

Sustainability Report
Setra Group



2017

We refine the forest.

Setra processes wood from responsibly managed forests and offers climate-friendly products and solutions for building and living in a global market. We also supply renewable raw material to the energy sector and to the paper and pulp industry.



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How we increase the value of our products

In 2017, Setra has continued its journey from sawmill to wood industry player. Our strategy is clear – we want to increase the added value of our products to meet customer demand and secure our long-term competitiveness.

In a time of climate challenges, there are many benefits to Setra being in an industry that is part of the solution. Growing and responsibly managed forests are a fantastic renewable resource and since wood captures carbon, greater use of wood helps to cut emissions of greenhouse gases. This sustainability incentive not only creates business and growth opportunities for us as a company, but is also good news for wider society.

Positive market conditions enabled Setra to increase its sales prices and production volumes in 2017. Adjusted for non-recurring items, operating profit amounted to SEK 179 million, which is SEK 64 million better than in 2016. Net sales totalled SEK 4,139 (4,043) million.

Sustainability is a common thread that runs through every part of our business. At Setra we work on sustainability on many fronts. Our measures to improve our working environment and reduce accidents have paid off, as the statistics show. We have also cut our electricity consumption. However, there is more we can do in this area and the work will continue unabated. In 2018, we are setting up an internal working group to see how Setra can contribute to the UN's Sustainable Development Goals as set out in the 2030 Agenda.

Going forward we see continued good



“Setra is actively contributing to the goals of the 2030 Agenda.”

demand and positive development for the wood products market both in Sweden and internationally. Last year saw several strategic investments aimed at increasing the value added to our products and contributing to the growing bioeconomy.

One of our focus areas is to increase the value of our bioproducts. In a traditional sawmill process, half of the log is turned into planks and boards, while the other half becomes bioproducts in the form of bark, sawdust and chips. The aim is to also increase the revenue from these products in various ways.

In Långshyttan, we are investing in a new factory to produce components for doors, windows and so on. Demand for these has risen, particularly in Scandinavia but also in the rest of the world. We expect production to be up and running in the second half of 2018. In 2017, Setra's Board also decided to invest in a new trim saw with integrated planing machine in Hasselfors.

In June last year, the Swedish Environmental Protection Agency granted Setra

SEK 117 million for our development project to produce pyrolysis oil. Pyrolysis oil is a bio-oil made from sawdust. It can be used to produce biofuel, which will help facilitate the transition to a fossil-free transport sector.

In the locations where Setra operates, we are an important employer. Customers appreciate us for our service and reliable deliveries, while our employees rely on us to be an attractive company that continues to prioritise important areas such as health and safety and skills development.

I look forward to an important and exciting year of making further progress on our journey to become the wood products company with the clearest sustainability profile in Europe. 



Hannele Arvonen, President and CEO

Onwards and upwards for Setra

2017 was a very good year for Setra, with an operating profit of SEK 179 million, adjusted for non-recurring items. Here is a brief summary of what contributed to these profits – locally and globally.

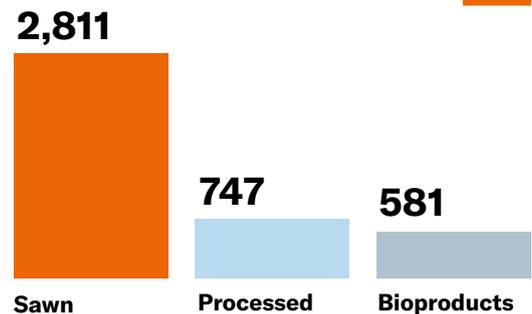
This is Setra

Setra is one of Sweden's largest wood products companies. We process raw material from responsibly managed forests and offer climate-friendly products and solutions for building and living in a global market.

The head office is located in Solna, with sales and administration in Gävle. Setra Group includes eight sawmills and three wood processing units, one of which is in the UK. Setra has approximately 800 employees and annual sales in excess of SEK 4 billion. Exports to Europe, North Africa, the Middle East, Asia and Australia account for 65% of sales. Setra employs around 50 people abroad, with sales offices in the UK, Germany, Poland, Spain, Tunisia, Japan and China.

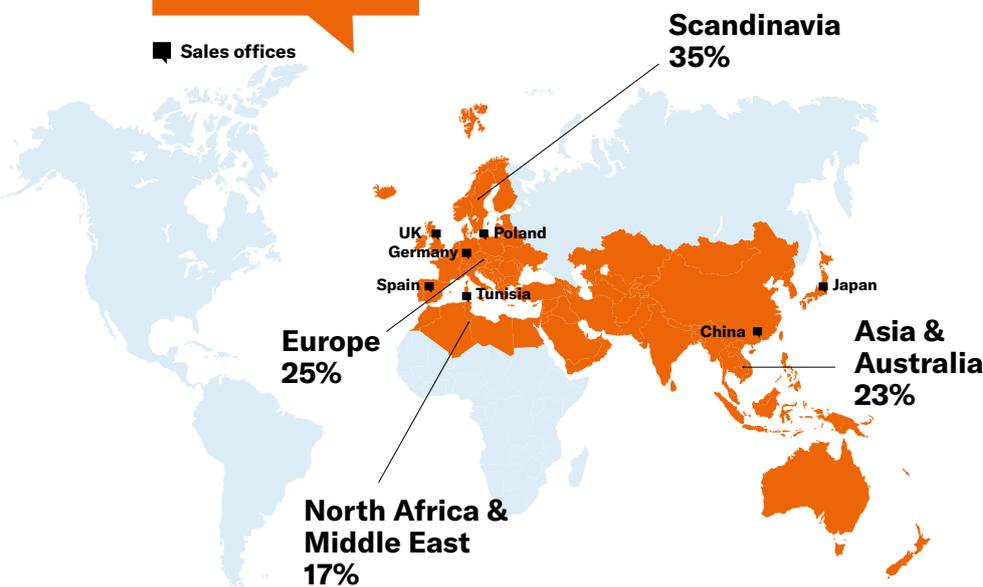
Setra is owned 50% by Sveaskog, Sweden's largest forest owner, and 49.5% by the forest owners' association Mellanskog. The remaining 0.5% is owned by approximately 1,400 small shareholders.

External net sales by business 2017 (SEKm)



Our markets

■ Sales offices



Setra in figures (SEKm)

	2017	2016
Net sales	4,139	4,043
Other operating income	14	85
Total income	4,153	4,128
Operating expenses	-3,878	-3,913
Depreciation according to plan	-96	-100
Items affecting comparability	-20	38
Operating profit	159	153
Net financial items	-14	-18
Profit/loss after financial items	145	135
Tax	-30	-32
Profit/loss for the year	116	103

Our production units

Production and employees per unit 2017

■ Pine sawmills

	Production	Employees
Kastet	240,000 m ³	75
Malå*	189,000 m ³	95
Nyby	183,000 m ³	60
Rolfs*	96,000 m ³	65
Skinnskatteberg	236,000 m ³	75

■ Spruce sawmills

Färila	167,000 m ³	55
Hasselfors	314,000 m ³	95
Heby	215,000 m ³	70

■ Processing units

Långshyttan	47,000 m ³	60
Setra Wood Products	18,000 m ³	40
Skutskär	113,000 m ³	40

* Also some processing here.

- Pine sawmills
- Spruce sawmills
- Processing units



■ Setra Wood Products (UK)

With a total of eight sawmills and three processing units, Setra ensures that the forest's potential reaches around the globe.

Financial targets and results

SUSTAINED RETURN:

11.4%

Target: Sustained return on operating capital to be at least 13%.

Result: 11.4%. Has ranged between 3% and 12.4% over a five-year period.

NET DEBT/EQUITY RATIO:

-2%

Target: Net debt/equity ratio not to exceed 50%.

Result: -2%. The maximum over the past five years was 33%.

DIVIDEND:

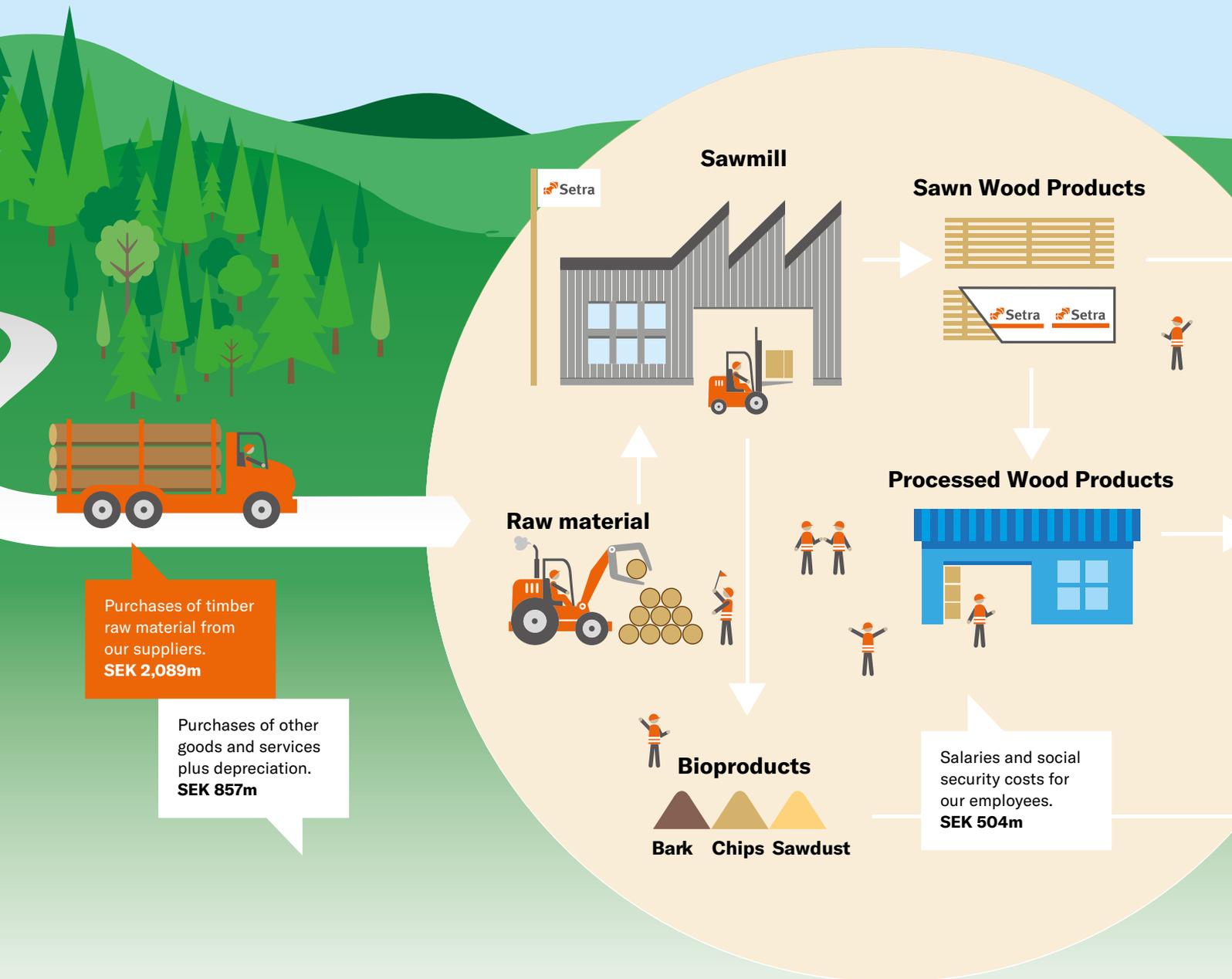
50%

Target: Dividend to normally amount to 50% of profit after tax, taking net debt/equity ratio into account.

Result: 50% proposed for 2017. In 2016 the dividend was 97% due to a strong financial position.

Setra's value chain

Setra's sustainability work is about accepting responsibility for how we affect people and the environment throughout the value chain – from forest to end product. The starting point is to reduce any negative footprint and increase the value and positive impact of our operations at every stage. The economic value Setra has generated in 2017 is shown here.



Net profit
SEK 116m

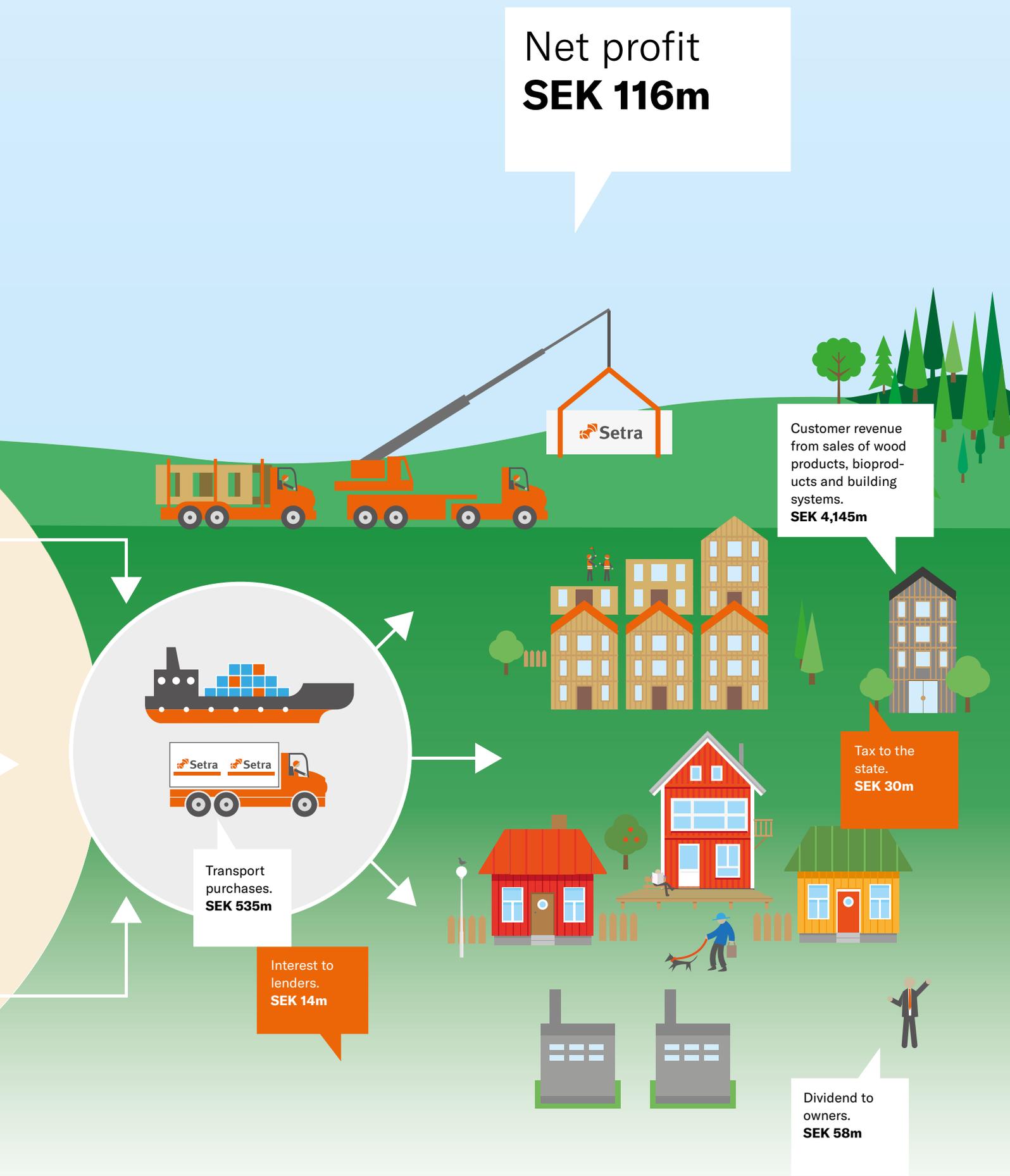
Customer revenue from sales of wood products, bioproducts and building systems.
SEK 4,145m

Tax to the state.
SEK 30m

Dividend to owners.
SEK 58m

Interest to lenders.
SEK 14m

Transport purchases.
SEK 535m



Greater demand for climate-smart alternatives

Demand for wood is growing all over the world. The strong trend has been on an upward trajectory for several years and shows no sign of tailing off. The climate benefit of building in wood is a key driver of demand.



Lower climate impact

In the building process, using wood for the structural frame instead of concrete cuts the climate impact by around half, according to a study by the Swedish Construction Federation and IVL Swedish Environmental Research Institute from 2016. This, combined with the technical advances being made in creating tall buildings in wood, is driving up demand for wood as a construction material. ◦

Government orders wooden housing

The Statement of Government Policy in October 2017 called for more housing to be built in wood, both to reduce climatic effects and to generate jobs across the country. The National Board of Housing, Building and Planning calculates that Sweden needs 710,000 more homes to be built by 2025. That represents around 88,000 homes per year. According to Trähusbarometern, an index that measures orders and deliveries of houses and apartment blocks in wood, a total of 3,224 apartments in blocks with a wooden structural frame will be completed between June 2017 and June 2018. Overall, production is expected to double within 12-24 months and by 2020 will reach an annual capacity of 8,000 apartments. ◦



2030 Agenda

The UN's 2030 Agenda is an agreement on how the world will jointly work to foster sustainable development. The world's leaders have committed to work towards 17 Sustainable Development Goals, which are to be fulfilled by the year 2030. For the SDGs to be realised, every sector of society has to play its part: the public sector, civil society, businesses and individuals. In 2018, Setra will be drawing up a plan for its contribution to the 2030 Agenda. An internal working group will be tasked with identifying goals and activities, based on Setra's responsibility as an employer, supplier, partner and social actor. ◦

Bioeconomy a hot topic

Bioeconomy is the word on everyone's lips, not least because of the target of a fossil-free Sweden by 2045. Switching from finite fossil raw materials to renewable raw materials is the future. Sweden is one of the world's leading nations in forest industry research and we already know how to produce everything from clothing to cosmetics using wood raw material. Renewable fuels made from bioproducts are one area where production is expected to increase moving forwards. ◦





Good and stable growth ...

In 2017 we have seen a good trend in global wood consumption, which has led to steady price rises. Recent years have seen rising volumes heading to Asia, with China as the leading growth market. North Africa and the Middle East, which is a significant market for Swedish pine production, has been rather turbulent in 2017. Algeria introduced a system of import licences that brought deliveries to a complete halt from April to October. Deliveries have now resumed, however, and the situation is considered to be stable. 2017 also saw a container shortage, which caused a major spike in freight costs from March to September. This hit the Asian markets particularly hard, since containers are almost the only practical method of freight transport. In the fourth quarter, both supplies and prices returned to more normal levels. ●

... that is set to continue in 2018

The outlook is bright for wood product consumption in 2018. Growth remains stable in Sweden. However, uncertainty about new construction projects and new rules on payments in the mortgage market may rein in development somewhat in comparison with 2016/2017. In the European market, the good pace continues in new construction and the market for home builders. Estimates suggest growth in European consumption of around three million cubic metres compared with 2017. However, construction is still a long way short of the record total for the years 2006/2007, before the financial crisis. China continues to increase its imports of softwood products and is expected to hit around 25 million cubic metres in 2018. Most of that volume comes from Russian producers, but volumes from Nordic producers appear to now be stabilising at around two million cubic metres. Forecasts for the US indicate continued demand in 2018, which will further help to ensure a good balance in the European market. ●

Setra develops customer dialogue

Through regular interviews, Setra wants to find out what its customers think and develop its customer offering. In late 2017, 31 Swedish customers were interviewed about everything from transport to delivery times and the importance of sustainability issues. The aim is to continue interviewing customers in different markets and to respond quickly to the findings. The results show that customers have a very good overall impression of Setra. 97% give a rating of good (4) or very good (5) on a five-point scale. Customers are particularly happy with service, treatment and the commitment of Setra's employees. 68% of customers rate Setra's delivery reliability as better (4) or much better (5) than that of other wood product suppliers. On the question of how important sustainability work is to customers, 67% state that they consider it important (4) or very important (5). ●

Focus on the right issues

Sustainability is high on Setra's agenda. In talking to our stakeholders, we want to create a consensus around the issues that should be given top priority. Our sustainability work focuses on issues where Setra has a significant impact, a clear responsibility and the ability to contribute.

Setra wishes to contribute to a sustainable world. Our aim is for all our stakeholders to have trust in Setra, whether they are customers, suppliers, owners or the local community. This is created when our sustainability work focuses on issues where Setra has a significant impact, a clear responsibility and the ability to contribute. The key issues for stakeholders are high on the agenda. Setra conducts a dialogue with customers, employees, owners, suppliers and logistics providers. We work to develop this communication, since it is through this interaction that we discover ideas for cooperation and improvement. This has enabled us to compile a good picture of our main considerations when it comes to sustainability.

The key sustainability issues for Setra, according to Setra and its stakeholders, are economic performance, responsible forest management, resource efficiency, climate impact, customer offering and working environment, occupational health and safety.

Economic performance is obviously a major issue for stakeholders and Setra alike. If the financial strength to run and develop the business is lacking, then the capacity to improve the sustainability work will also be lacking

Responsible forest management is also high on the list. Setra's business begins in the forest and the products are made from 100% wood. Responsible forest management is about developing the forest's economic, ecological and social values in balance. As a purchaser of wood, Setra has a major responsibility to set the right requirements.

The highest possible saw yield must be extracted from every log that Setra processes (saw yield means the proportion of the log that is turned into planks and boards). This is vital from both a resource perspective and an economic perspective. The bioproducts left over – chips, sawdust and bark – are sold on as cellulose chips, biofuel or animal bedding. The process makes full use of the log for the ultimate in resource efficiency.

Setra's commercial operations generate emissions of greenhouse gases. At the same time, wood products bind carbon and the benefits of using wood for construction and housing exceed the emissions generated by production and transport. The climate issue is a priority area for all of Setra's stakeholders.

Setra's customer offering of sawn and processed wood products and bioproducts needs to meet the customer's quality requirements and be delivered on time.

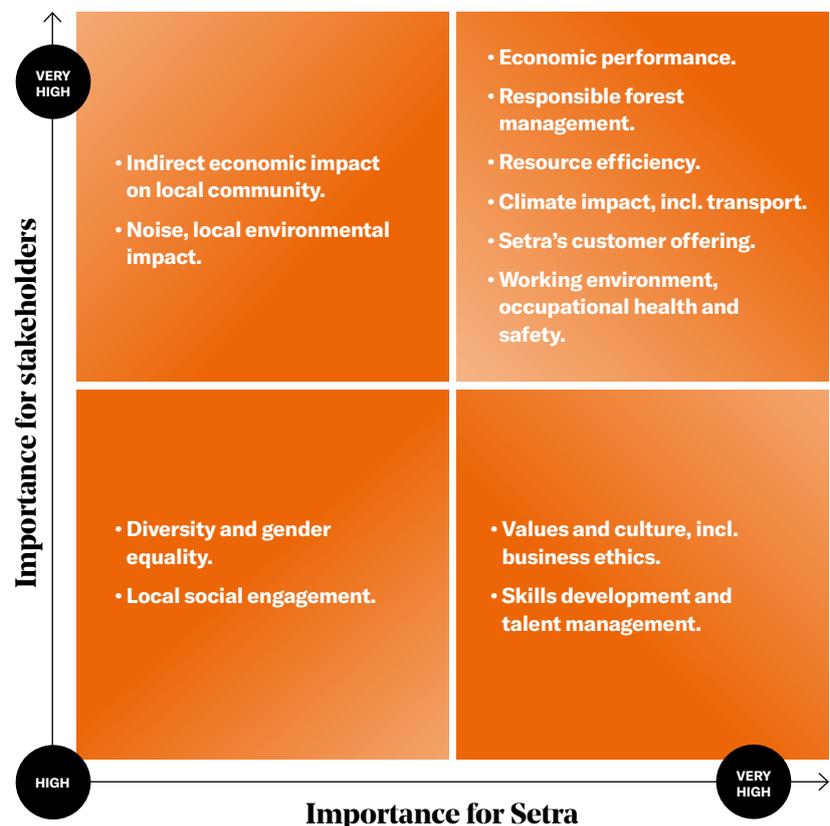
Technical expertise, customer interaction, service and availability are integral parts of this offering.

The working environment and occupational health and safety are important issues for Setra and its stakeholders. Satisfied employees are a prerequisite for being able to conduct high-quality business.

In addition to these, there are a host of other sustainability issues that are important, even though they may not be ranked quite as highly. ◦

Materiality analysis

The key issues for a sustainable Setra



The issues are grouped into four focus areas

In order to create clarity and an understanding of the context, the sustainability report groups the issues into four focus areas: Green city, Climate-smart raw material, Resource-efficient production and Focus on people.



1. Green city

• **Setra's customer offering**

In the Green city section, we talk about Setra's products and the benefits they bring to construction and housing in a global market. Setra's bioproducts help drive the transition to a green energy supply and, with the help of new bioinnovations, Setra can be involved in offering the biofuels of the future.

2. Climate-smart raw material

• **Responsible forest management**

Under Climate-smart raw material, we explain about responsible forest management and how we work with certification and controls of the wood raw material.



3. Resource-efficient production

- Resource efficiency
- Climate impact, incl. transport
- Local environmental impact

Setra's work on continuous improvements is the route to sustainable production. Setra wishes to focus on efficiency at every level, be it what we get out of every log, how we use energy or how we manage our logistics. Setra's energy use and transport are crucial issues for reducing our carbon footprint.

4. Focus on people

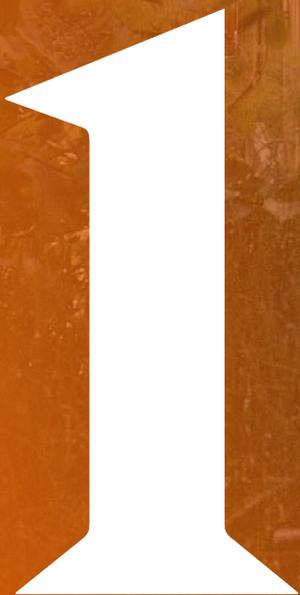
- Working environment, occupational health and safety
- Indirect economic impact on local community
- Values, culture, business ethics
- Skills development and talent management

If we are to achieve our strategic objectives and make ourselves the customer's preferred choice, we have to keep the focus on people. This is what our fourth focus area is all about, with values, safety and expertise as some of the core concepts.



Green city

By producing renewable materials to build and furnish homes, Setra is contributing to a greener urban development. Bioproducts are turned into climate-smart heating – and as if that was not enough, cars of the future could have bio-oil from Setra in their tanks.





1.3 million tonnes

Wood binds the equivalent of 800 kg of carbon dioxide per cubic metre of sawn product. The volume of wood products Setra produced and sold in 2017 (1.64 million cubic metres) has thus captured 1.3 million tonnes of carbon dioxide. That equates to the greenhouse gas emissions of around 123,000 Swedes.

1.64 million cubic metres

Setra manufactured 1.64 million cubic metres of sawn wood products in 2017. That would be enough to build 47,000 standard detached houses. Today, many apartment blocks are also being built around a wooden frame, like this lovely building in Årsta, Stockholm.

Wood boom in the construction industry

The trend for constructing tall apartment blocks in wood has been increasing steadily for many years. 2017 was a real breakthrough year, thanks not least to a committed government, strong developments within the industry and the ever-growing importance of climate change issues.

Following numerous large-scale fires in Swedish towns and cities in the 19th and 20th centuries, there was a longstanding ban on building tall apartment blocks in wood. However, this ban was lifted in conjunction with EU membership in 1994, and now around 3,500 apartments are built each year in blocks with a wooden structural frame. In recent years, the trend has picked up pace, not least due to growing awareness of wood's environmental benefits.

Apartment blocks have long been dominated by steel and concrete – materials that generate greater emissions of greenhouse gases than a renewable material like wood. Building in wood has major environmental benefits, because carbon is captured as the trees grow and then stored in the sawn wood products. Research from Mid Sweden University shows that a four-storey wooden building binds 150 tonnes of carbon dioxide, once you strip out the energy used in production, transport and during the construction process.

In 2017, the Swedish government also expressed a clear ambition to stimulate building in wood, for both environmental and labour market reasons. In his State-ment of Government Policy, Prime Minister Stefan Löfven said that more homes are to be built in wood, as it will help mitigate the effects of climate change and create jobs throughout the country. The bill included the statement that industrial wood construction is to be developed and a circular and bio-based economy is to be promoted.

“This all gives a very strong indication of how the government wants wood construction to develop. They see an industry that

can help to reduce climatic effects, improve the efficiency of construction and create jobs across the country,” says Susanne Rudenstam, Head of the Swedish Wood Building Council.

The same growth is occurring all over the world. Primarily in wood-producing nations such as Austria, Germany and Russia, but countries without their own forest, such as the UK, are also showing considerable interest.

Many places harbour ambitions to increase wood construction. The City of Stockholm aims to grant 500 land allocations for housing in wood by 2020. Construction of the new Ör Centrum will begin in Sundbyberg

in 2019, creating around 210 homes plus commercial space, built entirely in wood.

More players in the wood industry are now focusing on being able to meet increased demand for the production of apartment blocks with a wooden structural

frame. Several factories for large-scale production have been completed or are in the pipeline. Setra has decided to invest in a factory for cross-laminated timber (CLT) in Långshyttan, with production due to start in 2020.

Cross-laminated timber enables more competitive building, because components are put together in the factory, reducing the construction time on site. CLT is appropriate for structures that require a high degree of strength and load-bearing capacity while being fire-resistant and relatively light.

Demand for glulam is high and continues to rise. Setra is working actively to meet its customers' wishes. Setra currently offers Sweden's fastest lead times on glulam, at six days. ◉

“Building in wood has major environmental benefits, because the material captures carbon.”

Building the city in the countryside

What are the obvious sustainability benefits of building in wood?

“Wood is a renewable material, and one that we have an abundance of here in Sweden – which is, of course, extremely positive from a sustainability perspective. And for industrial builders like us, wood makes even more sense because the material is easy to work with and light to transport, which creates less of an impact on the climate.”

You're a long way ahead of the game in developing industrial wood construction – why is this so important?

“By relocating house production outside the city centre, we end up building the city in the countryside. The preparatory work and construction work in the city can be cut significantly, ensuring minimal disruption on site for the environment and local people in the form of noise and so on.”

When are tall buildings in wood really going to break through?

“I think we're at a turning point right now. There is a huge difference between building prototypes and regular production, but we now have several players in Sweden who can handle it. To be able to say that wood construction has broken through on a broad front, we would need to have a market share of 20% in about 10 years' time – we have some way to go, but we're getting there!” ◉



Helena Lidelöw is Platform Manager at Lindbäcks Bygg in Piteå, which uses glulam from Setra in many of its projects.

“Setra’s production of interior panels and flooring in Malå rose in 2017. Demand is strong, particularly from Japan, Sweden and Norway.”



Wood has moved in for good

Interest in sustainable materials and true craftsmanship means the trend for wood in interiors is here to stay. We will see more earthy tones and solid wood panels – and give the floor a starring role in creating a distinct look for a room.

The interior design trends of recent years have been about looking both forwards and backwards. Interest in natural materials such as wood has risen, and with it an interest in craftsmanship.

“One general focus is on making the finish very matt and natural, either by leaving the wood untreated or using a matt varnish or oil. Pine feels quite current again, but so do more exotic woods,” says Christian Halleröd, award-winning interior designer and architect.

Over the past year, interest in sustainable, locally produced interior cladding and flooring in solid wood has grown and grown. The view of the floor as a simple base for other design flourishes has changed, with it now being employed to give the room a strong look. The trend in Sweden is towards slightly warmer and earthier tones and a surface with more texture.

“Opinions on wood in interior design naturally vary around the world, but we’re noticing a growing interest even in markets that haven’t traditionally had a focus on wood,” says Emanuel Lidberg, chief designer at flooring company Kährs.

Wood is a renewable and durable material with a long service life and it offers various recycling options. Ikea, for example, has set itself an ambitious target to phase out fossil-based materials in favour of renewables such as wood.

Exposed wood in interiors is also on the up in places where it has previously been less common. In entrances and stairwells in apartment blocks, for example.

Wooden interiors are also being linked to people’s wellbeing. The European research project Wood2New has proven that there are positive health effects associated with wooden environments indoors.

Setra is keenly focused on additional processing of wood products in order to meet customer demand. A new factory to manufacture window and door components is expected to be up and running in Långshyttan in the second half of 2018. Setra has long had a wide range of solid wood flooring and panels of various grades, with a variety of finishes. ◦

Find out more about our processed wood products at: setragroup.com

“Exposed wood in interiors is also on the up in places where it has previously been less common.”

Peter Song
Sampo
Furniture

Wooden furniture for the kids’ rooms

One of Setra’s biggest home furnishings customers is Sampo Furniture in China. Sampo’s factories turn spruce from the sawmills in Färila, Heby and

Hassel into imaginative children’s furniture. Setra put three questions to Head of Purchasing Peter Song about why demand is growing among Chinese families.

Why are the Chinese so keen on wooden furniture?

“An increase in the standard of living means young consumers are able to demand good-quality furniture. They want simple, modern, comfortable furniture and we see that in Nordic



materials and Nordic design. Wood is also a natural and sustainable material – more and more of our customers are looking for green, toxin-free products to give their children a safe and healthy home environment.”

Greater demand?

“Yes, definitely. The biggest reason for this is that China now allows

every family to have two children. On the back of this, the number of babies born each year in China is going to skyrocket. What’s more, quality of life is improving all the time in China and we are able to make conscious consumer choices in a way we were not able to before. There is also now a national standard for safety-tested children’s furniture,

which has increased the popularity of furniture made from solid wood.”

Why do you buy wood from Setra in particular?

“Setra is a professional company that can guarantee good quality and reliable deliveries. Plus the best softwood products come from the Nordic countries. The soft texture is excellent for children’s furniture. We want to give our children soft materials, which is why many toys here are also made from pine and spruce.” ◦

The background of the entire image is a dense, textured field of light-colored wood chips, likely birch or pine, used for bioenergy production. The chips are irregular in shape and size, creating a natural, organic pattern.

36.6%

A great deal of Sweden's energy comes from biofuels, making them Sweden's biggest energy source. The figure comes from Svebio, 2016.

50%

Setra's production makes full use of every log. 50% of the log is turned into boards and planks, and 50% becomes bioproducts.

**1,847
GWh**

In 2017, Setra produced 1,847 GWh bioenergy. That's enough to heat 205,000 apartments.

From chips to sustainable heating

The production of planks and boards generates bioproducts such as chips, sawdust and bark. Much of this is a valuable raw material for Setra's customers, who convert it into renewable heating for homes.

Biofuel is Sweden's biggest energy source. According to Svebio, 36.6% of the energy used derives from biofuels. What's more, the majority of the bioenergy in Sweden originates from the forest.

50% of a log is turned into boards and planks, and 50% becomes chips, sawdust and bark. Setra plays a crucial role in the development of renewable energy by recovering and selling on the bioproducts created during sawing and production.

The raw chips – cellulose chips – that come from the outer parts of the log are an important raw material for the pulp and paper industry. Dry chips, bark and sawdust are used in heating and CHP plants. Sawdust and wood shavings also go to the pellet industry and the shavings are popular for animal bedding.

Setra's planing mills in Malå and Rolfs also make briquettes from the wood shavings. The briquettes are then sold on to customers for energy and heat production.

Bioproducts account for 14% of Setra's

sales. Customers include Skellefteå Kraft and Eon, who use the products to generate electricity and district heating, and pellet manufacturer Scandbio, Sweden's biggest name in solid processed wood fuels.

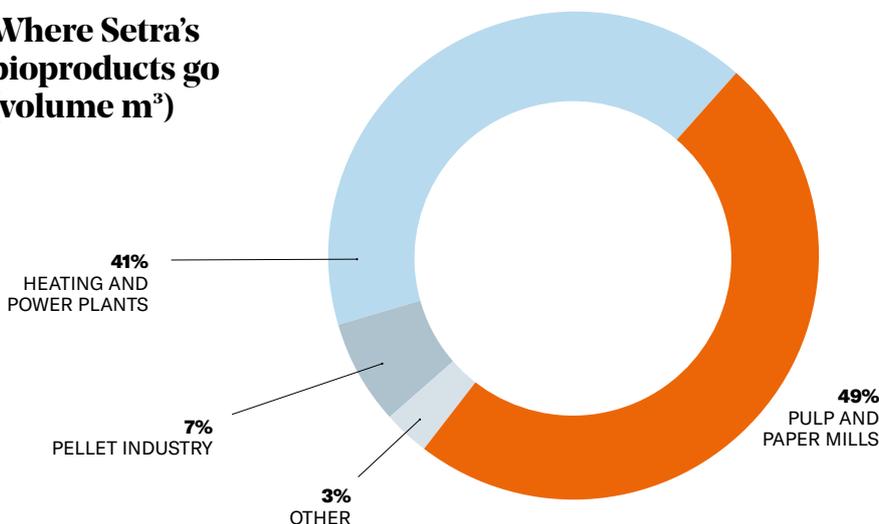
Setra's bioproduct customers are located nearby, within a radius of about 200 km.

"Our bioproducts are sold on a regional market, because they are so voluminous in relation to their value. This way the distances are short, which is also good for the environment," says Hanna Lindberg, bioproduct coordinator at Setra.

Customers are increasingly demanding certified raw material. This adds value and is a link in the chain for energy companies who want to sell certified heating, for example. ◦

"Bioproducts account for 14% of Setra's sales."

Where Setra's bioproducts go (volume m³)



Producer who wants to be a step ahead

Almost 100% of the heating that Skellefteå Kraft produces comes from renewable raw material – how has that happened?

"Just over a year ago, five Swedish parties presented a cross-party target for a fully renewable energy system by 2040. Skellefteå Kraft has a clear sustainability profile and we obviously want to help achieve these targets and push for 100% renewable energy. When it comes to generating electricity and heating, we want to be a step ahead of the game. However, categorically saying what is most sustainable isn't always easy either for the producer or the consumer, so price remains the key factor when consumers choose a supplier."

What about the future?

"Our need for wood raw material is hardly going to decline. Quite the reverse in fact. The demands placed on us are only going to get tougher and I believe end customers such as private individuals and property owners are increasingly going to demand sustainable heating and electricity."

Why did you choose Setra as a supplier?

"Setra is one of our biggest suppliers. We like knowing that the company follows its policies on sustainably managed raw material. They are also located close to our plants in Malå and Skellefteå, which means shorter transport distances and better prices. Setra also meets our quality and delivery requirements." ◦



Johan Holmlund is fuel strategist at Skellefteå Kraft. They are one of the customers that buy bark, sawdust and chips from Setra to generate renewable energy at their CHP plants.

Pyrolysis oil

— contributing to a bioeconomy

Setra is pushing ahead with a project aimed at building a pyrolysis plant alongside Kastet sawmill in Gävle. Once completed, the plant will convert sawdust into bio-oil – and make Setra one of the first companies to commercialise the concept on an industrial scale at its own plant.

Sawdust is a bioproduct from our industrial process that is currently used to generate thermal energy. By instead converting the sawdust into bio-oil, Setra is taking a huge leap forward up the value chain. When the sawdust is heated to a high temperature without oxygen, it transforms from a solid state into a gas. The gas is condensed to form a liquid tar, pyrolysis oil, which is a type of bio-oil. The oil is then further refined.

Pyrolysis oil is able to replace fossil oil, for example in heating boilers. It can also be used to produce biofuel, which could make a significant contribution in the transition to a fossil-free transport sector.

However the oil is used, the potential environmental benefits are huge, and even the Swedish Environmental Protection Agency is on board. In June 2017 the agency granted Setra SEK 117 million for its project. The money comes from Klimatklivet, the government's funding initiative for local and regional climate investments. Setra's project is one of the investments to be granted most money in the drive to cut carbon emissions.

For Setra, the focus is on adding value not just to our own revenue streams, but to society generally. According to the national environmental objectives, Sweden's vehicles are to be fossil-free by 2030 and the whole country is to be fossil-free by 2045.

Renewable raw materials and renewable energy help to tackle the challenges of climate change in many ways – while also offering substantial opportunities for business and growth. But for the bioeconomy to fully thrive, political decisions and guarantees need to be in place, at both national and EU level, and they need to be clear and long-term.

The situation became more hopeful on 17 January 2018, when the European Parliament voted on the Renewable Energy Directive. One of the messages from that day was that every part of a tree should be considered sustainable, as long as the forest management involved meets the sustainability criteria. This is important news for the whole of the forest industry and for society in general.

The next step in the process is for the European Council, Parliament and Commission to agree on the final wording of the directive. This is expected to take place in 2018.

In the meantime, here at Setra we will continue to plan our pyrolysis oil plant. The aim is for it to be ready for production in summer 2020. However, we know that bio-oil is just one of many renewable products that we in the forest industry have the capacity to develop over the coming years. There is much more to be extracted from our fantastic value chain. ◦

“Pyrolysis oil is able to replace fossil oil, for example in heating boilers. It can also be used to produce biofuel.”



Innovation creates greener value chain

Tell us about Setra's plans to start producing pyrolysis oil!

"The aim of the project is to develop a pyrolysis oil plant that will be integrated with our Kastet sawmill in Gävle and with a large biofuel boiler on site. There is potential for a fantastic circular system, where we use surplus heat from the boiler to dry the sawdust in our pyrolysis plant. We then use the dry sawdust to make pyrolysis oil. This process also creates steam, which we can put to work in our drying kilns at the sawmill. Setra is preparing for an investment decision towards the middle of 2018."

How does the oil become a biofuel?

"The oil needs to be refined in another stage at a refinery, where it is mixed with the fuel produced there. A refinery may well be a key partner for long-term sales of pyrolysis oil."

What makes fuel an interesting investment for Setra?

"It's an opportunity for Setra to help with the transition to a fossil-free Sweden. The investment is also important for our business, as we're always looking to increase the value of our bioproducts and secure long-term revenue from the sawdust. Last but not least - this turns our value chain even greener, which makes us more attractive as a supplier and as an employer." ◉

We are making our value chain even greener and helping with the transition to a fossil-free Sweden.



Pontus Friberg is Risk Manager at Setra and owner of Setra's pyrolysis project.



25,000 tonnes

The pyrolysis plant is expected to have a production capacity of 25,000–30,000 tonnes bio-oil per year. That would run as many as 25,000 cars for a whole year.

Climate-smart raw material

As the forest grows, it absorbs carbon. Young, growing trees take up more carbon than older trees. This is why managing the forest produces a major benefit for the climate. But it must be managed sustainably and with care.

2



Forest managed with care

Growth in the forests is greater than the amount harvested and this has been the case throughout the twentieth century. Today there is about twice as much forest in Sweden as there was 100 years ago. This is because of lessons learned, legislation and a successful holistic approach to sustainable forest management.

Sweden has a long tradition of sustainable forest management. This means developing the economic, ecological and social values of the forest in balance. As well as long-held traditions, Sweden also has forest conservation legislation. The Swedish Forestry Act sets out how we are to manage and nurture our forests.

In general terms, we can say that two new trees are planted for every tree felled. Reforestation of the land must commence within three years of harvesting, by planting, sowing seed or using seed tree stands. New trees must have appeared within five years.

Sweden and Finland are examples of countries that have been highly successful at creating profitable forest management. Thanks to the Swedish Forestry Act and its reforestation commitment, we now have twice as much forest as we did a hundred years ago.

“We’re good at seeing the bigger picture and taking a systematic approach to the forest, which makes us stand out from the rest of the world,” says Erik Sollander, forestry policy strategist at the Swedish Forest Agency.

He thinks that the concept of sustainable forest management, in which high timber production is balanced with nature conservation, biodiversity and outdoor recreation, can be summarised in one simple sentence:

“In Sweden we are good at seeing the bigger picture and have succeeded in creating profitable forest management.”

Meeting today’s needs without destroying the future for generations to come.

Today’s Swedish forestry model is the result of a number of lessons learned along the way. In the mid-nineteenth century, the population exploded and agriculture suffered repeated failed harvests. The forest was sacrificed to create more farmland and the farmers let their animals graze the forest, which was disastrous for regrowth. At the same time, industrialisation had taken off and the

forests were exploited on a grand scale. In 1903 the first modern forest conservation act was passed, clearly stipulating that anyone who fells forest must also replant.

“Instead of losing forest resources, we have growth that is considerably higher than the amounts harvested,” says Erik Sollander.

There is more wood in the forests than the amount harvested and this has been the case throughout the twentieth century. Approximately 90 million cubic metres of the approximately 120 million cubic metres of forest growth are harvested every year. In other words, the amount of forest in Sweden is constantly growing year on year and the total wood stock amounts to more than three billion cubic metres of forest. Today approximately 70% of Sweden’s land area is covered with forest and approximately 1% is harvested every year. ◦

Karin Fällman Sveaskog

Major focus on training

How does Sveaskog carry out sustainable forestry?

“Our own definition is: active, profitable and responsible management of forests and forest land in a way that continuously creates growth, diversity and increased value for generations. It means that we take responsibility for getting as much as possible out of the forest while respecting environmental and social considerations and the long-term

approach – a desire to pass on well-forested areas to the next generation. Other important aspects are preserving natural assets and protecting areas for outdoor recreation.”

How do you work with nature conservation?

“We work with three aspects: 1) General consideration when harvesting. We leave dead trees, dead wood and biotopes that many species depend on. 2)

10% of our forest is set aside for nature conservation. This means that it is left free from development or managed so as to increase this natural asset. 3) We have 37 ecoparks. These are large uninterrupted landscapes where more than 50% of the forest is managed with natural assets as the priority. This may involve increasing the proportion of deciduous forest, protecting specific species or leaving areas free for recreation.”

In late 2016 you faced criticism from FSC due to incorrect nature conservation assess-

ments. What action have you taken?

“Before we harvest, we carry out a nature conservation assessment to determine whether the forest is to be harvested or set aside. At our annual FSC audit in 2016, one FSC auditor noted that on several occasions our planners had made the wrong call on whether the forest was worth protecting or not. We decided then that we needed to make training in nature conservation assessment a priority. Everyone has undergone training and new procedures have been introduced. In this case the error was identified in time and the forest



Karin Fällman is Vice President Silviculture and Environment at Sveaskog. She has a team of forest management and nature conservation specialists to help her.

was not felled – this shows what an important tool FSC is for taking the right and the correct action.” ◦

3,400,000

The number of cubic metres of raw timber purchased by Setra in 2017 to produce planks, boards and more processed construction products.

98%

The proportion of raw material bought in by Setra from Swedish suppliers. Setra's timber normally comes from within a radius of about 100 kilometres from the sawmill.

Spruce
42%

Pine
58%

Raw material purchasing

Setra buys in pine and spruce from about fifteen suppliers.



Traceable and certified raw material

Pine and spruce are the raw material in Setra's production. All wood comes from responsibly managed forests and can be traced all the way back to the harvesting site.

The raw material used in Setra's production is spruce and pine, which is further processed into various wood and bioproducts at our sawmills and processing units. From a sustainability perspective, it is important for us at Setra that the raw material comes from responsibly managed forests.

Setra has no forests of its own and buys in all its timber raw material. 98% comes from Swedish suppliers, where Setra's owners Sveaskog and Mellanskog account for the largest proportions. A small amount comes from Finland and Norway. For Setra, it is important to have long-term relationships with suppliers in order to ensure quality and deliveries.

Setra's raw material coordinators check that the timber meets these requirements, for example via visits to suppliers and follow-up of harvesting. If the timber comes from a supplier who is certified, the supplier conducts these checks itself. Setra pays a premium for certified raw material.

The amount of certified timber bought in is primarily steered by customer demand. In 2017, 37% of Setra's sold wood products were FSC® or PEFC™ certified, which is a rise compared with 2016.

The timber raw material that Setra buys in is either certified or controlled. Certification is carried out in line with FSC and PEFC, the world's largest forest certification systems. The timber that is not certified is controlled and meets the requirements for FSC Controlled Wood and PEFC Controlled Sources. It also meets the requirements in

the European Timber Regulation. Setra's sawmills and processing units are also certified according to FSC's Controlled Wood and Chain-of-Custody standards.

The minimum requirement under FSC is that the origins are traceable and meet five basic criteria. We do not accept:

- Illegally harvested wood
- Wood from forests with serious social conflict.
- Wood harvested in forests in which high conservation values (HCVs) are threatened.
- Wood from forests worthy of conservation.
- Wood from forests in which genetically modified trees are planted.

State-owned Sveaskog is Sweden's largest forest owner and all their forest land is FSC certified. 20% of the forest below the mountain forest line is set aside for nature conservation in Ecoparks. In the mountain forests, 50% is set aside for nature conservation, all in line with FSC. Sveaskog applies various silviculture methods to reduce clearcutting and retain the feeling of woodland when an area is harvested.

Mellanskog is an association owned by 26,000 private forest owners, often small-scale family-run forestry operations. The association buys the members' timber and sells it on, including to Setra. Over a third of the forest land owned by Mellanskog's members is PEFC certified and 44,000 hectares are set aside for nature conservation. ◦

**Certified
raw
material**



PEFC, Programme for the Endorsement of Forest Certification, is an independent umbrella organisation that works for sustainable private forestry through certification by an independent third party. In Sweden approximately 11.5 million hectares of forest land are PEFC certified.



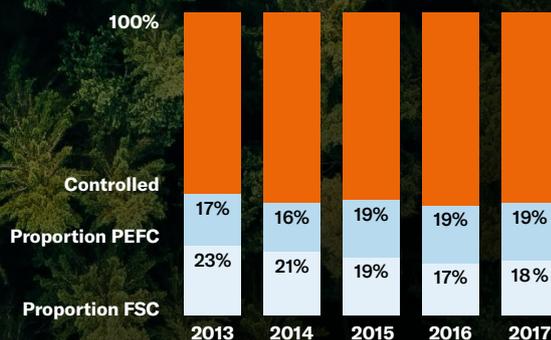
FSC, Forest Stewardship Council, is a non-profit, international, independent organisation of its members that offers a voluntary certification system for responsible forest management. Approximately half of the productive forest land in Sweden is FSC-certified.



100%

All the wood Setra buys in is traceable and meets requirements on controlled raw materials.

Sales of sawn wood products – proportion certified and controlled



Wood policy for responsible purchasing

What does Beijer Byggmaterial's wood policy mean?

“For us at Beijer Byggmaterial it is important to be able to offer sustainable goods and our policy is intended to help us to make as responsible purchases as possible. Naturally we comply with EU legislation on illegal timber (EUTR) and the CITES list of endangered species and do not buy in wood of species or from areas that are not subject to regulated and controlled harvesting for various reasons, and we only choose suppliers that comply with legislation in force in the country of origin.”

Do you only comply with legal requirements?

“We want to do much more than that. We are working to increase the proportion of certified goods and buy in increasing amounts of FSC and PEFC labelled products. We also take great responsibility for transport and always evaluate the options that have the lowest climate impact. We also work actively with our customers to minimise environmental impact by choosing optimum materials in the construction process.”

Do you see greater demand for certified goods from consumers?

“Unfortunately it is mainly us ourselves and our shareholders who are making these requirements of us. Consumers practically never ask for FSC labelled goods or for any form of ecolabelling. FSC has to be better at marketing itself in this respect; there are many more consumers who are aware of why they should buy KRAV ecolabelled food, for example.”



Peter Sjöström is Senior Sourcing Manager at Stark Group Sourcing, which takes care of purchasing for Beijer Byggmaterial, among others.

Resource- efficient production

Setra works systematically to cut the environmental impact of its production. Key issues are noise, energy consumption and resource efficiency, as well as climate emissions throughout the value chain.

3





Environmental management that makes a difference

The most important environmental aspects in production are resource efficiency, energy consumption and noise. Activities are under way in all areas to reduce environmental impact. For example, work has started on an energy survey of all units, to be completed in 2019.

Setra's sawmills and processing units are certified according to the environmental management standard ISO 14001. Since autumn 2017, the certificate has also included an energy survey element.

Setra's main environmental impacts are energy consumption, noise, emissions to air from internal transport and biofuel boilers and chemicals management at the units where Setra carries out pressure treatment.

At Setra, utilising the entire sawlog goes without saying and leads to high resource efficiency. How Setra makes optimal use of the timber raw material is a key issue, from both profit and sustainability perspectives. The company strives to attain a high saw

yield, i.e. a high volume of sawn product in relation to the volume of incoming timber raw material.

The average saw yield in 2017 was 49.7% (50.2%), somewhat lower than the previous year. The saw yield is affected by the dimensions of the log, the sawing technology and the choice of sawing the log to planks or boards depending on the economic value of the end products.

The material in the sawmill that does not become boards and planks becomes cellulose chips, fuel or animal bedding. The quality of the bioproducts is important; they are an important raw material or fuel in the customer's processes.

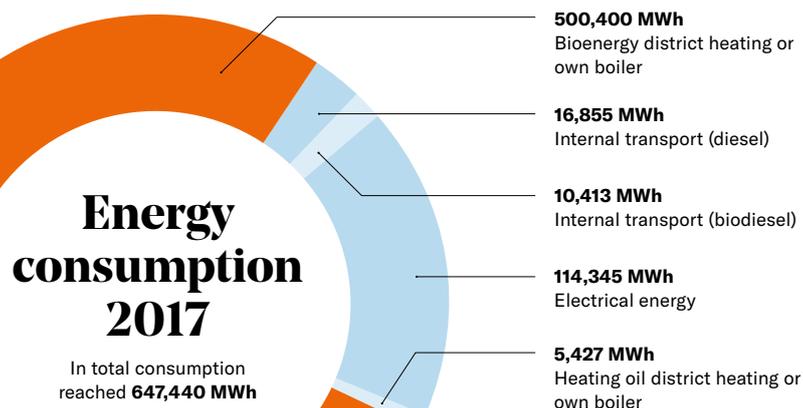
Setra's units are often close to local communities and as these grow, new homes are

built increasingly close to the production facilities. Much of the operational activity takes place outdoors and neighbours can find it disruptive.

Noise assessments are carried out in conjunction with new investments and changes to operations. Noise measures may be implemented close to operations or as at the sawmill in Heby, where Setra has built a noise protection embankment between the sawmill and the nearest residential area. This was an investment of SEK 8 million. The embankment has resulted in significantly lower noise levels for about 50 local residents.

Operations are energy intensive. In 2016 work began to conduct energy surveys for all units. This will be complete by 2019. An energy survey shows how much energy is brought in and used to run the company's operations each year. It shows how the energy is distributed through operations and how much it costs. The results guide Setra in determining the measures that are most profitable from an energy saving standpoint. This might be investing in new equipment, or new working methods and procedures. The first surveys were conducted in 2016 at the plants in Kastet and Skutskär. Surveys are now being conducted in Färila, Nyby and Långshyttan.

Setra has an overarching goal to reduce energy consumption. Fuel consumption is to be down 15% per cubic metre of sawn timber by 2020 compared with 2010. Electricity consumption is to fall by 20% in the same period.





Major drop in energy consumption

In Färila you've been working for a long time to lower energy consumption. What was the thinking there?

"In 2010 Färila had an energy bill of SEK 8.8 million. We thought if we could get that down, it would boost our competitiveness and be good from an environmental point of view too. Because we had our own ideas about how we could cut our energy usage, we got our own equipment to measure it."

Why is this issue important?

"I see it as a question of survival for our sawmill. We have to be good at what we do. If it costs more for us to produce a cubic metre of sawn timber than anyone else, we'll lose competitiveness. The fact that the question also goes hand in hand with eco benefits makes it easier to drive the work forwards."

How have you got energy consumption down?

"Every tiny element, a light or a radiator that's left on, helps to increase energy consumption. For example, we had a forklift garage that was heated by a big electric boiler. It was costing us between SEK 80,000 and 100,000 a year. We insulated some of the building that was leaking heat and dug a heating culvert from another part of the building that was heated with biofuel and we were able to get rid of the electric boiler completely."

How much have you saved?

"In 2010 we consumed 82.4 KWh per square metre of sawn timber. In 2017 that figure was 58.7 KWh. That's a reduction of 29%. It's also a downward trend that's still continuing!"



Mattias Forslund is Mill Manager at Setra's sawmill in Färila.

The single largest consumption of heat and electricity takes place during timber drying. The thermal energy is produced in a boiler which is fired with bark and sawdust from our own production. 99% of Setra's thermal energy is produced using renewable fuel.

Fossil fuels are mainly used in forklift trucks and machines. In the period 2010–2017 Setra almost attained the target with a reduction of 15%, calculated per cubic metre of sawn timber produced. Efficient driving methods and smart logistics handling are contributory factors. Setra is also working to increase the proportion of renewables in the fuel tank.

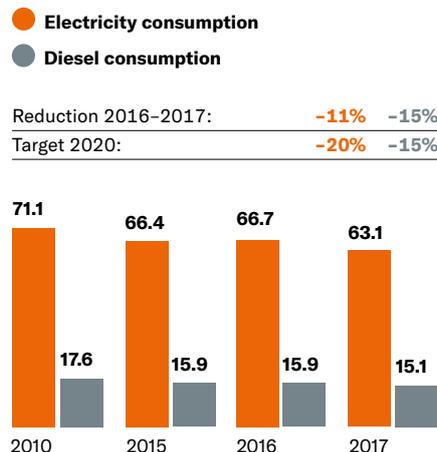
The sawing and drying processes are major consumers of electricity. Electricity consumption can be reduced by controlling the fans when drying timber, but this requires a great deal of skill so as not to jeopardise timber quality.

Other examples of energy-saving measures include replacing lighting with LED fittings and controlling conveyors, fans and compressors.

Production volumes and outside temperatures affect both the total and specific electricity consumption. Reducing specific energy consumption by 20% by 2020 is a tough target to meet.

Setra has earmarked funding to stimulate investment in energy-efficient technology. In 2017 some of this money was invested in a heat recycling project at the Hasselfors sawmill.

Electricity and diesel consumption 2010–2017 (kWh/m³ sawn timber)



Climate emissions from own operations are falling

Active work with a focus on reduced energy consumption and a higher proportion of renewable fuel in our own machinery are the foremost contributors to the reduction in climate emissions from our own operations. However, Setra's total emissions are increasing compared with 2016, and this is due to higher sales and therefore also more transport, including transport to China.

Every year Setra produces a climate report on emissions throughout the whole value chain from planting pine and spruce seedlings to delivering finished products to customers. The calculations are based on the guidelines of the GHG protocol¹.

Setra's total greenhouse gas emissions amounted to approximately 241,000 tonnes in 2017. 3% of this came from Setra's own operations (see table). Energy consumption in production (indirect emissions from purchased energy, see table) simultaneously accounted for 17%. Raw materials, travel and transport (see table) accounted for the majority of all carbon emissions, 80%.

The majority originates at the transport stage. And emissions from transport have increased in recent years. This is because Setra currently ships large volumes to China and other countries in Asia – markets that involve a considerably longer journey.

At the same time, carbon emissions from Setra's own operations have fallen. This is primarily due to reduced energy consumption and a higher proportion of renewable fuels in Setra's own machinery. Carbon emissions, calculated from a life-cycle perspective, amount to 54 kg of sawn timber delivered to an average customer in Sweden. In the past three years emissions from Setra's own operations have fallen by almost 7 kg.

Wood is climate smart Wood binds the equivalent of 800 kg of carbon dioxide per cubic metre of sawn product. The total climate benefit from all of Setra's sales is equivalent to 1.31 million tonnes of carbon.

Transport accounts for 71% of Setra's total emissions. Setra's transport flows are

large and complex and start in the forest. The raw material is collected by timber trucks within a radius of approximately 100 km from the sawmills. Facilities with their own railway tracks, Hasselfors, Kastet and Skinnskatteberg, can also receive deliveries by train. Today approximately 3% of the timber is transported by rail.

The finished wood products leave the sawmills and processing units by road for further transport to customers. In total 65% of all goods are exported. Most consignments within Europe go by road, while North Afri-

ca, the Middle East and Asia are reached by sea. Road transport accounts for 46% of the volume and sea transport for 54%.

From a climate perspective, rail is the best mode of transport, while sea transport causes lower emissions than road transport. However, sea transport is considerably longer.

For Setra, sustainable transport involves efficient and climate-smart logistics solutions as well as decent conditions for the people who transport our goods. [o](#)

¹Greenhouse Gas Protocol

Carbon emissions

Emissions from Setra's operations (tonnes).

	2017	2016	2015	2014
Scope 1	8,119	9,880	10,354	11,421
Scope 2	40,096	43,032	41,069	43,912
Scope 3, including transport	192,352	151,855	148,577	178,118
Scope 3, excluding transport	(20,858)	(24,076)	(24,597)	(25,564)
Total:	240,567	204,767	200,000	233,451

Scope 1 Direct emissions from operations.

Scope 2 Indirect emissions from purchased energy. When Setra buys in electricity, district heating and district cooling the emissions do not occur inside the gates but at energy production.

Scope 3 Indirect emissions from purchased transport, hired machinery and the climate impact of purchased products, for example.

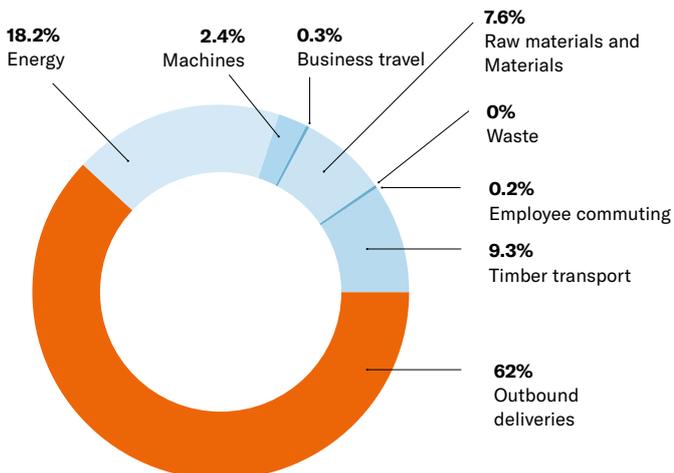


46%

46% of the total volume sold is transported by road and 54% by sea. 5.4% of all incoming timber was transported by rail.

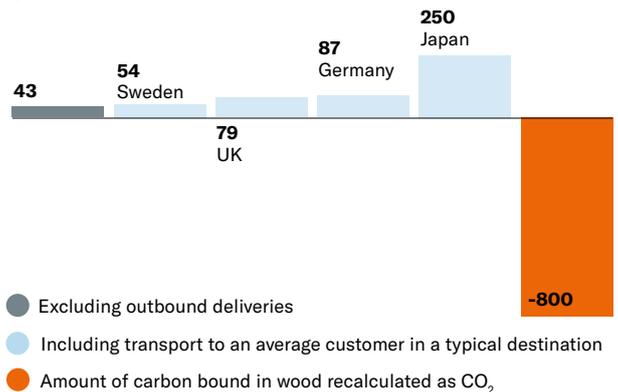
Greenhouse gases

Greenhouse gas emissions per activity, 2017



Wood from a climate perspective

Emissions and respective carbon sequestration in kg CO₂/m³ sawn timber for different types of destination. Emissions are calculated based on a lifecycle perspective from planting to transport of finished goods to the customer.



Focus on people

The forest is all well and good, but without the people at Setra, there would be no financial results or climate-smart products. People are Setra's most important resource and we are keen to offer good leadership and a workplace that enables them to develop and flourish.

4





Emil Högberg, Setra Malå.

Together towards zero

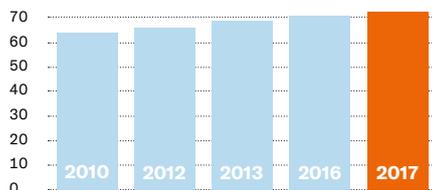
Setra's most important resource is its people. This is why Setra has values-driven leadership and a high safety culture that runs through everything we do.

Setra has values-driven leadership in which the values of commitment, innovation and responsibility are brought to life every day. A healthy company is a company in which the employees feel valued, feel they can take initiative, be listened to and understand their own role in attaining the company's overarching goals.

Setra's approximately 800 employees are the organisation's most important resource. The challenge is that the units span many different locations across Sweden and around the world, with different responsibilities and duties. To attain the overarching strategy and business plan, since 2016 Setra has been working in line with a management by objectives model in which the overarching goal is made clear and broken down to all functions, units and employees. Management by objectives helps the organisation to make the most of the skills, potential and personal drive of its employees.

Performance reviews are part of the management by objectives model and

Employee motivation index, EMI



The SetraRingen employee survey shows that motivation is continuing to grow within the company. EMI is a measure of how motivated employees are in their day-to-day work and with Setra as an employer. The employee survey has been carried out every year since 2016 and Setra's aim is for EMI to improve year on year. The increase from 70 to 71 is the result of prioritised development work on leadership, values and health and safety.

work on values-driven leadership. During the year, Setra has worked hard to ensure that all employees have completed a performance review. In 2017 approximately 80% of employees completed performance reviews. Setra has a target of 90% for 2018.

In historical terms, the wood industry has been an accident-prone industry. Setra has a fundamental zero vision. No-one is to suffer harm at work. A good safety culture, based on knowledge, is essential in achieving that.

One interim target on the way towards zero is to keep the figure below 1.0 accidents with sick leave per 100 employees in 2020. At the moment, Setra has got this figure down to 2.0 and it is gratifying that the number of accidents leading to sick leave has fallen compared with previous years.

Since 2016, approximately 95% of all employees have completed SSG's safety training, an established training concept in Swedish industry. The safety training is now included in the compulsory induction programme for all new employees. Setra has also had a major focus on the Swedish health and safety training Bättre Arbetsmiljö, BAM. Managers, leaders and safety representatives have completed training together, with the aim of establishing systematic work to improve health and safety.

At Setra there is a clearly stated zero tolerance of any kind of harassment. For this reason, 130 managers and team leaders at Setra have been trained in organisational and social health and safety in 2016 and 2017. During the course, they were trained in how to highlight and handle situations in which employees are ill-treated, no matter what the cause.

Today there is a clear procedure in place for how situations are to be handled and a reporting tool that managers and leaders use in situations that arise. All employees are to be familiar with Setra's guidelines on victimisation. Everyone must know how to act if they experience or see someone else experiencing victimisation. ◦



95%

Proportion of Setra employees who passed their safety driving licence in 2017, so helping to make the workplace safer.



Identify the risks before an accident happens

How has Setra worked on safety in 2017?

“We are seeking to systematically improve health and safety. Both by building out risks in equipment and working methods and by working on our behaviour, where we are helped to speak out and tackle risks before anything happens. We started off in a good place, as the majority of employees completed Setra’s safety training in 2016. In purely concrete terms, work in the past year involved continuing to provide training in identifying risks in working methods and technology and tackling them before they cause an accident.”

How important is workplace culture?

“The culture and our behaviours play a vital role in how well we succeed in improving health and safety. Practising what we preach and thus always putting health and safety first. For example, reporting observed risks, near misses and accidents must be permanently at the top of the agenda at the morning meetings and shift meetings we hold on the production floor every day.”

How is Setra working towards the zero vision?

“I think we always have to keep working on seeing new things. Sending out various directives is one thing, but living up to them and turning them into behaviour between colleagues takes long-term, focused work. It’s work that has to be done day in, day out. Here we have to work systematically and become even more detail-oriented and observant to spot risks as early as possible.”

44%

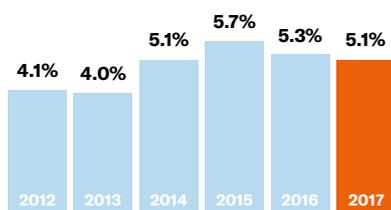
44% of the managers recruited in 2017 were women.

46.5

The average age of Setra’s employees.

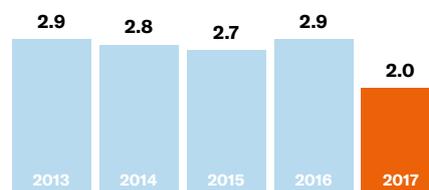
Maria Grundström and Helena Lundell, Setra Malå.

Total sick leave



Sick leave continues to fall.

Workplace accidents



Workplace accidents with sick leave per 100 employees.



Anna Rasmuson has been Production Director at Setra since summer 2017.

Setra is an important employer

Setra has embarked on a journey from sawmill to wood industry player. Customers are increasingly asking for more processed products. With several major investment decisions having been taken, Setra is making great strides and is set to be an even more important player in the locations in which we operate. Talent management is one of Setra's most important issues.

Setra has approximately 700 employees in the eight sawmills and two processing units in the Swedish part of the Group. If you add contractors, in forestry and transport for example, the business employs considerably more people.

The production units are located in small communities where Setra is an important employer. This means that the company is not only important for the employees and their families but for the entire local area. It is important that Setra acts responsibly.

Setra's purchase of Ikea Industry's production facility in Malå was completed in February 2017. Where Ikea had previously manufactured edge-glued panel with 59 employees, in early June Setra was able to move into premises ideally suited for further development of wood products.

Setra has employed 16 people and rebuilt and updated the planing mill. The investment has seen Setra increase production in Malå from 170,000 cubic metres of sawn timber per year to approximately 215,000 cubic metres. At the same time, the production volumes of processed products, such as pressure treated timber, flooring and panels, increased to approximately 50,000 cubic metres a year.

In 2017 Setra made a number of major investment decisions. The investments create new opportunities for employees and also for efficiency. Last year major investments were made in Malå, Kastet and Heby. Minor investments were also made in other units. This meant that Setra's total production was at about the same level as the previous year, despite units being sold.

At Kastet an investment was made in a new sawmill infed to modernise and improve the efficiency of the sawing process.

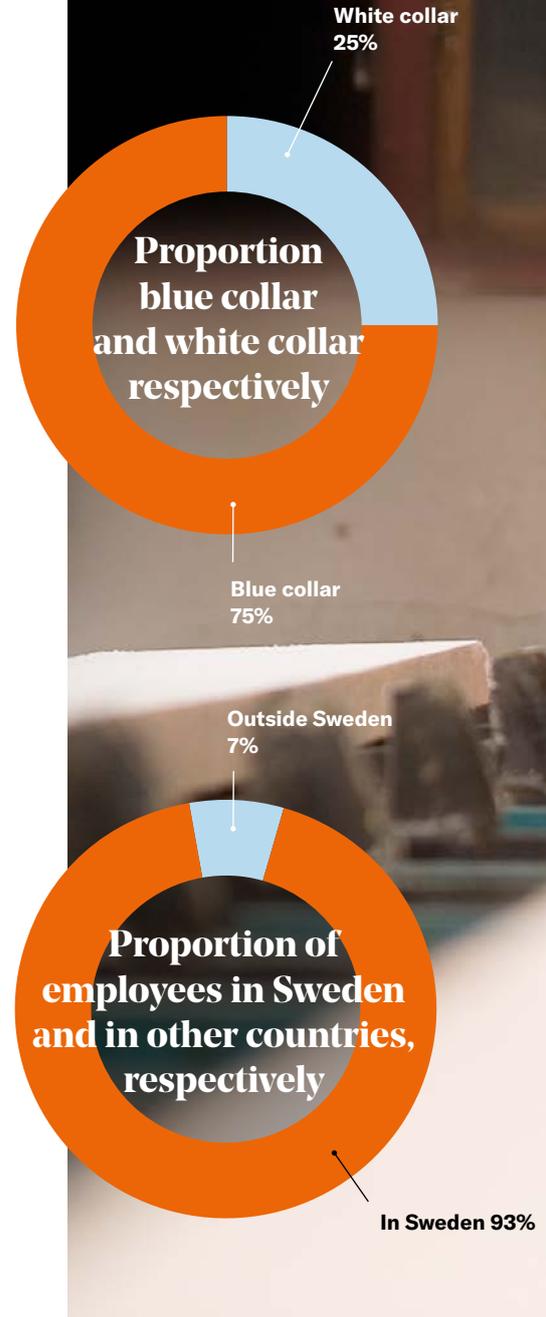
This meant that in 2017 the unit was able to increase its production by 25,000 cubic metres of sawn timber. In 2017 decisions were made on future investments in Hasselfors and Långshyttan. These investments are part of Setra's strategy to increase the proportion of processed products to meet growing global demand.

In Hasselfors, Setra is building a new trim saw with integrated planing machine, which will considerably improve efficiency. The investment is Setra's biggest ever. The new plant will be able to produce 320,000 cubic metres of wood products, two-thirds of which will be planed products. The new trim saw is planned to be fully operational in 2020.

In Långshyttan a component factory is planned for manufacturing products for the Scandinavian door and window industry. As a producer of glulam, Långshyttan already has strong expertise in the field of processing. Production at the factory in Långshyttan is expected to begin in the second half of 2018.

Setra is also building a CLT factory in Långshyttan to produce cross-laminated timber used for housebuilding and industrial properties. Operations will start in the first half of 2020. The investments mean that Setra will employ a number of new employees.

Finding and retaining the right expertise is an important issue. Therefore Setra works on talent management and on being an attractive employer. Among other things, the company engages in activities with selected universities and higher education institutions, receives study visits, holds training courses and offers thesis work and work-related skills development and ongoing leadership development. ○



Key figures, employees

	Average number of employees	Proportion of women
2017	793	14%
2016	855	14%
2015	938	14%
2014	931	13%
2013	909	13%



Glenn Edlund, Setra Heby.

“I feel at home!”

How do you like working at Setra?

“I love it. I have friendly colleagues and I learn something new every day. I feel at home! And I get to work with wood. I’ve worked with wood before and it’s my ideal job. I don’t really know why but I’ve been working with wood since I was little.”

What did you do before?

“I worked across the road, at NorrFog, for many years. Then it was bought up by Ikea Industry. I was working more with wood processing then, which was closer to the end product than what I do at Setra. So it was a bit different. But the business was sold in 2016.”

How did that affect Malå?

“The atmosphere was tough on the factory floor. We didn’t know what was going to happen. Several companies closed at the same time, which had a major impact in a municipality with a population of a few thousand people. There are jobs here sometimes but you really have to be alert and market yourself. Now almost everyone who was at Ikea has found something. It’s great!”

What did you think when the news came that Setra was going to take over the premises?

“We’d hoped it would be Setra taking over and we turned out to be right. Several of us who lost our jobs have joined Setra and I hope the others are as happy here as I am. It’s a good thing that there are companies that are willing to invest. We want our community to grow. Sometimes things really do work out for the best.” ◦



Being a significant employer is also about showing consideration for the global world. As part of this, Setra is a proud sponsor of SOS Children’s Villages.



Denise Mörtsell is a saw operator in Malå and one of Setra’s new employees. She loves working with wood and wants to see Malå grow.

Managing Setra's sustainability work

Setra's aim is that a sustainability perspective will be an integral part of everything we do. And that our values of commitment, innovation and responsibility govern how we act in a sustainable and ethical way in our daily work.

Setra's Sustainability Director is responsible for the sustainability division, which includes the HR, Communications and Environmental Departments. The central sustainability division's role is to develop relevant measures, provide expertise and support business operations. The practical work on managing environmental, health and safety, and employee issues takes place in the business units, as does the work relating to business ethics. Since 2016, there has been a member of staff with special responsibility for enterprise risk management (ERM).

Setra's sustainability policy is one of its most important governing documents and can be summarised with the terms climate-smart products, confidence in the business, fair business transactions, skilled employees who can develop, a safe and pleasant working environment, and a reduced environmental impact.

There are currently four overall sustainability goals for the business: climate performance, energy use, occupational safety/accidents and sick leave. Local sustainability goals are also defined for each unit.

Setra's Swedish business operations are environmentally certified pursuant to ISO 14001. There has also been an energy survey element since autumn 2017. The management system also includes governance of health and safety and fire safety measures. However, these elements are not audited externally.

Setra's sawmills and processing units are certified pursuant to FSC and PEFC's chain of custody standards and FSC's standard for controlled wood. Certification shows that the company has a system for tracing wood raw material and ensuring that it comes from responsible forestry. Documentation for this is also linked to the central management system.

In 2017, Setra started imposing sustainability requirements in the purchasing chain. Setra developed a code of conduct for

suppliers based on the principles of the UN Global Compact and relevant international conventions. It is intended for suppliers of goods and services as well as partners, both in Sweden and abroad. A risk analysis of suppliers that deliver products and services worth more than SEK 1 million annually was then carried out. The overall risk analysis has been done by country, industry sector, product and supplier.

The company is now working on ensuring that suppliers sign the code of conduct. For suppliers with an element of risk, we will send out self-assessment forms, via which we collect information so that we can make a more accurate supplier assessment.

Setra is setting up a new risk management process, which aims to identify, analyse and evaluate risks, threats and opportunities, and manage and monitor risk mitigation measures. The risk-related activities are managed by the Board at the overall level and by the CEO, group management team and other employees at the operational level. The sustainability risks that the company has identified, as well as a description of how they are handled, are presented in the annual report.

Transparency is a prerequisite for creating confidence in and commitment to our sustainability efforts, which is why Setra chooses to publish the results of our work in a sustainability report. We apply GRI's* guidelines and have also adapted the content to the requirements for corporate reporting about sustainability and diversity policies.

Setra also publishes an annual climate report, which documents our emissions and our products' carbon footprint. Climate change is one of Setra's most prioritised issues, and it is important both internally and externally to have insight into our climate-related performance. The annual climate report is drawn up based on the guidelines of the GHG protocol**. ◦

* Global Reporting Initiative / ** Greenhouse Gas Protocol

Systematic measures for achieving the sustainability goals

What were the most important sustainability issues for Setra in 2017?

"We worked systematically during the year, based on our values, to ensure that sustainability issues have a natural place in our daily work. I'm especially pleased with the fact that we managed to reduce the energy use in our business operations, while also increasing the proportion of renewable fuels used in our machines. This resulted in a 9% reduction in carbon emissions from our business operations in 2017. It's also pleasing that accidents at work decreased from 2.9 last year to 2.0 this year. (The figure states accidents at work resulting in sick leave per 100 employees.) Hopefully, our work on raising awareness and knowledge of occupational health and safety issues will lead to even fewer accidents happening in the future. Setra, of course, has a zero vision. Nobody should get injured at work."

How will Setra further develop its sustainability measures going forwards?

"We'll continue to work to achieve the goals we have set ourselves. For example, I look forward to being active in the working group looking at how Setra can contribute to the UN's Sustainable Development Goals for Agenda 2030. In 2018, we will start a business ethics project in which we'll map business ethics risks and develop suitable guidelines. This will eventually result in the creation of an online training course for all employees with business contacts. The project is part of our work to ensure that we conduct fair business transactions and act responsibly and with integrity in our relationships with customers, suppliers and partners." ◦



Charlotte Thedéen has been Sustainability Director at Setra since 2016.

What is the most important issue in terms of achieving a sustainable Setra?



CTO

Andreas Hörnfeldt

Born: 1969 Employed since: 2016
Education: MSc Eng.

"Ensuring that we use as much of the wood as possible for high-quality products that bind carbon for a long time."



CFO

Anders Marklund

Born: 1965 Employed since: 2005
Education: MSc Econ.

"Increasing our competitiveness on a long-term basis by means of providing a well-developed customer offering that at the same time contributes to a better climate."



Enterprise Risk Manager

Pontus Friberg

Born: 1962 Employed since: 1993
Education: MSc Forestry

"By working with Setra's risk management process, we highlight the business's threats and opportunities. This a goal-oriented and sustainable approach to achieving better results."



Production Director

Anna Rasmuson

Born: 1969 Employed since: 2017
Education: MSc Eng.

"Having all the perspectives about sustainability in mind every day. What can we do to further improve in terms of our employees, health and safety, the environment and business ethics?"



President and Group CEO

Hannele Arvonen

Born: 1966 Employed since: 2013
Education: MSc Forestry Science.
BA International Relations

"It's important that we are profitable and also ensure long-term competitiveness, so we have to continue to develop our business. In my opinion, sustainability involves the environment, profitability and the social aspect."



Market Director

Olle Berg

Born: 1965 Employed since: 2013
Education: MSc Econ.

"To increase expertise on sustainability issues, both as a company and as employees. We're getting better every day, but we still have a lot left to do."



Raw Material & Bioproducts Director

Klas Flygare

Born: 1965 Employed since: 2012
Education: MSc Forestry Science

"Setra faces a major challenge in reducing today's use of mainly fossil vehicle fuels and moving to an increased use of renewable fuels."



Sustainability Director

Charlotte Thedén

Born: 1965 Employed since: 2013
Education: MSc Eng.

"How we actively get involved in achieving the global Sustainable Development Goals and how we invest more in training our employees."

Setra's organisation



In order to ensure relevant and credible reporting, Setra has chosen to apply the Global Reporting Initiative's (GRI) sustainability reporting guidelines. The table below lists the GRI areas and information that Setra has chosen to report and where

in the report information on each indicator can be found. Setra works with and reports the sustainability aspects regarding which the company has a significant influence, a clear responsibility and the possibility to contribute to sustainable

development, as well as issues that are especially important to Setra's stakeholders. The reporting of facts and key indicators relates to the 2017 financial year unless otherwise indicated. Setra has chosen to apply GRI Standards at the Core

level. No independent audit of the report regarding GRI's criteria has been conducted. However, Setra is subjected to other external audits, such as those of the company's certified management system and forest certification systems. ◦

GRI 102: General information

GRI indicator	Description	Page	Comment
Organisational profile			
102-1	Name of the organisation	47	Setra Group AB, corp. ID no. 556034-8483
102-2	Business model, main brands, products and/or services	6-9, 17-23, 26-29, 34	
102-3	Location of the organisation's head office	6, 47	
102-4	Countries in which the organisation operates	6-7, 11, 47	
102-5	Ownership structure and legal form	6	
102-6	Markets in which the organisation operates	6-7, 11, 17-23, 47	
102-7	The size of the reporting organisation	6-7, 16, 46	
102-8	Information on workforce and other manpower, broken down by type of employment, employment terms, region and gender	6-7, 36-41, 43	Setra's business operations are mainly conducted by the company's own employees, with the majority of these being full-time, permanent employees. The average number of employees at Setra in 2017 was 794, of which 56 were based outside Sweden (UK 44, Poland 2, Germany 1, Spain 2, Austria 1, Tunisia 1, China 3 and Japan 2).
102-9	Description of organisation's supply chain	8-9, 26-29, 42, 45	The organisation's suppliers can be divided into three main groups: Suppliers of timber raw material, suppliers of logistics services and other suppliers. Procurement procedures for timber raw material and transport services include sustainability requirements. In 2017, work began on imposing sustainability requirements on other suppliers.
102-10	Significant changes for the organisation and its supply chain during the reporting period	See comment	The sawmill in Vimmerby was sold in 2017. A decision to sell the sawmill in Rolfs, Kalix was made in 2017.
102-11	Description of whether and how the organisation follows the Precautionary Principle	32-35, 42	The Precautionary Principle is applied in the event of changes being made to business operations, for example the installation of new machines or choice of chemicals.
102-12	Externally developed economic, environmental and social declarations, principles or other initiatives that the organisation has joined or supports	26-29	ISO 14001; PEFC™, Programme for the Endorsement of Forest Certification; FSC®, Forest Stewardship Council.
102-13	Significant membership of organisations and/or national/international lobbying organisations	See comment	Setra is a member of the Swedish Forest Industries Federation.
Strategy			
102-14	Statement from the CEO	5	
Ethics and integrity			
102-16	Description of the organisation's value base, ethical principles and rules of conduct	2, 8, 12, 26-29, 36-42	Setra's vision is to create a sustainable world. Setra has value-based leadership and our values are commitment, innovation and responsibility. The focus areas of the sustainability policy are business ethics, employees, health and safety, environment and climate.
Governance			
102-18	Report on the organisation's corporate governance	See comment	The corporate governance report is available on pages 81-83 of Setra's Annual Report.
Communication and stakeholders			
102-40	Stakeholder groups with which the organisation has contact	12	
102-41	Percentage of the staff covered by collective bargaining agreements	32	100% of Setra's employees in Sweden are covered by collective bargaining agreements.
102-42	Description of identification and selection of stakeholders	12	
102-43	Procedures for communication with stakeholders	12	Setra conducted a staff survey and a customer survey during the year.
102-44	Important areas and issues raised in the dialogue with stakeholders	12-13	
Reporting procedures			
102-45	Entities included in the organisation's financial reports	See comment	Facts and key figures in the report refer to all of the group's entities (parent company and subsidiaries). The business operations of Setra Wood Products are not included in the sections on production, annual climate report and employees.
102-46	Process for defining the report's content and boundaries	12-13	
102-47	Report on all the important topics that have been identified	12-13	
102-48	Explanation of the effect of changes to information from previous reports	See comment	No significant changes have been made.
102-49	Changes in scope and aspect boundaries from previous reporting periods	See comment	No significant changes in scope or aspect boundaries.
102-50	Reporting period	See comment	The report covers 2017.
102-51	Date of publication of the most recent report	See comment	March 2017.
102-52	Reporting cycle	See comment	Calendar year, annual.
102-53	Contact person for questions about the report and its content	47	
102-54	Documentation of reporting in accordance with the GRI Standards reporting levels	See comment	The report has been prepared in accordance with Global Reporting Initiatives Standards for sustainability reporting at the Core level.
102-55	GRI index	44-45	
102-56	Documentation of external auditing	See comment	The report has not been externally audited

Subject-specific indicators

GRI indicator	Description	Page	Comment
GRI 200 / Economic impact			
201 Economic performance			
103-1 103-2 103-3	Governance	7	
201-1	Direct economic value generated and distributed	8-9, 46	
205 Anti-corruption			
103-1 103-2 103-3	Governance	42	Anti-corruption measures promote sound and informed business decisions and form a key part of being a responsible and ethical company. In 2015, the Board adopted a sustainability policy for Setra, in which business ethics are an important element. There are special guidelines for compliance with competition legislation, as well as for gifts, benefits and entertainment and meals provided by other parties. Implementation of the governing documents is currently ongoing and is conducted via training.
205-2	Communications and training regarding anti-corruption policies and procedures	42	No communications were issued or training sessions conducted during 2017. In 2018, an inventory will be made of business ethical risks, including corruption. The guidelines will then be updated and an online training course will be developed in accordance with the updated guidelines.
205-3	Corruption incidents and measures taken	See comment	No incidents reported.
GRI 300 / Environmental impact			
103-1 103-2 103-3	Governance Environment	26-29, 32-35, 42	Aspects that are managed: materials/responsible forest management, energy emissions, products and services, and legal compliance. Environmental work is managed on the basis of ISO 14001. Responsibility is delegated from the CEO to site managers. The Environmental Manager is responsible for the management system, etc., and is the designated expert. Legal compliance is among the issues monitored in internal and external environmental audits. The whole annual climate report is published at setragroup.com.
301 Material			
301-1	Amount of material used in production, weight or volume	27	
302 Energy			
302-1	Energy consumption within the organisation	32-35	The electricity mix that Setra purchases is called Nordic residual mix.
302-4	Reduced energy usage	32-35	
305 Emissions			
305-1	Direct emissions of greenhouse gases (scope 1)	34-35	
305-2	Indirect emissions of greenhouse gases energy (scope 2)	34-35	
305-3	Indirect emissions of greenhouse gases other (scope 3)	34-35	
305-4	Greenhouse gas intensity	34-35	
307 Compliance with environmental legislation			
307-1	Breaches of environmental legislation	See comment	No reported cases of violations of environmental legislation
GRI 400 / Social impact			
103-1 103-2 103-3	Governance social impact	38-39, 42	The following aspects are governed: health and safety, training and skills development.
403 Working environment and safety			
403-1	Workforce represented on committees for working environment and occupational health and safety	See comment	100% of employees in Sweden are represented by a safety officer and occupational health and safety committees. Systematic health and safety measures at Setra are carried out locally by our units. The site management, safety officers and employees take part in such measures. A group-wide Health and Safety Council headed by Setra's Sustainability Director supports overall work with communications, training and exchanging of experiences. The council includes safety officers, managers and HR.
403-2	Type and number of workplace injuries and number of days of absence due to illness	38-39	In 2017, there were 16 accidents that resulted in sick leave being taken and 131 accidents that did not lead to sick leave being taken. The number of days of absence resulting from work-related injuries amounted to around 120. Typical injuries include crush injuries, wounds and sprains. We register, manage and follow up industrial accidents and incidents through SIA, the sawmill industry's common system for reporting industrial injuries.
404 Skills development			
404-3	Annual individual follow up	38	

Risks connected to human rights

Setra has not identified any significant risks linked to human rights. The company's most important purchase category, timber, is covered by the third-party certification FSC, which includes protection of human rights at the production level. Most of

the timber comes from Setra's Swedish owner companies and is therefore covered by Swedish labour legislation.

For the UK, there are special requirements regarding the reporting of risks. The UK Modern

Slavery Act was introduced in 2015. This act requires all companies with operations in the UK to report risks and risk management relating to slavery and human trafficking in the supply chain. ○

Continued strong economic development

SEK million	2017	2016	2015	2014	2013
Income statement					
Net sales	4,139	4,043	4,218	4,194	4,068
Other operating income	14	85	6	41	25
Total income	4,153	4,123	4,224	4,235	4,093
Operating expenses	-3,878	-3,913	-4,049	-3,919	-3,864
Depreciation according to plan	-96	-100	-109	-115	-122
Items affecting comparability	-20	38	-19	-	-20
Operating profit	159	153	47	201	107
Net financial items	-14	-18	-21	-31	-37
Profit/loss after financial items	145	135	26	170	70
Tax	-30	-32	-6	-37	-10
Profit/loss for the year	116	103	20	133	60
Balance sheet					
Intangible assets	126	126	144	144	144
Tangible assets	620	668	662	702	754
Financial assets	30	1	1	1	2
Deferred tax assets	49	46	83	97	126
Current assets	1,222	1,285	1,264	1,305	1,150
Cash and cash equivalents	501	310	324	363	383
Total assets	2,548	2,436	2,487	2,612	2,559
Equity	1,372	1,347	1,264	1,274	1,162
Deferred tax liabilities	35	1	2	-	-
Financial liabilities and interest-bearing provisions	445	459	571	739	772
Operating liabilities	696	629	650	599	625
Total equity and liabilities	2,548	2,436	2,487	2,612	2,559
Key indicators					
Sales growth, %	2.4	-4.1	0.6	3.1	0.0
Operating margin, %	3.8	3.8	1.1	4.8	2.6
Net margin, %	2.8	2.5	0.5	3.2	1.5
Operating capital, SEK million	1,314	1,471	1,467	1,669	1,561
Return on operating capital, %	11.4	10.4	3.0	12.4	6.5
Return on equity, %	8.5	7.6	1.6	10.9	5.2
Equity ratio, %	53.9	55.3	50.8	48.8	45.4
Financial net debt, SEK million	-28	115	213	344	388
Net debt/equity ratio, %	-2	9	17	26	33
Interest cover, multiple	11.4	11.9	8.3	6.0	2.7
Earnings per share, SEK	2.25	2.00	0.39	2.59	1.17
Cash flow and investments					
Cash flow from operating activities	347	185	269	113	262
Investments in tangible assets	86	108	78	63	51

Sales growth

Change in net sales compared with previous year, expressed as a percentage.

Operating margin

Operating profit expressed as a percentage of net sales.

Net margin

Profit/loss for the year expressed as a percentage of net sales.

Operating capital

Balance sheet total less cash and cash equivalents, financial assets and non-interest bearing liabilities and provisions.

Return on operating capital

Operating profit expressed as a percentage of average operating capital (based on the opening and closing balances for the period).

Return on equity

Profit/loss for the year expressed as a percentage of average equity (based on the opening and closing balances for the period).

Equity ratio

Equity expressed as a percentage of total assets.

Financial net debt

Interest-bearing liabilities and provisions minus cash and cash equivalents and short-term investments.

Net debt/equity ratio

Financial net debt divided by equity.

Interest cover

Operating profit plus financial income divided by financial expenses.

Earnings per share

Profit/loss for the year divided by the average number of shares during the year

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