

Interim report January – March 2009



Interim report

January – March 2009

First quarter

- Low sales volume to sawmills and the pulp and paper industry.
- Further reductions in timber prices.
- Good demand for biofuel with increased deliveries.
- Net sales for the quarter amounted to SEK 1,490 million (1,932).
- Operating profit, excluding share of earnings of Setra Group, amounted to SEK 212 million (296).
- Operating profit before change in value of forest assets amounted to SEK 115 million (296).
- Operating profit after change in value of forest assets amounted to SEK 434 million (591), including capital gains from the sale of forest properties of SEK 99 million (85).
- Profit for the period amounted to SEK 233 million (363).

SEKm	Quarter 1	
	2009	2008
Net sales	1,490	1,932
Operating profit before change in value of forest assets	115	296
Change in value of forest assets	319	295
Operating profit	434	591
Profit before tax	351	505
Profit for the period	233	363
Earnings per share	1.97	3.07

CEO's comments

The recession is having a significant impact on Sveaskog. During the quarter Sveaskog delivered a total of 2.4 million cubic metres of sawlogs and pulpwood, which is 24% less than in the same quarter in the previous year and 12% less than in the fourth quarter of 2008. The reason is a sharp fall in demand for raw material from sawmills and the pulp and paper industry.

Demand in the biofuel market remained high with rising prices. During the first quarter Sveaskog increased its sold volume of biofuel by 51% compared with the same period in 2008.

Sveaskog's total sales of all products decreased in volume by 18% compared with the same period in the previous year. The lower volume and lower timber prices affected operating profit during the first quarter. Operating profit, excluding the share in Setra Group, amounted to SEK 212 million (296). During the quarter we reduced costs in proportion to the decline

in revenue and at the same time conducted a review of the potential for additional cost adjustments.

In February, Sveaskog announced that the price of our 3,200 hunting right leases will be renegotiated and adjusted to market conditions over the next three years. There is considerable demand for hunting rights and when these contracts are renegotiated we will seek solutions that give more people an opportunity to hunt on Sveaskog's land.

During the first quarter Sveaskog made 104 property sales comprising over 8,900 hectares, primarily within the programme designed to strengthen private forestry. Sales from property transactions totalled SEK 228 million, which is SEK 73 million lower than in the same period in 2008. The situation in the credit market has had a negative impact on both prices and the number of completed transactions.

Sveaskog continued its work with renewable sources of energy during the quarter. This involves both co-operating with relevant projects and energy

companies to establish up wind farms on our land, as well as participation in development projects for vehicle biofuels.

Performance for Sveaskog's associate company Setra Group AB remained negative during the first quarter. A decision to close an additional sawmill, Färila in Hälsingland, was made at the beginning of the year. Despite extensive efforts to reduce costs, Setra Group's loss for the first quarter rose to SEK –210 million, of which Sveaskog's share is SEK –97 million, after a change in intra-group profit is taken into consideration.

During the first quarter Sveaskog's investments amounted to SEK 12 million. Over 50% of investments were made in the subsidiary Svenska Skogsplantor and the remainder consisted of the purchase of new forest machines. A decision was also made to invest SEK 18 million in equipment that will enable biofuels to be exported from Latvia through the subsidiary SIA Sveaskog Baltfor.

■ Market

The global economy is in recession and there is considerable uncertainty about future development. There are positive factors such as expansive financial and monetary policy, falling inflation and interest rates, as well as a weak Swedish krona which benefits export industry.

Sawmill industry

The business climate for the wood products industry is still very weak. Most sawmill companies are cutting back their production in response to declining order bookings in both home and export markets. Falling demand means that the sawmills have a substantial build up of stocks of finished goods, which has led to price pressure in the market.

Recently there have been signs indicating that the short-term balance in the wood products market has improved and purchasers' sawn products stocks have started to decrease. There are, however, no signs of a fundamental change in the market situation in the immediate future. Construction has slowed substantially in both Sweden and the rest of Europe and many projects have been cancelled or postponed. Most sawmill companies take a negative view of future development and are preparing for even lower production and employee cutbacks.

A positive factor for Swedish sawmill companies is the weak krona which allows them to capture market shares at the cost of Finnish, German and Austrian sawmill companies. Furthermore, sawlog prices, despite sharp falls in Finland and the Baltic countries, are still lower in Sweden. Combined with good demand for chips for energy applications, this means that the situation for the Swedish sawmills is better than for many of their foreign competitors.

Pulp and paper industry

The pulp and paper industry cut production during the past quarter. The business climate in the pulp industry is slightly better than in the paper industry. Swedish pulp producers benefit strongly from the weakening of the Swedish krona against the US dollar and are raising their market shares in Europe. Pulp producers have high stocks of finished goods, however, and pulp prices fell sharply during the past quarter.

Biofuel market

The expansion of biofuel-based energy production in Sweden continues. Intensive work is under way in the EU to find ways of sourcing supplies of raw material to the European energy sector in a sustained and eco-friendly manner.

■ Timber market

Northern Europe

The timber market in the Baltic region is characterised by the effects of the recession. Production cutbacks in the industry are leading to a downturn in demand and falling roundwood prices.

The energy sector is resisting this reduction in demand for fibre to some extent and establishing a price floor in the market. Despite this, players in the timber market expect falling pulpwood prices in the future. Conversion of pulpwood into biofuel is increasing.

Sweden

The recession led to weak market demand during the quarter. However, demand for sawlogs strengthened in March and at the beginning of April, particularly in southern Sweden. In northern Sweden, some improvement can be noted and the situation in central Sweden has stabilised. Demand for pulpwood stabilised at a low level. Market price lists fell during the quarter for both sawlogs and pulpwood.

The biofuel market is stable. Many market players are having problems obtaining sufficient raw material due to the weak flows of by-products from the sawmills. Pellet factories, which base their production solely on sawmill by-products, have been forced to cut back production. The shortage of raw material benefits Sveaskog which has forest fuel as a base in its deliveries, which is resulting in new enquires about volumes and raised prices.

■ Other units within the Group

Sveaskog Naturupplevelser's earnings are unchanged compared with the same quarter in the previous year. The company has initiated a market adjustment of prices for hunting, at the same time as hunting teams are being given greater opportunities to influence the content of their hunting rights. The purpose of this

adjustment is to give a larger number of hunters access to hunting grounds. The catch was good at the start of the season on 27 March in Mörrum, one of Sweden's best-known fishing waters.

Svenska Skogsplantor's earnings are unchanged compared with the previous year. Demand for seedlings is good.

The associate company **Setra Group AB** reports a considerably less favourable result due to the weak business climate in the wood products markets. Sveaskog's share of the company's result amounts to SEK -97 million compared with SEK 0 million in the previous year. No profit share in the company was reported in the same quarter in the previous year since Setra Group was in the process of an IPO which was later abandoned. Efforts to strengthen Setra's capital base are under way.

■ Sales, earnings and profitability

First quarter

The Sveaskog Group's net sales for the first quarter decreased by 23% compared with the same period in 2008. This was mainly due to an 18% reduction in sales volume compared with the same period in the previous year.

Operating profit before change in value of forest assets decreased and amounted to SEK 115 million (296). The decline in earnings was due to lower delivery volumes and a considerable deterioration in share of profit in the associate Setra Group.

Sveaskog's share of profits in Setra Group amounted to SEK -97 million (0).

After change in value of forest assets, operating profit amounted to SEK 434 million (591), including capital gains from the sale of forest properties of SEK 99 million (85).

Net financial items amounted to SEK -83 million (-86). The volume of the average loan portfolio was higher in the first quarter of 2009 than in the same quarter a year ago. The improvement in net financial

items is due to the lower interest rate level.

Net profit amounted to SEK 233 million (363), which is 36% lower than in the same period in the previous year.

■ Cash flow, investments and financial position

Cash flow from operating activities amounted to SEK -30 million (141). The less favourable cash flow was mainly due to changes in working capital.

Investments in property, plant and equipment amounted to SEK 12 million (30). These mainly comprised investments in Svenska Skogsplantor AB and purchases of forest machines. Investments in shares comprised SEK 0 million (3). Sales of property, plant and equipment, primarily forest properties, amounted to SEK 225 million (298).

Interest-bearing net debt decreased by SEK 195 million during the first quarter to SEK 6,841 million. During the first quarter, long-term loans for a total value of SEK 520 million were issued via the MTN (Medium term notes) programme.

■ Personnel

The number of employees at 31 March 2009 was 745 (717).

■ Parent Company

Sveaskog AB, 100% owned by the Swedish state, owns and manages forest properties and shares in subsidiaries and is also responsible for Group-wide financing. Sveaskog AB's net sales for the first three months of 2009 amounted to SEK 7 million (25). Loss after financial items was SEK -167 million (-217), which includes capital gains from property sales of SEK 3 million (19). The Parent Company's expenses mainly comprise interest expenses as a result of the acquisition of Sveaskog Förvaltnings AB. The company has no employees.

Sveaskog Group

Summary income statement

(Note 1) SEKm	3 months		12 months	
	Jan-March 2009	Jan-March 2008	April 2008- March 2009	Full year 2008
Net sales	1,490	1,932	6,798	7,240
Other operating income	3	5	19	21
Raw materials and consumables	-704	-979	-2,984	-3,259
Change in inventories	35	-5	12	-28
Other external costs	-470	-535	-2,593	-2,658
Staff costs	-123	-105	-518	-500
Depreciation according to plan	-19	-17	-74	-72
Share of profits of associates	-97	0	-243	-146
Operating profit before change in value of forest assets	115	296	417	598
Change in value of forest assets (Note 1)	319	295	1,164	1,140
Operating profit	434	591	1,581	1,738
Financial items	-83	-86	-455	-458
Profit before tax	351	505	1,126	1,280
Tax	-118	-142	114	90
Profit for the period	233	363	1,240	1,370
Earnings/share, SEK	1.97	3.07	10.48	11.57

Statement of comprehensive income

(Note 1) SEKm	3 months		12 months	
	Jan-March 2009	Jan-March 2008	April 2008- March 2009	Full year 2008
Profit for the period	233	363	1,240	1,370
Other comprehensive income				
Exchange differences	0	0	2	2
Cash flow hedges	-28	-12	-148	-132
Tax attributable to cash flow hedges	7	3	39	35
Total other comprehensive income for the period, net after tax	-21	-9	-107	-95
Total comprehensive income for the period	212	354	1,133	1,275

Summary balance sheet

SEKm	31 March 2009	31 March 2008	31 Dec 2008
ASSETS			
Non-current assets			
Intangible assets	9	9	9
Forest land (Note 1)	1,976	2,004	1,990
Other property, plant and equipment	507	519	515
Biological assets – standing forest (Note 1)	26,914	26,623	26,803
Other non-current assets	260	454	350
	29,666	29,609	29,667
Current assets			
Inventories	695	677	638
Current receivables, etc., non-interest bearing	2,265	2,242	2,176
Current interest-bearing receivables	4	0	0
Cash and cash equivalents	694	392	739
	3,658	3,311	3,553
TOTAL ASSETS	33,324	32,920	33,220
EQUITY AND LIABILITIES			
Equity	16,263	15,940	16,051
Non-current liabilities			
Interest-bearing liabilities and provisions	4,945	3,829	4,440
Other liabilities and provisions	7,978	8,236	7,953
	12,923	12,065	12,393
Current liabilities			
Interest-bearing liabilities	2,594	3,426	3,340
Other liabilities	1,544	1,489	1,436
	4,138	4,915	4,776
TOTAL EQUITY AND LIABILITIES	33,324	32,920	33,220

Sveaskog Group

Summary cash flow statement

SEKm	Jan-March 2009	Jan-March 2008	Full year 2008
Operating profit	434	591	1,738
Adjustment for non-cash items, etc.	-227	-313	-894
Interest received	4	4	64
Interest paid	-87	-90	-508
Tax paid	10	-90	-288
Cash flow from operating activities before change in working capital	134	102	112
Change in working capital	-165	39	89
Cash flow from operating activities	-31	141	201
Investments in property, plant and equipment	-12	-30	-113
Investments in shares	0	-3	-58
Sale of property, plant and equipment	225	298	1,026
Change in interest-bearing receivables	-1	1	-2
Cash flow from investing activities	212	266	853
Dividend paid	-	-	-810
Change in financial liabilities	-226	-200	310
Cash flow from financing activities	-226	-200	-500
Cash flow for the period	-45	207	554
Cash and cash equivalents, opening balance	739	185	185
Cash and cash equivalents, closing balance	694	392	739

Summary statement of changes in equity

SEKm	Jan-March 2009	Jan-March 2008	Full year 2008
Opening equity, 1 January	16,051	15,586	15,586
Total comprehensive income for the year	212	354	1,275
Dividend paid in accordance with annual general meeting decision	-	-	-810
Total income and expenses for the period	212	354	465
Closing equity at the end of the period	16,263	15,940	16,051

Key figures*

	Jan-March 2009	Jan-March 2008	Full year 2008
Operating margin, %	29	31	24
Return on equity, % 1)	8	9	9
Equity ratio, %	49	48	48
Debt/equity ratio, times	0.42	0.43	0.44
Interest cover, times 1) 3)	0.9	3.3	1.3
Interest-bearing net debt, SEKm	6,841	6,860	7,036
Net earnings per share, SEK 2)	1.97	3.07	11.57
Average number of employees	892	895	1,018
Number of employees	745	717	741

* Definitions, see 2008 Annual Report.

1) Rolling 12 months.

2) Calculated on number of shares, 118,373,034.

3) Operating profit before change in value of forest assets plus financial income divided by financial expenses.

Parent Company

Summary income statement

SEKm	3 months		12 months	
	Jan-March 2009	Jan-March 2008	April 2008- March 2009	Full year 2008
Operating income	7	25	54	72
Operating expenses	0	0	-1	-1
Operating profit	7	25	53	71
Financial items	-174	-242	4,373	4,305
Profit after financial items	-167	-217	4,426	4,376
Tax	44	-	314	270
Net profit/loss	-123	-217	4,740	4,646

Summary balance sheet

SEKm	31 March 2009	31 March 2008	31 Dec 2008
ASSETS			
Non-current assets			
Property, plant and equipment	68	82	69
Financial assets			
Interest-bearing	3,253	1,654	3,082
Non-interest bearing	24,934	24,934	24,934
	28,187	26,588	28,016
	28,255	26,670	28,085
Current assets			
Current receivables, etc., non-interest bearing	1,113	1,172	1,016
Short-term investments	5,330	5,235	5,685
Cash and bank balances	0	0	0
	6,443	6,407	6,701
TOTAL ASSETS	34,698	33,077	34,786
EQUITY AND LIABILITIES			
Equity			
Non-current liabilities and provisions	13,084	8,460	13,207
Interest-bearing liabilities and provisions	4,119	3,003	3,599
Current liabilities and provisions			
Interest-bearing liabilities and provisions	17,482	21,559	17,918
Other liabilities and provisions	13	55	62
	17,495	21,614	17,980
TOTAL EQUITY AND LIABILITIES	34,698	33,077	34,786

Summary cash flow statement

SEKm	Jan-March 2009	Jan-March 2008	Full year 2008
Cash flow from operating activities	83	-44	4,581
Cash flow from investing activities	-167	873	-504
Cash flow from financing activities	84	-829	-4,077
Total cash flow	0	0	0
Cash and cash equivalents at beginning of the year	0	0	0
Cash and cash equivalents at the end of the period	0	0	0

Summary statement of changes in equity

SEKm	Jan-March 2009	Jan-March 2008	Full year 2008
Opening equity, 1 January	13,207	8,678	8,678
Cash dividend	-	-	-810
Group contribution	-	-	963
Tax effect of group contribution	-	-	-270
Other	-	-1	-
Net profit/loss for the period	-123	-217	4,646
Closing equity at the end of the period	13,084	8,460	13,207

■ Accounting principles

This interim 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, with the amendment that application of IAS in the consolidated financial statements means that the Group applies a new presentation of income in accordance with the new structure in IAS 1. These accounting principles are described in Sveaskog's Annual Report for

2008, Note 1 Accounting Principles.

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

■ Note 1 - Change in value of forest assets, SEKm

The market-related value of Sveaskog's forest assets at 31 March 2009 has been calculated at 28,890 (28,627), of which 26,914 (26,623) comprises the fair value of standing forest and 1,976 (2,004) a fixed cost for land. The change in the balance sheet amounts to 263 (–136).

The Board of Directors and the CEO hereby confirm that this interim report provides a true and fair overview of the Parent Company's and the Group's operations, their financial position and performance, and describes material risks and uncertainties facing the Parent Company and other companies in the Group.

Stockholm, 23 April 2009
Sveaskog AB (publ.) (556558-0031)

Göran Persson
Chairman

Håkan Ahlqvist

Lars Johan Cederlund

Eva Färnstrand

Thomas Hahn

Birgitta Johansson-Hedberg

Patrik Jönsson

Christina Liffner

Anna-Stina Nordmark Nilsson

Sture Persson

Eva-Lisa Lindvall

The report has not been reviewed by the company's auditors

Gunnar Olofsson
President and CEO

For further information, please contact

Gunnar Olofsson, President and CEO, tel +46 8 655 91 74, +46 703 34 15 16

Peder Zetterberg, CFO, tel +46 8 655 92 90, +46 708 65 21 20

www.sveaskog.se

Financial calendar

Interim report January–June 2009	23 July 2009
Interim report January–September 2009	20 October 2009
Year-end report 2009	28 January 2010

Sveaskog Förvaltnings AB

GROUP OFFICE

Sveaskog Förvaltnings AB Stockholm

Torsgatan 4
SE-105 22 Stockholm
Tel +46 8 655 90 00
Fax +46 8 655 94 14

www.sveaskog.se

Sveaskog Förvaltnings AB Kalix

Torggatan 4
Box 315
SE-952 23 Kalix
Tel +46 923 787 00
Fax +46 923 787 01