 1997</b>	<b>352.4</b>

Repayments in 1998 of capital contributed to members who resigned at 31 December 1997 amount to SEK 6.9 M.

<i>Restricted reserves</i>	Group	Parent Company
Opening balance on 1 January 1997	2,166.2	877.6
Allocation of 1996 earnings	7.7	7.7
Transfer between restricted and non-restricted equity	279.7	-
<b>Closing balance on 31 December 1997</b>	<b>2,453.6</b>	<b>885.3</b>

<i>Non-restricted equity</i>	Group	Parent Company
Opening balance on 1 January 1997	1,940.3	541.4
Transferred to restricted reserves	- 7.7	- 7.7
Dividend to members	- 126.8	- 126.8
Transfer between restricted and non-restricted equity	- 279.8	-
Result for 1997	476.1	264.8
<b>Closing balance on 31 December 1997</b>	<b>2,002.1</b>	<b>671.7</b>

**Note 16. Untaxed reserves**

	Parent Company	
	1997	1996
Accumulated depreciation in excess of plan		
- buildings	1.5	1.6
Accrual accounting reserve 1994	25.5	25.5
Accrual accounting reserve 1995	40.0	40.0
	<b>67.0</b>	<b>67.1</b>

In untaxed reserves above, deferred tax amounts to SEK 18.8M.

**Note 17. Provisions for pensions**

FPG/PRI pensions are included at SEK 479.9M (472.7) for the Group and at SEK 273.5M (273.0) for the Parent Company.

**Note 18. Provisions for taxes**

	Group	
	1997	1996
Deferred tax liability on 1 January	720.5	839.8
Deferred tax liability in result for the year	110.3	- 119.3
	<b>830.8</b>	<b>720.5</b>

**Note 19. Interest-bearing liabilities**

The interest-bearing liabilities fall due for payment as follows.

<i>Group</i>	Within 1 year	1-5 years	More than 5 years	Total
Liabilities to credit institutions	82.1	2.1	526.0	610.2
Loans from members	615.4	151.2	86.0	852.6
Other liabilities	-	0.3	0.6	0.9
	697.5	153.6	612.6	1,463.7
<i>Parent Company</i>	Within 1 year	1-5 years	More than 5 years	Total
Liabilities to credit institutions	78.8	-	-	78.8
Loans from members	615.4	151.2	86.0	852.6
Liabilities to Group companies	-	392.6	-	392.6
Other liabilities	-	-	0.6	0.6
	694.2	543.8	86.6	1,324.6

**Note 20. Current liabilities**

	Group		Parent Company	
	1997	1996	1997	1996
Advance from customers	1.4	1.2	0.6	0.5
Liabilities to suppliers	655.5	661.2	398.5	263.5
Tax liability	5.6	–	–	–
Liabilities to Group companaies	–	–	8.5	6.5
Other liabilities	49.3	94.8	43.1	25.3
Accrued expenses and prepaid income	314.6	214.4	98.6	77.9
	1,026.4	971.6	549.3	373.7

Accrued expenses and prepaid income in 1997 refer to:

	Group	Parent Company
Holiday pay liabilities and employers' contributions	90.8	26.5
Interest expenses	5.9	5.9
Exchange losses	44.2	44.2
The reinsurance companies' accrued cost for damages	96.2	-
Other	77.5	22.0
	<b>314.6</b>	<b>98.6</b>

**Note 21. Provided guarantees**

	Group		Parent Company	
Guarantees have been provided for:	1997	1996	1997	1996
<i>Pension obligations</i>				
Real estate mortgages	155.0	130.0	–	–
Floating charges	150.0	175.0	150.0	150.0
<i>Liabilities to credit institutions</i>				
Real estate mortgages	460.5	655.7	0.1	0.1
Floating charges	58.0	233.5	50.0	50.0
<i>Other liabilities</i>				
Bank deposits	0.6	0.1	0.6	0.1
	824.1	1,194.3	200.7	200.2

**Note 22. Contingent liabilities**

	Group		Parent Company	
	1997	1996	1997	1996
Pension obligations	-	-	16.0	16.8
Other contingent liabilities	78.7	50.3	233.5	216.0
	78.7	50.3	249.5	232.8

During the year, Södra Cell AB carried out a leasing transaction with two American banks as counterparty. Supporting document for the transaction is a usufruct to the equipment at Mörrums Bruk. The usufruct has been leased out in two so-called principal leases with a tenor of 36 years. Part of the rental has been received in advance. On their part and at the same time, Södra Cell AB has leased back the usufruct via two so-called underleases with a tenor of just over 28.5 years. A bank has taken over the payment responsibility for the rental payments after Södra Cell AB made a payment in advance. After approximately 15.5 years, Södra Cell AB has an option either to buy or hand back the usufruct. For Södra Cell AB's contractual discharge of the payment commitments which may arise, the Parent Company has signed a guarantee as for an own liability.



**Note 23. Average number of employees and wage/salary costs**

Average number of employees	of whom		of whom	
	1997	men	1996	men
<i>Parent Company</i>				
Sweden	<b>510</b>	<b>85 %</b>	498	86 %
<i>Subsidiaries</i>				
Sweden	<b>2,062</b>	<b>87 %</b>	2,083	88 %
Great Britain	<b>3</b>	<b>66 %</b>	3	33 %
France	<b>3</b>	<b>33 %</b>	4	25 %
The Netherlands	<b>3</b>	<b>0 %</b>	3	0 %
Switzerland	<b>3</b>	<b>33 %</b>	3	33 %
Germany	<b>3</b>	<b>33 %</b>	3	33 %
Estonia	<b>10</b>	<b>80 %</b>	7	86 %
<b>Total</b>	<b>2,597</b>	<b>87 %</b>	2,604	87 %

	1997		1996	
	Board of Directors & President	Other emp-loyees	Board of Directors & President	Other emp-loyees
<i>Wages, salaries and remunerations</i>				
Parent Company	<b>5.4</b>	<b>125.7</b>	5.3	120.9
Subsidiaries in Sweden	<b>6.2</b>	<b>517.8</b>	5.9	514.4
Subsidiaries outside Sweden	<b>0.5</b>	<b>12.7</b>	–	10.9
<b>Total subsidiaries</b>	<b>6.7</b>	<b>530.5</b>	5.9	525.3
<b>Total Group</b>	<b>12.1</b>	<b>656.2</b>	11.2	646.2

	1997		1996	
	Wages salaries & remun-erations	Payroll overheads	Wages salaries & remun-erations	Payroll overheads
<i>Wages, salaries, remunerations and payroll overheads</i>				
Parent Company	<b>131.1</b>	<b>65.8</b>	126.2	61.4
(of which, pension costs)		<b>(16.6)</b>		(15.7)
Subsidiaries	<b>537.2</b>	<b>236.0</b>	531.2	244.3
(of which, pension costs)		<b>(53.5)</b>		(56.7)
<b>Total Group</b>	<b>668.3</b>	<b>301.8</b>	657.4	305.7
(of which, pension costs)		<b>(70.1)</b>		(72.4)

Of the Parent Company's pension costs, SEK 4.6M (4.2) refers to the current and previous Boards of Directors and Presidents. Outstanding pension obligations to these amount to SEK 22.6M (24.2).

Of the Group's pension costs, SEK 5.8M (5.2) refers to the current and previous Boards of Directors and Presidents. Outstanding pension obligations to these amount to SEK 30.1M (28.5).

In accordance with the decision of the AGM of the Association – in addition to daily allowances and subsistence allowances – a total remuneration of SEK 948,750 was paid to the Board of Directors in 1997. Of this, the Chairman's remuneration amounted to SEK 300,000 to which is added car benefit.

The President, Helge Eklund, was paid a salary of SEK 3,320,000. His employment agreement runs until further notice with a mutual term of notice of 12 months. On notice of termination by the Company before Mr Eklund has reached the age of 60, severance pay equivalent to one annual salary will be paid in addition to salary during the term of notice. If Mr Eklund remains in office after reaching 60, there is an opportunity for a negotiated pension equivalent to 75 per cent of his final salary for the period until general retirement age, currently 65.

For other executives in the Group management, individual agreements exist with notice of termination varying between 3 and 12 months and with severance pay equivalent to one year's salary. In some individual instances, agreements exist in addition to that regarding special compensation on termination by the Company before the age of 60 as well as commitments regarding an opportunity for a negotiated pension from the age of 60.

**Distribution of profit**

The Group's non-restricted equity amounted to SEK 2,002.1M. Proposed appropriations to restricted equity were SEK 13.3M. The Board of Directors proposes that profits at the disposal of the AGM of the Association, SEK 671,710K (of which 1997 profit: SEK 264,768K) be distributed as follows:

a dividend to members of 5.5 per cent on the capital contributed of SEK 351,067T, i.e. SEK 19,309T  
post-payment to members SEK 172,736T

The post-payment is calculated on the members' wood deliveries in 1997, excluding sold standing forest, and amounts to 8 per cent on all product ranges.

an appropriation to the statutory reserve SEK 13,300T  
carried forward SEK 466,365T  
SEK 671,710T

Växjö, 5 March 1998

<i>Lars-Eric Åström</i> , Chairman	<i>Birgitta Johansson-Hedberg</i>
<i>Christer Segerstéen</i> , Vice-Chairman	<i>Hemming Larsson</i>
<i>Carl von Freisendorff</i>	<i>Carl-Gustaf Liderfelt</i>
<i>Evert Håkansson</i>	<i>Kent Lindster</i>
<i>Stig Höckerfelt</i>	<i>Åke Modig</i>
<i>Börje Jansson</i>	<i>Ola Wilhelmsson</i>
<i>Jan Johansson</i>	<i>Helge Eklund</i> , President
<i>Roland Johansson</i>	

## Audit Report

To the Annual General Meeting of Södra Skogsägarna Economic Association,  
organisation number 729500-3789.

We have examined the Annual Report, the Consolidated Accounts and the financial records as well as the administration of the Board of Directors and the President of Södra Skogsägarna Economic Association for 1997. It is the Board of Directors and the President who are responsible for the accounting records and the administration. Our responsibility is to express an opinion on the Annual Accounts, the Consolidated Accounts and the administration on the basis of our audit.

The audit has been carried out in accordance with generally accepted auditing standards. This means that we have planned and carried out the audit to assure ourselves that to a reasonable extent the Annual Accounts and the Consolidated Accounts did not contain any significant errors. An audit includes examining a selection of the supporting documents for amounts and information in the accounting records. An audit also includes examining the accounting principles and the Board of Directors' and the President's application of them and to assess the collective information in the Annual Accounts and the Consolidated Accounts. We have examined significant decisions, measures and conditions in the Association to be able to assess if any Board Member or the President is liable for any damage to the Company or in any other way has acted contrary to the Companies Act, the Annual Accounts Act or the Statutes of the Association. We consider that our audit gives us reasonable ground for our statements below.

The Annual Accounts and the Consolidated Accounts have been prepared in accordance with the Annual Accounts Act and we therefore recommend that the Profit and Loss Account and the Balance Sheet for the Parent Company and the Group be adopted and

that the profit in the Parent Company be distributed in accordance with the proposal in the Directors' Report.

The Members of the Board of Directors and the President have not taken any measures or made themselves liable to any negligence which in our opinion may give rise to liability for damage to the Company and we therefore recommend that the Members of the Board of Directors and the President be discharged from liability for the financial year.

Växjö, 6 March 1998

*Nils J Gunnarsson      Hans Karlsson*  
Authorised Public Accountants

*Sven-Olov Andersson      Gunnar Melin*

## Five-year summary

SEK M	1997	1996	1995	1994	1993
<b>Sales</b>					
Net sales*	7,752	6,085	8,008	6,314	4,751
– exports	4,304	3,224	4,388	3,298	2,428
<b>Resultat</b>					
Operating result before depreciation	1,198	218	2,311	1,279	435
Depreciation according to plan	– 478	– 532	– 484	– 341	– 356
Operating result after depreciation	720	– 314	1,827	938	79
– surplus ratio, %	10	– 3	25	17	5
Financial income and expenses	– 128	– 4	45	39	– 14
– interest coverage ratio	7,3	neg	13.9	11.3	1.5
Result after financial income and expenses	592	– 318	1,872	977	65
<b>Capital</b>					
Total assets	8,690	8,012	8,432	6,407	5,116
Capital employed	6,833	6,320	6,082	4,659	3,826
Equity capital	4,808	4,432	4,814	3,544	2,831
Investments (excluding shares and participations)	356	939	2,128	915	195
Internal financing ratio, %	295	9	93	127	296
<b>Return on capital</b>					
Return on capital employed, %	12	– 3	37	25	5
Return on equity, %	9	– 5	32	22	2
<b>Financing</b>					
Share of risk-bearing equity, %	65	64	67	65	65
Share of equity (equity/assets ratio), %	55	55	57	55	55
<b>Personnel</b>					
Average number of employees	2,597	2,604	2,635	2,518	2,677
<b>Membership</b>					
Number of members	31,378	31,039	31,198	30,477	29,721
Affiliated forest area, 1,000 hectares	1,715	1,684	1,662	1,604	1,552
<b>Production, etc</b>					
Sawn timber, 1,000 m <sup>3</sup>	614	539	548	431	422
Softwood pulp, 1,000 tonnes	859	685	647	654	650
Hardwood pulp, 1,000 tonnes	329	310	264	311	336
Biofuel, deliveries, 1,000 m <sup>3</sup> s	1,962	1,714	1,705	1,570	1,619
Wood deliveries, million m <sup>3</sup> fub	10.5	8.6	9.2	8.9	7.9

\*) From 1996, freight and sales commission is included in net sales.

## Definitions

### Surplus ratio

Operating result after depreciation according to plan plus financial income (excluding exchange gains on loans in foreign currency) as a percentage of sales income.

### Interest coverage ratio

Operating result after planned depreciation plus financial income (excluding exchange gains on loans in foreign currency) in relation to interest expenses

### Capital employed

Total assets less non-interest-bearing liabilities and deferred tax liability. Average capital employed is calculated as balance brought forward plus balance carried forward divided by two. For operating units, capital employed is calculated as balance sheet total excluding liquid funds less operating liabilities.

### Return on capital employed

Operating result after depreciation according to plan plus financial income (excluding exchange gains on foreign currency) as a percentage of average capital employed.

### Equity

Net equity, which includes the equity portion of untaxed reserves. Average equity is calculated as balance brought forward plus balance carried forward divided by two.

### Return on equity

Operating result after financial income and expenses less 28 per cent calculated tax as a percentage of average equity.

### Internal financing ratio

Net financing from the year's operations in accordance with the Source and Application of Funds Statement as a percentage of the year's investments.

### Share of risk-bearing ratio

Accounted equity, minority interest and deferred tax liability as a percentage of total assets.

### Share of equity (equity/assets ratio)

Equity as a percentage of total assets.

### Average number of employees

Total time worked divided by normal annual working hours (1997: 1,625 hours).

# Board of Directors

## ORDINARY MEMBERS

Lars-Eric Åström, Rejmyre (Chairman)  
 Christer Segerstéen, Rimforsa (Vice-Chairman)  
 Helge Eklund, Växjö (President)  
 Carl von Friesendorff, Veberöd  
 Evert Håkansson, Karlshamn  
 Stig Höckerfelt, Gunnebo  
 Börje Jansson, Traryd  
 Birgitta Johansson-Hedberg, Stockholm  
 Jan Johansson, Moheda  
 Roland Johansson, Kungsbacka  
 Hemming Larsson, Högsby  
 Carl-Gustaf Liderfelt, Eksjö  
 Kent Lindster, Kalmar  
 Åke Modig, Stockholm  
 Ola Wilhelmsson, Nybro

## DEPUTY MEMBERS

Jonas Brandström, Floda  
 Mats Hansson, Villands Vånga  
 Claes-Göran Karlsson, Varberg  
 Lars Johansson, Veddige  
 Lars Mattsson, Lyckeby  
 Jan-Olof Thorstensson, Päråd



**Claes-Göran  
Karlsson**

**Evert  
Håkansson**



**Birgitta  
Johansson-Hedberg**

**Carl von  
Friesendorff**

### Christer Segerstéen

Born 1950. Board Member of the Association of Swedish Forest Owners. Deputy Chairman of Södra Timber.

### Helge Eklund

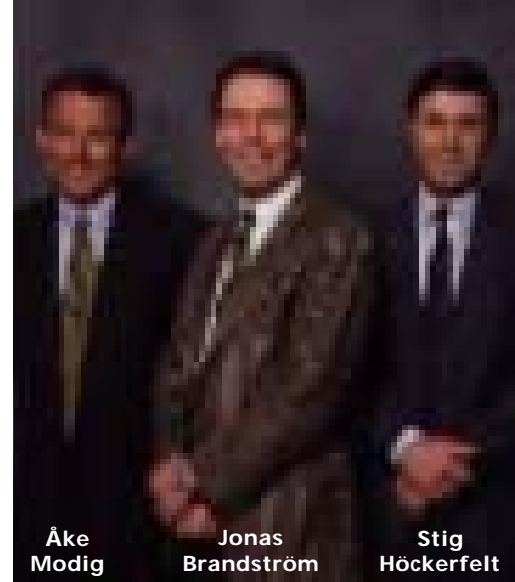
Born 1944. President & CEO of Södra Skogsägarna Economic Association. Chairman of Södra Cell, Södra Timber and Södra Skogsenergi. Board Member of Sveriges Skogsindustrieförbund, Arbio, Skogsindustrierna, Vattenfall AB, Industrieförbundet and Sydsvenska Handelskammaren.

### Stig Höckerfelt

Born 1938. Board Member of the Forest Conservation Board Eastern Götaland, Östgöta Hypoteksförening and Södra Cell.

### Jonas Brandström

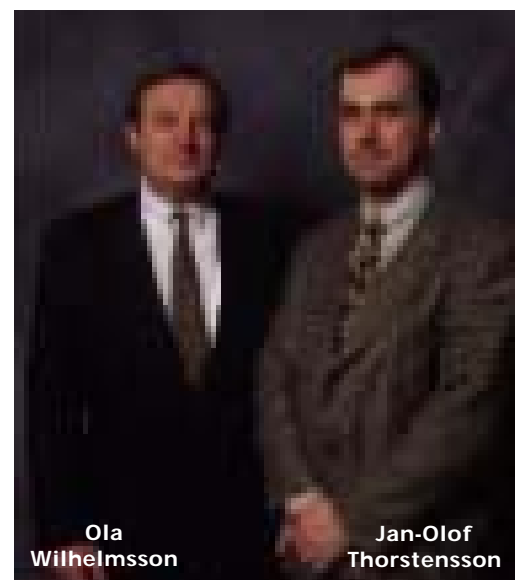
Born 1947. Doctor of Medicine specialising in General Medicine and Corporate Medicine. Medical consultant at Göteborgshälsan. President of Öljareds Konferens och Rekreatiansanläggning. Chairman of the Forest Conservation Federation of Western Sweden.



**Åke  
Modig**

**Jonas  
Brandström**

**Stig  
Höckerfelt**



**Ola  
Wilhelmsson**

**Jan-Olof  
Thorstensson**



**Jan  
Johansson**

**Lars  
Johansson**

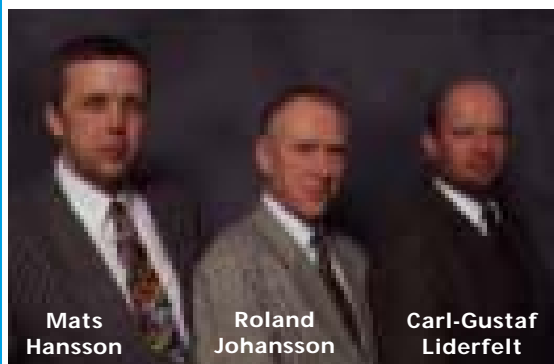
### Roland Johansson

Born 1940. Chairman of the Election Committee of the Federation of Swedish Farmers, LRF. Board Member of the Forest Conservation Board Southern Götaland. Deputy Board Member of Södra Timber.

### Carl von Friesendorff

Born 1939. Deputy Board Member of Södra Cell. Auditor of the Association of Swedish Forest Owners. Member of the Environmental Committee and Technical Committee in Lund. Deputy Board Member of AF Bostäder.





**Mats  
Hansson**

**Roland  
Johansson**

**Carl-Gustaf  
Liderfelt**

#### **Birgitta Johansson-Hedberg**

Born 1947. Resident Director of Wolters Kluwer Scandinavia and President and CEO of Liber AB. Chairman of AB Lindex. Deputy Chairman of the Fourth National Swedish Pension Insurance Fund. Board Member of Telia AB and FöreningsSparbanken.

#### **Mats Hansson**

Born 1956. Board Member of Södra Timber. Deputy Board Member of the Provincial Association in Skåne of the Federation of Swedish Farmers. Member of the Forest Conservation Board in Southern Götaland.



**Hemming  
Larsson**



**Kent  
Lindster**

**Lars  
Mattsson**

**Börje  
Jansson**

#### **Åke Modig**

Born 1945. President and CEO of Arla. Chairman of the Swedish Dairies' Association. Deputy Chairman of GB Glace AB and the Swedish Association of Convenience Food Suppliers. Board Member of Spendrups and Wasa.

#### **Hemming Larsson**

Born 1943. Deputy Chairman of Södra Skogsenergi. Member of the County Board of the Federation of Swedish Farmers and Svebio (the Swedish Bioenergy Association).

#### **Claes-Göran Karlsson**

Born 1951. Employee Representative, the Swedish Trade Union Confederation, LO. Deputy Chairman of the Swedish Pulp and Paper Workers' Union, SPIAF, at the Värö pulp mill. Chief Safety Representative at Värö.

#### **Jan Johansson**

Born 1946. Employee Representative, the Negotiation Cartel for Salaried Employees in the Private Business Sector, PTK. Chairman of the Swedish Industrial Salaried Employees Association, SIF, at SÖDRA's head office. Deputy Chairman of the SÖDRA Group Council.

#### **Lars Mattsson**

Born 1949. Employee Representative, the Negotiation Cartel for Salaried Employees in the Private Business Sector, PTK. Chairman of the local SSF SÖDRA union branch.

#### **Evert Håkansson**

Born 1958. Employee Representative, the Swedish Trade Union Confederation, LO. Secretary of the Swedish Pulp and Paper Workers' Union, SPIAF, at the Mörrum pulp mill. Member of the National Council of SPIAF.

#### **Börje Jansson**

Born 1953. Board Member of Södra Skogsplanter.



**Christer  
Segerstéen**

**Helge  
Eklund**

**Lars-Eric  
Åström**

#### **Lars-Eric Åström**

Born 1946. Deputy Chairman of the Association of Swedish Forest Owners. Deputy Chairman of Lantbrukskredit AB Stockholm. Deputy Chairman of Södra Cell. Board Member of Ägarfrämjandet and the Forest Conservation Federation of Sweden.

#### **Kent Lindster**

Born 1949. Employee Representative, the Swedish Trade Union Confederation, LO. Chairman of the Swedish Pulp and Paper Workers' Union, SPIAF, at the Mönsterås pulp mill. Board Member of Håradssparbanken.

#### **Carl-Gustaf Liderfelt**

Born 1949. Board Member of Södra Skogsenergi. Member of the County Board and Working Committee of the Federation of Swedish Farmers.

#### **Lars Johansson**

Born 1941. Employee Representative, the Swedish Trade Union Confederation, LO. Chairman of the Swedish Wood Industry Workers' Union, STIAF, at the Värö sawmill. Member of the local board of STIAF and its working committee. Member of the SÖDRA Group Council.

#### **Jan-Olof Thorstensson**

Born 1959. Deputy Board Member of Södra Skogsenergi. Member of the County Board of the Federation of Swedish Farmers in Southern Kalmar.

#### **Ola Wilhelmsson**

Born 1941. President and CEO, and Board Member of AB Gustaf Kähr, Kährs Trävaru AB and Kährs Blomstermåla AB (all within Skanska AB). Board Member of AB Gemax Glas, S-E-Banken's local board of directors and Sydsvenska Handelskammaren.

# Group Management

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## **SÖDRA's Executive Management.**

Håkan Björklund, Magnus Fagerlind, Fredrik Daveby, Helge Eklund,  
Sören Romberg, Eva Spjuth, Jan Carlsson, Tom Almgren, Kenth Ohlsson,  
Lars Becher, Nils-Erik Fransson, Roland Lövblad, Ulf Gunnarsson.

### **GROUP MANAGEMENT**

Helge Eklund President and CEO)  
Kenth Ohlsson (Södra Skog)  
Håkan Björklund (Södra Timber)  
Tom Almgren (Södra Cell)  
Sören Romberg (Södra Skogsenergi)  
Ulf Gunnarsson (Information)  
Fredrik Daveby (Membership)  
Magnus Fagerlind (Administration)  
Jan Carlsson (Control)  
Nils-Erik Fransson (Personnel)  
Lars Becher (Södra Finans)  
Roland Lövblad (Environment)  
Eva Spjuth (Secretariat)

### **AUDITORS**

#### **Ordinary Auditors**

Nils J Gunnarsson, Authorised Public  
Accountant, Växjö  
Hans Karlsson, Authorised Public  
Accountant, Stockholm  
Sven-Olov Andersson, Vimmerby  
Gunnar Melin, Loftahammar

#### **Deputy Auditors**

Håkan Lindström, Authorised Public  
Accountant, Växjö  
Anders Holm, Authorised Public Accountant,  
Saltsjöbaden  
Björn Gunnarsson, Ankarsrum  
Bengt Pettersson, Vikingstad

*Södra Cell (UK) Ltd*, Suite 1, 50 Churchill Square, Kings Hill, West Malling, Kent ME19 4YU (England)  
Tel. +44 173 2842 286, Fax +44 173 2843 714

*Södra France SA*, 140 avenue Paul-Doumer, FR-92508 Rueil-Malmaison Cedex (France)  
Tel. +33 1 41399 999, Fax +33 1 47510 337

*Södra AG*, Henric Petri-Strasse 19, Postfach 549, CH-4010 Basel (Switzerland)  
Tel. +41 61271 1220, Fax +41 61271 1269

*Södra Italia SRL*, Via Leopardi 3, IT-20123 Milano (Italy)  
Tel. +39 2481 5106, 2481 5119, Fax +39 2463 760

*Södra Nederland BV*, Kettingstraat 2, NL-2511 AN Den Haag (The Netherlands)  
Tel. +31 70346 9435, Fax +31 70365 6670

*Södra Cell GmbH*, Ehrenbergstrasse 33, DE-22767 Hamburg (Germany)  
Tel. +49 40306 8300, Fax +49 40306 83016

*Södra Cell A/S*, Vitaminveien 11 A, Postboks 96 Grefsen, NO-0409 Oslo 4 (Norway)  
Tel. +47 2271 0078, Fax +47 2271 0490

*Northern Pulp Cellulose Sales SA*, Almagro 21, ES-28010 Madrid (Spain)  
Tel. +34 1310 1526, Fax +34 1308 3104

*Södra Timber AB*, Sötoften 3, Svogerslev, DK-4000 Roskilde (Denmark)  
Tel. +45 4638 4433, Fax +45 4638 4466

*Södra Eesti AS*, Miiduranna Sadam, Viimsi Vald, E-3006 Harju Maakond (Estonia)  
Tel. +37 2 279 0276, Fax +37 2 279 0805

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*<http://www.sodra.se>*



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Internet <http://www.sodra.se/>