

Corporate Governance Report

Sveaskog is a limited liability company that is owned by the Swedish state. The governance of Sveaskog is founded on the Swedish Companies Act, the state ownership policy, the Swedish Code for Corporate Governance (the Code) as well as other applicable Swedish and foreign laws and regulations.

This corporate governance report has been prepared as part of Sveaskog's application of the Code. The report has been reviewed by the auditors.

In accordance with the state's ownership policy and guidelines for state-owned companies, Sveaskog has deviated from the Code in three cases:

- Preparation of decisions regarding nomination of the Board of Directors and auditors, entailing that Sveaskog has not appointed a nomination committee.
- As regards the independence of Board members in relation to the state as the major shareholder, this is not reported because the Code in this respect is targeted at companies with a dispersed ownership.
- The place and date of the Annual General Meeting will be notified on the company's website at the latest in conjunction with the third quarterly report. Sveaskog has decided to comply with Nasdaq Stockholm's regulations for share issuers, and therefore provides information about the planned date for the Annual General Meeting in the year-end report.

Mission

According to the state ownership policy, state-owned companies should act in a long-term, efficient and profitable manner and be given the ability to develop. The companies must act in an exemplary manner in the field of sustainable business and otherwise act in such a way that they enjoy public confidence.

According to the Articles of Association, Sveaskog must own and manage movable and immovable property, and carry out forestry, forest industry-related and associated activities. The core business must be forestry. Sveaskog must also be an independent player without any major interests as an end user of forest raw materials. The company may also conduct related activities if these help to increase the company's returns. According to a special parliamentary commission, the company must help to strengthen individual agricultural and forestry operations by selling land in sparsely populated areas to private individuals. The sale of land must take place until ten per cent of the area that Sveaskog owned at the time of its formation in 2002 has been divested. Operations must be carried out on a commercial basis and generate market demands for yield.

Annual General Meeting

The Annual General Meeting is Sveaskog's highest decision-making body. The Annual General Meeting of the parent company Sveaskog AB (publ) took place on 23 April 2018 in Stockholm. The Annual General Meeting for 2019 will be held on 24 April.

According to the state's ownership policy and guidelines for state-owned companies, as well as the Articles of Association, Members of Parliament are entitled to attend and ask questions at Sveaskog's general meetings. The public is also welcome to attend the meetings.

Nomination process

The state's ownership policy and guidelines for state-owned companies specify a different nomination process than that prescribed in the Code in respect of the Board of Directors and auditors. The nomination of the Board is coordinated by the Government Offices. The Government Offices also propose the Chairman of the Board and the Chairman of the general meetings. The nominations of members are presented in the notice of the AGM and on Sveaskog's website.

The Government Offices are also responsible for selecting auditors, and for ensuring that decisions relating to this are taken at the AGM. Proposals for the selection of auditors are presented in the notice of the AGM and on Sveaskog's website. The auditors are appointed with a term of one year. The practical work on the procurement of auditors is handled by the Board's Audit Committee alongside the company.

Board of Directors

The Board of Directors will be responsible for the company's organisation and the administration of the company's affairs. According to the Articles of Association, the Board must consist of at least five and at most nine members. There are also two employee representatives and two deputies. The Articles of Association do not contain any provisions regarding the appointment or dismissal of Board members.

The company's Chief Legal Officer is the Secretary of the Board.

Composition of the Board

Six Board members were elected at the 2018 AGM. Following the 2018 AGM, the Board has consisted of three women and three men. The Board also two employee representatives and two deputies. At the AGM, Eva Färnstrand was re-elected Chairman.

The work of the Board

The Board's rules of procedure govern the work of the Board. The Chairman of the Board must ensure that the work of the Board is carried out effectively and that the Board fulfils its obligations. According to the rules of procedure, the Board will normally hold eight meetings a year, in addition to the statutory meeting in connection with the AGM. The rules of procedure specify which matters are to be dealt with at each meeting as well as which specific issues are subject to the Board. According to the rules of procedure, the Chairman must, on behalf of the Board, consult with representatives of the owner on matters that are of crucial importance to Sveaskog. The rules of procedure also contain information about the role of the Chairman in the Board as well as information about responsibility and distribution of roles between the Board and the CEO. The Board continually evaluates the work of the CEO, as well as conducting an annual evaluation of the Board's own work.

The CEO's work is evaluated at least once a year without anyone from the Group management being present.

The Board held 9 meetings during 2018, two of which were strategy meetings. In addition to dealing with standing items on the agenda, the Board has focused on issues relating to communication, growth rate improvement measures, how Sveaskog has implemented GDPR, risk management and organisational issues.

The Board's committees

The Board's committees prepare issues for decisions by the Board. Guidelines for the work of the committees can be found in the Board's rules of procedure. There are also special instructions for the Property Committee and the Audit Committee. The matters that the committees deal with are recorded and presented at the next Board meeting.

Remuneration Committee

Prepares matters regarding remuneration and terms of employment for senior executives. The Remuneration Committee comprises Eva Färnstrand (Chairman) and Leif Ljungqvist.

Property Committee

Prepares matters concerning e.g. property acquisition, management and sales. The Property Committee comprises Sven Wird (Chairman), Annika Nordin and Sara Östh.

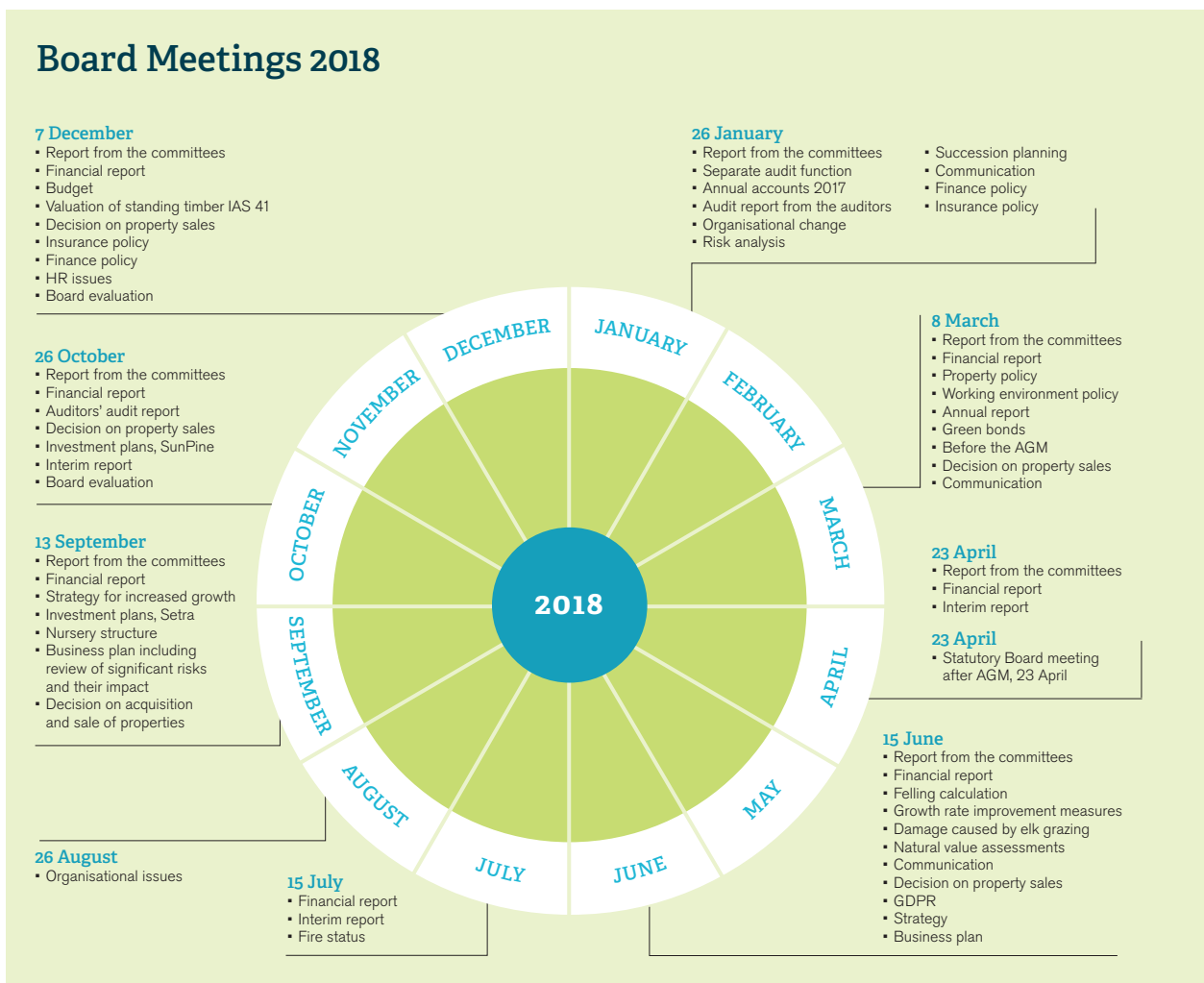
Audit Committee

Responsible e.g. for the preparation of the Board's work regarding quality assurance of the company's financial reporting, meeting the company's auditors on an ongoing basis to obtain information about the direction, scope and results of the audit, as well as discussing the coordination between the external auditors and the internal control activities and views of the company's risks. The Audit Committee comprises Anna-Stina Nordmark Nilsson (Chairman), Leif Ljungqvist, Thomas Hahn and Kenneth Andersson.

Principles for remuneration to the Board

The remuneration of the Board of Directors is determined by the AGM, as are fees to members of the Board's committees. During 2018, remuneration totalling SEK 1,316,667 has been paid to the Board of Directors. The Board is not involved in any bonus or incentive programmes. The employee representatives and the Board member who is employed at the Government Offices receive no fees.

Up until the 2018 AGM, Eva Färnstrand, Anna-Stina Nordmark Nilsson, Annika Nordin and Sven Wird invoiced their fees through their own companies. Supplements have then been added for social-security deductions. The arrangement was cost-neutral for Sveaskog.



Company structure

Sveaskog was previously organised into three geographical market areas and Svenska Skogsplantor. During the year, a reorganisation has been carried out in which the South and Central market areas have been merged. The division into market areas is based on the forest assets, customer structure and trade flows. The market areas have customer, production and delivery responsibility for the forest raw material. Leases (with the exception of hunting rights) and property transactions are managed centrally within the Legal Affairs and Property staffs. The operational activities are supported by Group-wide staffs.

Sveaskog also owns shares in companies where there is no Group relationship. The shareholding in the timber industry company Setra Group AB (publ) is Sveaskog's largest holding, followed by SunPine AB, which is categorised as an associated company.

CEO and Group management

Sveaskog's CEO is in charge of the company's ongoing management in line with the Board's instructions. The CEO is responsible for reporting at the Board meetings. The CEO's responsibilities include day-to-day operational issues and contacts with the company's Chairman and external stakeholders. The CEO also leads the work of the Group management. The Group management comprises ten people, made up of six men and four women. The Assistant to the CEO is co-opted to the Group management. During the year, the HR and Communications Manager has left the company and a new Communications Manager has taken office. In addition, a new HR Manager has been recruited, who will take up the position in March 2019. The CEO has announced his resignation and the board has started recruitment of a new CEO.

Internal control and risk management systems related to financial reporting

The Board's responsibility for internal control is regulated in the Swedish Companies Act and the Code. The purpose of internal control is to provide reasonable assurance regarding the reliability of external financial reporting in the form of financial statements, interim reports and annual reports. The control should also cover external financial reporting and ensure that it is prepared in accordance with the law, applica-

ble accounting standards and other demands placed on limited liability companies.

Internal control framework

Below is a description of how internal control is organised in relation to financial reporting.

Control environment

The Board has overall responsibility for maintaining an effective system for internal control and risk management. The Board has appointed the Audit Committee to prepare matters relating to risk assessment, internal control, financial reporting and auditing. The Board's risk management has been provided with greater scope in recent years.

The responsibility for maintaining an effective control environment and the ongoing work with risk management and internal control in respect of financial reporting is delegated to the CEO. Managers at various levels in the company have corresponding responsibility in their respective areas.

The most essential parts of the control environment when it comes to financial reporting are dealt with in governing documents concerning accounting and financial reporting, as well as in the financial handbook published on Sveaskog's Intranet for its employees.

Risk assessment and control structures

The Board is responsible for ensuring that the company manages its risks in the right way and that established principles for financial reporting and internal control are followed. Identified risks in the context of financial reporting are the loss or misappropriation of assets, undue favouring of another party at the company's expense and other risks relating to material misstatement in the accounts, such as in respect of accounting and the valuation of assets, liabilities, income and expenses or discrepancies in disclosure requirements.

These matters are prepared by the Audit Committee prior to consideration by the Board. A number of items in the income statement and balance sheet have been identified where there is an elevated chance of significant risks. These risks are mainly attributable to the valuation of standing timber, accruals and the IT systems that support the business.

Mission

According to the state ownership policy, state-owned companies should act in a long-term, efficient and profitable manner and be given the ability to develop. In order to promote long-term, sustainable value growth in state-owned companies, sustainable enterprise is integrated into corporate governance. This means that the companies must act in an exemplary manner in the field of sustainable business and otherwise act in such a way that they enjoy public confidence.

According to the Articles of Association, Sveaskog must own and manage movable and immovable property, and carry out forestry, forest industry-related and associated activities. The core business must be forestry. Sveaskog must also be an independent player without any major interests as an end user of raw materials.

As part of the streamlining of operations, Sveaskog is also

striving to adapt the structure of forest holdings to the customer structure through the purchase, exchange and sale of forest land. According to a decision by the Swedish Parliament, land must be sold until 10% of the area the company owned 2002, at the time of its formation, has been divested.

Sales are to be take place on market terms and are intended to strengthen private forestry. As the aim is not to reduce Sveaskog's land holding, this task does not prevent Sveaskog from simultaneously buying land. On the contrary, this ensures that there is a functioning market. In 2018, 18,681 (13,787) hectares were sold. In total, 382,670 hectares or 8.78 per cent have been sold in 2,229 transactions.

The owner has a distinct dividend policy and clear financial targets for Sveaskog in terms of direct yield and net debt/equity ratio.

Information and communication

The company's information and communication channels are aiming to promote completeness and accuracy of financial reporting. For external communications, guidelines exist that aim to ensure that the company lives up to the owner's requirement that the reporting be conducted in accordance with Nasdaq Stockholm's regulatory framework for share issuers.

Following up

Following up is regulated in the Board's rules of procedure and in the CEO's instructions.

Separate audit function

It is the Board's view that Sveaskog's significant risks and risk areas are covered by the risk management process applied by the company. The CFO unit is responsible, at the CEO's request, for conducting an inventory of risks and running risk management processes. The CFO unit is also responsible for a number of central controls combined with local monitoring. However, the operational responsibility lies within the market areas and other business segments. The Board considers that there is no need for a separate audit function in the company. The CFO unit is headed by the Deputy CEO and CFO, and consists of the finance staff and the IT staff.

Auditing

The auditors are responsible, on behalf of the shareholder, for examining the company's annual accounts and bookkeeping as well the administration by the Board and the CEO. A general review is carried out of the company's sustainability report. The Board communicates with the auditors both through the Audit Committee and by means of the auditors being present at Board meetings when considering issues related to the annual accounts and annual report. At least once a year, the auditors meet the Board without the presence of the CEO or anyone else from the Group management. The auditors have participated in 7 of the Audit Committee's 9 meetings.

The remuneration to the auditors is presented in Note 6.

Sustainable business

Sveaskog has integrated sustainability thinking throughout the entire business. Sveaskog's overall goals for sustainable enterprise are broken down into strategies and business goals that are followed up regularly. The work is supported by a num-

ber of policies and guidelines available both on Sveaskog's intranet and its website. During the year, the company started work on "Integrated Profit and Loss Reporting", which highlights the impact of the business from several perspectives. For example, the analysis highlights the added value that the company has to offer in addition to timber production, such as ecosystem services.

Sustainability work is continually followed up, both internally and externally. The CFO and the CEO perform regular follow-ups of the business, along with the market areas and Svenska Skogsplantor. The Board delivers the sustainability report and the Audit Committee conducts the preparatory work for it.

Collaboration with local contractors and suppliers is important for the development of Sveaskog. The Code of Conduct, general sustainability requirements linked to the UN Global Compact and detailed requirements for contractors govern the assessment of the contractors. Monitoring is performed by means of self-monitoring and internal audits. Deviations are reported in the business management system. The framework agreements with external suppliers are followed up every year.

The external audit consists of the auditors examining the Annual and Sustainability Report. In addition, internal auditing of the integrated business management system is carried out according to ISO 14001. External audits of FSC® certificates are carried out and surveys are conducted regularly with customers, employees, contractors and suppliers, as well as surveys relating to the brand.

These are used as tools to create an understanding of the impact of the business from a stakeholder perspective, as well as providing support for the following up of international frameworks such as national environmental goals and Agenda 2030.

Values and Code of Conduct

Sveaskog's values and ideals should permeate our corporate culture and help all employees to share a common approach in our day-to-day activities.

Sveaskog's values are:

- Customer focus
- Innovation
- Simplicity
- Transparency

Board attendance and remuneration, 2018

	Present Board meetings	Present remuneration committee	Present property committee	Present audit committee	Remuneration, SEK	
					Board of Directors	Committee
Ordinary members						
Eva Färnstrand	9/9	3/3	–	–	453,333	10,000
Thomas Hahn	9/9	3/3	–	9/9	178,333	20,000
Leif Ljungqvist	9/9	–	–	9/9	–	–
Annika Nordin	9/9	–	5/5	–	178,333	40,000
Anna-Stina Nordmark Nilsson	8/9	–	–	9/9	178,333	40,000
Sven Wird	9/9	–	5/5	–	178,333	40,000
Employee representatives						
Kenneth Andersson (elected 2017)	6/6	–	–	9/9	–	–
Sara Östh	9/9	–	5/5	–	–	–
Lars Djerf (deputy)	7/9	–	–	–	–	–
Thomas Esbjörnsson (deputy)	8/9	–	–	–	–	–

The values include:**How Sveaskog does business**

The employees should be business-minded and understand the needs of customers, take the initiative and be innovative.

How employees should act as employees and colleagues

Employees should be guided by our vision, goals and strategies, and show respect for the integrity and knowledge of their colleagues.

How managers and leaders should take specific responsibility

Managers and leaders should create an innovative climate and establish an open culture with feedback.

Sveaskog has a Code of Conduct that applies to all employees. Those who make agreements with customers, suppliers, contractors and consultants must ensure and monitor that these agreements comply with the Code of Conduct. Sveaskog's management must ensure that the Code of Conduct is followed on a day-to-day basis. The Code of Conduct should always be reviewed in connection with new recruitment, performance appraisals, negotiations, operational follow-up etc., and it is always appended to business and employment contracts.

There is a separate reporting system for non-conformance or deviation from the code, designed to ensure that the Code of Conduct is followed. This whistleblower function is available through the website and provides guaranteed anonymity. The function is external, which means that the information is handled and investigated by an external party. During 2018, no notifications were received via the whistleblower function, although a report was submitted directly to the Chairman of the Board.

To learn more:**State ownership policy**

www.regeringen.se/regeringens-politik/bolag-med-statligt-agande/sa-styrs-bolagen/

Sveaskog's Articles of Association

www.sveaskog.se/om-sveaskog/bolagsstyrning/bolagsordning/

Sveaskog's Code of Conduct

www.sveaskog.se/om-sveaskog/uppforandekod/

Swedish Companies Act

www.regeringen.se

Swedish Corporate Governance Code

www.bolagsstyrning.se/

Nasdaq Stockholm's regulatory framework for share issuers

www.business.nasdaq.com/list/Rules-and-Regulations/European-rules/nasdaq-stockholm/index.html

Under the guidance of lawyers and HR specialists, regular meetings are held in the various divisions where questions about the Code of Conduct, guidelines for representation and other ethical issues are discussed.

Organisation and governance