SVEASKOG

# Year-end report 2006

# Year-end report 2006

## Fourth quarter

- The Group's net sales amounted to MSEK 1,653 (1,662).
- Operating profit before change in value of forest assets amounted to MSEK 317 (354). In 2005 other operating income included MSEK 156 in the form of estimated insurance compensation and tax relief relating to the storm Gudrun.
- Operating profit after change in value of forest assets amounted to 664 MSEK (496), which includes capital gains from the sale of forest properties of MSEK 283 (166).
- Net profit for remaining units was 442 MSEK (293).

## Full year

- The Group's total net sales were MSEK 6,030 (6,155). The decline is mainly due to lower delivery volumes from its own forests.
- Operating profit before change in value of forest assets increased to MSEK 782 (691).
- Total operating profit after change in value of forest assets was MSEK 1,624 (871), which is almost double that of the previous year. This is due to improved operating profit and to higher gains from the sale of forest properties. Also, the effects of the storm Gudrun have now abated, resulting in a positive change in net forest value.
- Net profit for remaining units was MSEK 986 (370) and earnings per share increased to SEK 8.33 (3.13).
- The proposed dividend is SEK 4.15 per share, or a total of MSEK 491 which corresponds to 50% of profits available for dividends.

| | Quarter 4 | | Full year | |
|---|---|---|---|---|
| MSEK | **2006** | 2005 | **2006** | 2005 |
| Net sales | **1,653** | 1,662 | **6,030** | 6,155 |
| Operating profit before change in value of forest assets | **317** | 354 | **782** | 691 |
| Change in value of forest assets | **347** | 142 | **842** | 180 |
| Operating profit | **664** | 496 | **1,624** | 871 |
| Profit before tax | **597** | 410 | **1,338** | 524 |
| Net profit, remaining units | **442** | 293 | **986** | 370 |
| Net profit, discontinued units | **–** | 83 | **1,152** | 246 |
| Net profit for the period | **442** | 376 | **2,138** | 616 |
| Earnings per share, before and after dilution, SEK | **3.73** | 3.18 | **18.06** | 5.20 |
| Earnings per share, remaining units, SEK | **3.73** | 2.47 | **8.33** | 3.13 |

# CEO's comments

Sveaskog's profit trend is positive. Improved earnings within forestry operations are the result of good demand for the company's products with higher revenues and a decreased cost level.

Operating profit grew, despite 7% lower delivery volumes compared with 2005. Sveaskog's total delivery volumes were13 million $m^3$sub for the year.

Prices within all product categories are increasing well. This is due to good demand lead by a favourable business climate within the forest and wood products industry and a continued strong demand for biofuel.

The effects of the storm Gudrun had a limited impact on 2006 earnings. At the same time, attacks by the Spruce Bark Beetle (Ips typographus) have accentuated and may lead to increased costs. The storm Per in January 2007 further enhances the risk of extensive attacks. Work to process the timber damaged by the storm and by the Bark Beetle will demand extra resources and lead to increased costs in 2007.

Sveaskog is commissioned to sell land for the purpose of strengthening private farming and forestry and to transfer land to the Swedish Environmental Protection Agency (Swedish EPA) to be used for the formation of reserves. In 2006, Sveaskog sold some 53,000 ha of land for a total purchase price of MSEK 1,072.

After the sale of industrial operations AssiDomän Cartonboard to Korsnäs, concluded in May, Sveaskog's capital structure has been reviewed. This resulted in an extra dividend of SEK 1.5 billion paid to the owner in December 2006. At the same time, a decision was made regarding new financial goals for the company, effective at the start of 2007, which will more clearly reflect operational earnings of forestry operations.

Work with mapping of processes and reviewing internal control proceeded during 2006 and is due to be concluded during the first half of 2007.

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## Market

### FOREST AND WOOD PRODUCTS INDUSTRY AND BIOFUEL MARKET

The Swedish economy is strong, mainly driven by a strong export trend, substantial corporate investment and an increase in domestic demand. The industry's economic outlook is good with increased production during the last quarter.

The business climate in the sawn timber market is excellent. Many sawmills are working at full capacity resulting in production volumes that are not growing as quickly as previously. The order situation is good for both the domestic and export markets with whitewood and redwood product prices continuing to rise quickly during the last quarter. Companies in the wood products industry expect continued high production levels and rising prices in the coming quarter.

In the European export market building construction is rising while supplies of sawn timber are limited. A continued favourable demand in Europe is expected while exports to North America are expected to remain low. Falling prices in North America caused by the uncertain supply and demand situation are not expected to spread to Europe during the first half of the year. The prices for sawn timber in Europe are expected to level off after the first quarter and stabilise at a historically high level.

The pulp and paper industry increased its production somewhat during the last quarter and the general economic outlook within this sector is relatively positive. Order bookings and demand in export markets are balanced. The pulp industry has noted a stronger business climate than the paper industry. Pulp prices continue to climb and new price rises have been announced. Companies are continuing with their productivity programmes designed to reduce costs and raise efficiency. Combined with the reduction of production capacity in Europe, mainly within the printing papers sector, and investments to reduce energy costs, this is contributing to a continued positive development.

Demand for biofuels remains high despite an unusually mild autumn and winter. Demand from pellet manufacturers and the power production industry has been particularly strong. The continued expansion throughout the country of biofuel-based power production and the strong growth in the use of pellets in both Sweden and Europe guarantees continued high demand.

### SVEASKOG

Supplies of sawlogs in central and northern Sweden were normal with good demand and higher prices. In southern Sweden, supplies of fresh sawlogs were weak with good demand. Felling of forest damaged by the Spruce Bark Beetle has led to a distorted grade distribution which disturbs the market scenario. This situation is going to intensify during the first half of the year due to storm felling in January 2007.

Demand for pulpwood in northern and central Sweden was normal with a balanced supply. The mild weather during the last quarter contributed to a weaker flow of timber. Access to softwood pulpwood in southern Sweden was good, while supplies of fresh spruce pulpwood were weak at times. Demand was good. Throughout the country pulpwood prices have risen.

Biofuel operations continue to show favourable development. Sales increased by 33% in 2006 as a combined result of larger delivery volumes and higher prices. The favourable development is expected to continue in 2007, although at a slower pace.

OTHER UNITS WITHIN THE GROUP

Svenska Skogsplantor's sales climbed 8% amounting to MSEK 298. Profits improved 71% to MSEK 26. The improvement was due to good demand, changes in the product mix and a larger share of silviculture services.

Sveaskog Naturupplevelser achieved higher sales than the previous year, MSEK 105 (99) and profits improved somewhat, MSEK 50 (44). The increase is related to leasing operations and new forms of hunting.

The wood products company Setra Group AB, in which Sveaskog owns 50%, continues to show a positive trend. Sveaskog's share of profits for 2006 amounted to MSEK 96. The improved earnings were due to a highly positive trend in the sawn timber industry and internal efficiency enhancements.

## Sales, earnings and profitability

FOURTH QUARTER

Sveaskog Group's net sales decreased marginally in the fourth quarter, despite 7% lower delivery volumes compared with the same period in 2005.

Operating profit before change in value of forest assets fell to 317 MSEK (354). In comparative terms, however, operating profit improved by 60% because in 2005 other operating income included MSEK 156 in the form of estimated insurance compensation and tax relief attributable to the storm Gudrun.

Sveaskog's share of profit in Setra Group AB amounted to MSEK 60 (–10).

Operating profit after change in value of forest assets amounted to MSEK 664 (496), which includes capital gains from the sale of forest properties of MSEK 283 (166).

Net financial items of MSEK –67 (–86) were a continued improvement due to lower net debt. An increase in debt occurred, however, in order to finance the additional dividend to the owner.

Net profit for remaining units was MSEK 442 (293). Including earlier discontinued operations, the previous year's fourth quarter earnings were MSEK 376.

JANUARY – DECEMBER

Sveaskog Group's nets sales fell 2% to MSEK 6,030 (6,155) in 2006. Round timber delivery volumes fell 7%, mainly from its own forests. Price development was favourable and to a great extent compensated for the volume decrease.

Operating profit improved markedly to MSEK 782 (691). The operating profit includes costs of MSEK 66 attributable to a new organisation which was successively introduced during the year. The improvement in earnings relates to the fact that 2005 was an atypical year with regard to the extensive costs brought on by the storm Gudrun. In addition, an extensive internal efficiency programme during 2006 began to show results.

Operating profit after change in value of forest assets amounted to 1,624 (871), which is almost double that of the previous year. This is due to improved operating profit and to higher capital gains from the sale of forest properties. Also, the effects of the storm Gudrun have now abated, resulting in a positive change in net forest value.

Net financial items amounting to MSEK –286 (–347) were positively affected by a lower net debt than previously.

Net profit for remaining units was MSEK 986 (370), and including discontinued operations the net profit was MSEK 2,138 (616).

The share of profit in Setra Group AB amounted to MSEK 96 (–46). The positive development was attributable to a substantially improved market situation as well as positive effects from internal efficiency programmes.

## Cash Flow, investments and financial position

Cash flow from operating activities during the year was MSEK 399 (–183). The improvement is due both to a strong operating profit and to the sale of forest properties and AssiDomän Cartonboard.

Investments amounted to MSEK 116 (152). These mainly relate to forest machines and roads.

Sale of fixed assets, primarily forest properties, amounted to MSEK 1,092 (797).

Interest-bearing net debt decreased during the year to MSEK 5,856 (6,916).

## Dividend

According to the dividend policy, the ordinary dividend over a business cycle should correspond to 50% of profit after tax for remaining units. Sveaskog's consolidation requirements and financial position in general will be taken into account.

The Board of Directors proposes that the dividend for 2006 should total MSEK 491 or SEK 4.15 per share.

## Personnel

The number of employees at year-end was 731 (773). The decision was taken in the spring of 2006 to introduce a new organisation for forestry operations which would go into effect at mid-year. Reorganisation within the Group staffs continued during the second half of the year. A large number of managers and leaders within the company began Sveaskog's leadership programme during the autumn.

# Sveaskog Group

## Summary income statement

| MSEK | 3 months Q4 2006 | Q4 2005 | 12 months Full year 2006 | Full year 2005 |
|---|---|---|---|---|
| Net sales | **1,653** | 1,662 | **6,030** | 6,155 |
| Other operating income | **8** | 157 | **58** | 181 |
| Raw materials and consumables | **–692** | –672 | **–2,515** | –2,568 |
| Change in inventories | **79** | 26 | **–28** | 173 |
| Other external costs | **–654** | –639 | **–2,226** | –2,600 |
| Staff costs | **–89** | –156 | **–540** | –545 |
| Depreciation according to plan (Note 3) | **–48** | –14 | **–93** | –59 |
| Share of profits of associated | **60** | –10 | **96** | –46 |
| **Operating profit before change in value of forest assets** | **317** | 354 | **782** | 691 |
| Change in value of forest assets | **347** | 142 | **842** | 180 |
| **Operating profit** | **664** | 496 | **1,624** | 871 |
| Financial items | **–67** | –86 | **–286** | –347 |
| **Profit before tax** | **597** | 410 | **1,338** | 524 |
| Tax | **–155** | –117 | **–352** | –154 |
| **Profit after tax, but before profit from discontinued operations** | **442** | 293 | **986** | 370 |
| Profit from discontinued operations, net after tax | **–** | 83 | **1,152** | 246 |
| **Net profit for the period** | **442** | 376 | **2,138** | 616 |
| **Earnings per share, SEK** | **3.73** | 3.18 | **18.06** | 5.20 |
| **Earnings per share from remaining units, SEK** | **3.73** | 2.47 | **8.33** | 3.13 |
| - based on average no. of shares outstanding, m | **118.4** | 118.4 | **118.4** | 118.4 |

## Summary balance sheet

| MSEK | 31 Dec 2006 | 31 Dec 2005 |
|---|---|---|
| **ASSETS** | | |
| **Fixed assets** | | |
| Intangible assets (Note 3) | **10** | 32 |
| Forest land (Note 1) | **2,040** | 2,070 |
| Other tangible assets | **521** | 499 |
| Biological assets – standing forest (Note 1) | **26,747** | 26,902 |
| Other fixed assets | **380** | 335 |
| | **29,698** | 29,838 |
| **Current assets** | | |
| Inventories | **599** | 599 |
| Current receivables, etc., non-interest bearing | **1,940** | 1,949 |
| Current interest-bearing receivables | **0** | 2,050 |
| Cash and cash equivalents | **626** | 167 |
| Assets held for sale | **–** | 3,354 |
| | **3,165** | 8,119 |
| **Total assets** | **32,863** | 37,957 |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | |
| Shareholders' equity | **16,620** | 16,275 |
| *Long-term liabilities* | | |
| Interest-bearing liabilities and provisions | **3,240** | 5,046 |
| Deferred tax liabilities and provisions | **7,924** | 7,974 |
| | **11,164** | 13,020 |
| *Current liabilities* | | |
| Interest-bearing liabilities | **3,393** | 4,237 |
| Other liabilities | **1,686** | 1,425 |
| Liabilities attributable to assets held for sale | **–** | 3,000 |
| | **5,079** | 8,662 |
| **Total shareholders' equity and liabilities** | **32,863** | 37,957 |

# Sveaskog Group

## Cash flow statement (using indirect method)

| MSEK | Full year 2006 | Full yer 2005 |
|---|---|---|
| **Operating activities** | | |
| Operating profit | **1,624** | 871 |
| Non-cash items, etc. | **–910** | –225 |
| Interest received | **71** | 78 |
| Interest paid | **–339** | –457 |
| Paid tax | **–268** | –93 |
| **Cash flow from operating activities before change in working capital** | **178** | 174 |
| Change in working capital | **221** | –357 |
| **Cash flow from operating activities** | **399** | –183 |
| | | |
| Investment in fixed assets | **–114** | –129 |
| Investment in shares | **–2** | –23 |
| Discontinued operations | **1,472** | –43 |
| Sale of fixed assets | **1,092** | 797 |
| Change in interest-bearing receivables | **2,049** | 293 |
| **Cash flow from investing activities** | **4,497** | 895 |
| | | |
| Dividend paid | **–1,894** | –355 |
| Change in financial debt | **–2,578** | –808 |
| **Cash flow from financing activities** | **–4,472** | –1,163 |
| | | |
| **Cash flow for the year** | **424** | –451 |
| **Cash and cash equivalents, opening balance** | **202** | 653 |
| **Cash and cash equivalents, closing balance** [1] | **626** | 202 |
| [1] of which discontinued operations | | 35 |

## Changes in shareholders' equity

| MSEK | Full year 2006 | Full yer 2005 |
|---|---|---|
| **Opening equity, 1 January** | **16,275** | 15,950 |
| Net change in hedging service | **102** | 62 |
| Translation difference for the period | **–1** | 2 |
| Net profit for the year | **2,138** | 616 |
| **Total income and expenses for the period** | **2,239** | 680 |
| Cash dividend | **–1,894** | –355 |
| **Closing equity at the end of the period** | **16,620** | 16,275 |

## Key figures*

| | Full year 2006 | Full yer 2005 |
|---|---|---|
| Operating margin, % | **27** | 14 |
| Return on equity % | **13** | 4 |
| Equity ratio, % | **51** | 43 |
| Debt/equity ratio, times | **0.35** | 0.42 |
| Interest cover, times | **4.7** | 2.3 |
| Interest-bearing net debt, MSEK | **5,856** | 6,916 |
| Net earnings per share, SEK | **18.06** | 5.20 |
| Average number of employees | **1,027** | 1,116 |
| Number of employees | **731** | 773 |

* Definitions, see 2005 Annual Report

### Accounting principles

This year-end report for the Sveaskog Group is prepared in accordance with IAS 34 Interim Financial Reporting in accordance with the requirements stipulated in the Swedish Financial Accounting Standards Council's recommendation RR 31 Interim Reporting for Groups.

The same accounting principles are applied in this interim report as in the Annual Report. These accounting principles are described in Sveaskog's consolidated accounts for 2005, note 1 Accounting Principles. After the sale of AssiDomän Cartonboard there remains only one business area, therefore segment reporting is no longer necessary.

Amounts are stated in MSEK unless otherwise indicated. Figures in parentheses refer to the same period in the previous year.

## Note 1 - Change in value of forest assets, MSEK

The market-related value of Sveaskog's forest assets (biological assets and forest land) at 31 December 2006 has been calculated at 28,787 (28,972), of which 26,747 (26,902) comprises the fair value of the standing forest and 2,040 (2,070) a fixed cost for land. The change in the balance sheet since year-end amounts to –185 (–557).

## Note 2 - Discontinued operations

The sale of AssiDomän Cartonboard to Korsnäs was completed on 19 May 2006.

| | **2006** | | | | | 2005 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| MSEK | **Full year** | Q4 | Q3 | Q2 | Q1 | **Full year** | Q4 | Q3 | Q2 | Q1 |
| Net sales | **587** | – | – | – | 587 | **2,444** | 574 | 582 | 689 | 599 |
| Operating expenses | **–446** | – | – | – | –446 | **–1,896** | –447 | –448 | –534 | –467 |
| Depreciation | **–62** | – | – | – | –62 | **–237** | –61 | –58 | –59 | –59 |
| **Operating profit** | **79** | – | – | – | 79 | **311** | 66 | 76 | 96 | 73 |
| Net financial items | **–13** | – | – | – | –13 | **–55** | –11 | –13 | –15 | –16 |
| **Profit before tax** | **66** | – | – | – | 66 | **256** | 55 | 63 | 81 | 57 |
| Tax | **–19** | – | – | – | –19 | **–73** | –17 | –17 | –23 | –16 |
| **Profit after tax** | **47** | – | – | – | 47 | **183** | 38 | 46 | 58 | 41 |
| Profit from revaluation | **96** | – | – | – | 96 | **88** | 65 | –3 | 16 | 10 |
| Tax on profit from revaluation | **–27** | – | – | – | –27 | **–25** | –20 | 1 | –4 | –2 |
| Capital gain on sale | **1,036** | – | 20 | 1,016 | – | | – | – | – | – |
| **Profit from discontinued operations, net after tax** | **1,152** | – | 20 | 1,016 | 116 | **246** | 83 | 44 | 70 | 49 |

## Note 3 - Intangible assets

Depreciation of intangible assets begins at the date on which they are available for use. The amortisation period for intangible assets is five years. A write-down of intangible assets in the amount of MSEK 31 to estimated values was made after individual consideration of the need for write-downs of intangible assets. Write-downs are listed in the Income Statement under "Depreciation and Write-downs".

The year-end report 2006 is unaudited.

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Sveaskog AB (publ.) (556558-0031)

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**Financial calendar**

| | |
|---|---|
| Annual General Meeting and Interim Report (Q1) | 26 April 2007 |
| Interim Report (Q2) | 28 August 2007 |
| Interim Report (Q3) | 30 October 2007 |

WWF

Sveaskog co-operates with WWF to promote conservation and sustainable management of the world's forests.

Sveaskog Förvaltnings AB

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Sveaskog aims to lead the way in the development of the values of the Swedish forests. Sveaskog is Sweden's largest forest owner with 15% of the country's productive forest land and is a leading supplier of sawlogs, pulpwood and biofuel. We also work with land transactions, offer hunting and fishing and make land available for local entrepreneurs within nature-based tourism.

Sveaskog's core is the forest. By managing its forest assets in an exemplary manner and working with a focus on profitability and environmental consideration, Sveaskog contributes to long-term sustainable development. Sveaskog will provide its owner with a return on the forest capital and be a model employer and business partner. We make long-term investments in research and development and conduct an active dialogue with our stake-holders.