

A close-up photograph of several maple leaves. The leaves are mostly green, but one prominent leaf in the center is transitioning to autumn colors, showing shades of orange, red, and yellow. The leaves have characteristic three-lobed shapes with serrated edges. The background is dark and out of focus, making the leaves stand out.

**Interim report
January – September
2008**

Interim report

January – September 2008

Third quarter

- Production adjusted to prevailing economic situation.
- Falling sawlog prices and stable pulpwood prices.
- Sveaskog's share of profits of Setra Group AB amounted to MSEK –41 (52).
- Net profit decreased to MSEK 142 (339).
- Net sales totalled MSEK 1,409 (1,539).
- Operating profit after change in value of forest assets amounted to MSEK 300 (524), including capital gains from the sale of forest properties of MSEK 60 (176).

Nine-month period January–September

- Stable deliveries to the pulp industry and lower sales to the sawmill industry.
- Weak rise in pulpwood and biofuel prices.
- Sveaskog's share of profits of Setra Group AB amounted to MSEK –74 (155).
- Net profit decreased to MSEK 772 (987).
- Net sales totalled MSEK 5,505 (5,287).
- Operating profit after change in value of forest assets amounted to MSEK 1,365 (1,504), including capital gains from the sale of forest assets of MSEK 259 (364).

MSEK	Quarter 3		January–September	
	2008	2007	2008	2007
Net sales	1,409	1,539	5,505	5,287
Operating profit before change in value of forest assets	67	268	553	1,002
Change in value of forest assets	233	256	812	502
Operating profit	300	524	1,365	1,504
Profit before tax	212	452	1,101	1,311
Profit for the period	142	339	772	987
Earnings per share, SEK	1.20	2.86	6.52	8.34

■ CEO's comments

During the past quarter Sveaskog adjusted its production and deliveries to the prevailing market situation. As a result, total sales decreased by 8% compared with the same period in the previous year. The weak business climate affected several customer segments and the sawmills in particular suffered strained finances due to a dramatic reduction in consumption of wood products in many markets. Sveaskog responded by reducing the sawlogs portion of its total deliveries.

As compensation for reduced domestic demand, Sveaskog's exports of roundwood and also to some extent of biofuel rose during the year. Supplies are good in the biofuel market in northern Sweden, while there is greater competition for raw material in the central and southern parts of the country.

In the third quarter Sveaskog signed a new multi-

year agreement with Fortum for biofuel deliveries. This deal, which is worth MSEK 55–60 annually, is Sveaskog's largest ever in the biofuel segment. The changed felling ratio, with a higher proportion of pre-commercial thinning, combined with increased fuel prices, led to rises in felling and transport costs. Increased costs and a lower sales volume reduced profit from operations compared with the previous year. Earnings were also affected by a seasonal effect that was greater than in previous years with several customers having longer than normal summer closures and maintenance shutdowns. One effect of reduced felling and sales of own forests was that the change in value of forest assets increased to MSEK 554 (138).

Sveaskog continues to make focus on forest growth and new technology to forestry more efficient which will benefit the industry over time. Sveaskog

has also set up its first dedicated rail terminal in Kvarntorp outside Örebro in order to ensure cost-effective and eco-friendly biofuel transport. Our goal is to double the proportion of timber transported by rail. We have invested a total of MSEK 127 during the first nine months of 2008. Half of this comprises investments in the biodiesel company SunPine AB and the research company SweTree Technologies AB.

Development for our associated company Setra Group AB remains negative, affecting Sveaskog's earnings by MSEK –74 so far this year. The company is noticeably affected by the weak business climate for sawn wood products. An extensive programme of adjustment to the prevailing business climate has been under way within the company for some time with the aim of mitigating the negative earnings impact.

Sveaskog's assignment to sell land to strengthen private forestry amounted to 24,000 ha during the first nine months of 2008 and provided sales revenue of MSEK 613. The formation of nature reserves and replacement land amounted to 3,700 ha with a purchase price of MSEK 115. Other property transactions provided MSEK 60. So far this year property sales have totalled MSEK 789.

■ Market

The downturn in the Swedish economy continues as a result of the global economic slowdown. The uncertainty in the wake of the financial crisis is putting additional downward pressure on financial activity. Growth in industrial production has stagnated during the past quarter and many companies are planning cutbacks. The energy industry, however, represents an exception with plans for substantial investment in new and extended production capacity.

Sawmill industry

Conditions in the wood products market remain weak but there are now signs that the price fall is starting to level out. Many sawmill companies are cutting back production in response to receding order bookings in the home and export markets. Most sawmill companies expect negative development in the future and are preparing to make further cutbacks.

Underlying conditions for export markets in Europe a few years ahead are relatively good with a forecast stable market for renovations and extensions in Western Europe and a good market for all construction in Eastern Europe. However, construction will be affected by the uncertain trade and financial situation which will lead to high costs for capital and more cautious investors.

Pulp and paper industry

Production in the pulp and paper industry has been stable to declining during the past quarter and the business climate is weakening. Order bookings and

demand from export markets are slowing down. During June pulp producers tried to raise their list prices in order to compensate for falling real revenues due to the weak US dollar. This increase did not go through and this price cycle peaked in June.

Forest industry companies are affected by the relatively strong rate for the euro against the US dollar. This makes export deals from the EU unprofitable. At the same time, companies export in order to maintain capacity utilisation and defend price levels in the European market. The US dollar is now strengthening and pulp producers that sell their products in US dollars are thus being compensated for falling prices for market pulp.

Biofuel market

The expansion of biofuel-based energy production continues and the market is developing in a positive direction for raw material producers. Intensive work is under way within the EU to find ways of securing supplies of renewable biofuels for the European energy sector in a sustainable manner.

■ Timber market

Northern Europe

The timber market in the Baltic region is mainly characterised by shortages of sawlogs and pulpwood. This has led to rising prices, primarily in Finland and the Baltic countries. The main driving forces are the previously strong industrial climate and Russian export duties for roundwood.

The price trend is somewhat downward at present primarily for sawlog products due to the weak market in the wood products industry. Prices of pulpwood are affected by competition from the energy sector which is establishing a price floor in the market. We can expect stable pulpwood prices in future. Expectations of future price rises from market players and the need for companies to position themselves in the timber market mean that the price trend does not directly reflect the business climate in the forest industry and sawmill sector.

Stepped increases in Russian export duties are re-drawing the map for timber flows in the Baltic region. The Finnish forest industry is worst affected by declining volumes from Russia and is raising its imports from Sweden and the Baltic countries. Most market analysts are of the opinion that the increasingly dynamic flows in the timber market means that the price scenario in the Baltic region will even out over time.

Northern Sweden

Demand was weak for sawlogs and normal to strong for pulpwood. The raw material flow and supplies balanced demand for sawlogs. Profitability at the sawmills is weak or negative.

Sawmills are trying to keep their stocks of sawlogs

low although in many cases they continue with active marketing in order to safeguard their positions in the timber market.

Price increases were implemented to maintain pulpwood flows and most fibre users are now well supplied.

There is plenty of biofuel in the market ahead of the coming heating season, despite lower supplies of by-products from the sawmills due to production cutbacks.

Central Sweden

Supplies of pine and spruce sawlogs were relatively high. However, since the sawmills are well supplied with sawlogs, sales are sluggish. Demand is affected by production restrictions. Supplies of softwood and hardwood pulpwood were normal with good demand.

Fibre users are well supplied with raw material. Price increases were implemented for pulpwood and cellulose chips.

The market situation for biofuel remains good. Weak flows of by-products from the sawmills combined with high energy prices are contributing to a positive price development. There are plenty of enquiries and many customers want to sign long-term contracts.

Southern Sweden

Both sawmills and fibre users are well supplied with wood raw material. The reduction in sawlog stocks since the storms affects both timber balances and sawlog prices. Sawlog prices fell during the period while pulpwood prices were relatively stable.

The market situation for biofuel is favourable and largely similar to that in central Sweden.

■ Sales, earnings and profitability

Third quarter

The Sveaskog Group's net sales decreased by 8% during the quarter compared with the same period in 2007. The decrease is mainly due to a 15% reduction in roundwood deliveries. This was partly compensated by higher prices than in the previous year.

Operating profit before change in value of forest assets decreased and amounted to MSEK 67 (268). The decline in earnings is due equally to the low delivery volumes caused by the weak business climate for the sawmills and the considerably less favourable share of profits from partly owned Setra Group AB.

Sveaskog's share of profits of Setra amounted to MSEK –41 (52).

Operating profit after change in value of forest assets amounted to MSEK 300 (524), including capital gains from sales of forest property of MSEK 60 (176). The calculation of capital gains changed slightly with effect from 1 January 2008 when Sveaskog switched to a primarily value-based cal-

ulation method for calculating capital gains instead of the previous area-based method since this provides a more accurate picture of the gains incurred.

Net financial items at MSEK –88 (–72) were impaired because of an increased volume of net debt primarily due to ordinary and extra dividends to Sveaskog's owner.

Net profit was significantly lower than in the previous year and amounted to MSEK 142 (339).

January–September

The Sveaskog Group's net sales increased to MSEK 5,505 (5,287). Roundwood deliveries were approximately 8% lower than in the same period in the previous year while prices were approximately 13% higher despite a less favourable product mix with a lower proportion of sawlogs. The lower deliveries combined with higher prices meant that net sales rose by approximately 4%.

Operating profit before change in value of forest assets was MSEK 553 (1,002). The change is mainly explained by the lower deliveries from own forests and a low proportion of sawlogs as well as a considerably less favourable share of profits of Setra Group AB. Sveaskog's share after tax of Setra's profits was MSEK –74 (155).

Net financial items amounted to MSEK –264 (–193), representing a decline of MSEK 71 or 37%. The increased debt portfolio accounts for approximately 76% of the increase in costs while the remainder is attributable to higher interest rates.

Operating profit after change in value of forest assets amounted to MSEK 1,365 (1,504). Change in value of forest assets includes consolidated capital gains from the sale of forest assets of MSEK 259 (364). In addition an IAS 41 adjustment in the value of forest capital amounted to MSEK 554 (138).

Net profit decreased compared with the previous year and amounted to MSEK 772 (987).

■ Cash flow, investments and financial position

Cash flow from operating activities amounted to MSEK 307 (211). The lower operating profit is compensated in cash flow terms by a decrease in paid tax while the change in working capital of inventories also made a positive contribution.

Investments in property, plant and equipment amounted to MSEK 70 (54). These mainly comprise forest machines and forest roads. Investments in shares amounted to MSEK 57 (2). Sales of property, plant and equipment, primarily forest properties, amounted to MSEK 789 (671). In the first nine months of 2008, the interest-bearing net debt decreased by MSEK 232 to MSEK 7,067. During the year, long-term loans for a total value of MSEK 500 were issued via the MTN programme (Medium Term Notes) and private placements.

■ Other units within the Group, January–September

Sveaskog Naturupplevelser had lower sales but somewhat stronger earnings compared with the same period in the previous year. The improved earnings are mainly due to a more efficient organisation and increased sales of salmon fishing at Mörrum.

Demand for **Svenska Skogsplantor's** products is very good. Demand for several products exceeded supplies and prices rose. Sales increased and earnings improved compared with the previous year. During the spring and summer 200,000 seedlings treated with Conniflex were delivered to and planted by customers. Conniflex is the mechanical pine weevil protection system developed and patented by the company.

Sveaskog's share of profits of **Setra Group AB** amounted to MSEK –74 compared with MSEK 155 in the same period in the previous year.

■ Personnel

The number of employees at 30 September was 726 (718).

The number of employees increased slightly in the third quarter when vacant positions, such as machine operators and logisticians, were filled.

Employee turnover within the industry has increased over the past year. One reason is that several and new players are building up their own purchasing organisations for timber. Sveaskog will expand its own purchasing organisation in Bergslagen because of the biofuel contract with Fortum.

The organisation was modified somewhat in June. This change has now been fully implemented. The annual managers' meeting was held in September. All managers with human resources responsibility met to plan activities over the coming year.

■ 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 nine months of 2008 amounted to MSEK 69 (63). Loss after financial items was MSEK 722 MSEK (–417), which includes capital gains from property sales of MSEK 57 (41). The Parent Company's expenses mainly comprise interest expenses as a result of the acquisition of Sveaskog Förvaltnings AB. The Parent Company has no employees.

Sveaskog Group

■ Summary income statement	3 months		9 months		12 months	
	Q3 2008	Q3 2007	Jan-Sept 2008	Jan-Sept 2007	Oct 2007- Sept 2008	Full year 2007
MSEK						
Net sales	1,409	1,539	5,505	5,287	7,481	7,263
Other operating income	4	6	17	70	57	110
Raw materials and consumables	-594	-655	-2,506	-2,317	-3,445	-3,256
Change in inventories	22	15	-95	-38	-65	-8
Other external costs	-596	-558	-1,859	-1,714	-2,570	-2,425
Staff costs	-119	-115	-381	-393	-493	-505
Depreciation according to plan	-18	-16	-54	-48	-72	-66
Share of profits of associates	-41	52	-74	155	19	248
Operating profit before change in value of forest assets	67	268	553	1,002	912	1,361
Change in value of forest assets	233	256	812	502	1,072	762
Operating profit	300	524	1,365	1,504	1,984	2,123
Financial items	-88	-72	-264	-193	-334	-263
Profit before tax	212	452	1,101	1,311	1,650	1,860
Tax	-70	-113	-329	-324	-446	-441
Profit for the period	142	339	772	987	1,204	1,419
Earnings per share, SEK	1.20	2.86	6.52	8.34	10.17	11.99
- based on average number of shares, million	118.4	118.4	118.4	118.4	118.4	118.4

■ Summary balance sheet

MSEK	30 Sept 2008	30 Sept 2007	31 Dec 2007
ASSETS			
Non-current assets			
Intangible assets	9	10	9
Forest land (Note 1)	1,982	2,024	2,015
Other property, plant and equipment	516	519	525
Biological assets – standing forest (Note 1)	26,690	26,667	26,591
Other non-current assets	392	358	447
	29,589	29,578	29,587
Current assets			
Inventories	532	604	668
Current receivables, etc., non-interest bearing	2,283	2,033	2,244
Current interest-bearing receivables	0	0	0
Cash and cash equivalents	242	602	185
	3,057	3,239	3,097
Total assets	32,646	32,817	32,684
EQUITY AND LIABILITIES			
Equity	15,549	17,140	15,586
<i>Non-current liabilities</i>			
Interest-bearing liabilities and provisions	3,883	3,659	3,861
Other liabilities and provisions	8,179	8,170	8,162
	12,062	11,829	12,023
<i>Current liabilities</i>			
Interest-bearing liabilities	3,428	2,431	3,623
Other liabilities	1,607	1,417	1,452
	5,035	3,848	5,075
Total equity and liabilities	32,646	32,817	32,684

Sveaskog Group

■ Summary cash flow statement

MSEK	Jan–Sept 2008	Jan–Sept 2007	Full year 2007
Operating profit	1,365	1,504	2,123
Adjustment for non-cash items, etc.	-790	-732	-1,090
Interest received	57	39	50
Interest paid	-281	-212	-346
Tax paid	-224	-316	-424
Cash flow from operating activities before change in working capital	127	283	313
Change in working capital	180	-72	-333
Cash flow from operating activities	307	211	-20
Investments in property, plant and equipment	-70	-54	-87
Investments in shares	-57	-2	-3
Sale of property, plant and equipment	789	671	1,063
Change in interest-bearing receivables	-2	150	149
Cash flow from investing activities	660	765	1,122
Dividend paid	-810	-491	-2,480
Change in financial liabilities	-100	-509	937
Cash flow from financing activities	-910	-1,000	-1,543
Cash flow for the period	57	-24	-441
Cash and cash equivalents, opening balance	185	626	626
Cash and cash equivalents, closing balance	242	602	185

■ Statement of changes in equity

MSEK	Jan–Sept 2008	Jan–Sept 2007	Full year 2007
Opening equity, 1 January	15,586	16,620	16,620
Change in hedging reserve, net	1	24	26
Translation difference for the period, etc.	0	0	1
Profit for the period	772	987	1,419
Total income and expenses for the period	773	1,011	1,446
Cash dividend	-810	-491	-2,480
Closing equity at the end of the period	15,549	17,140	15,586

■ Key figures*

	Jan–Sept 2008	Jan–Sept 2007	Full year 2007
Operating margin, %	25	28	29
Return on equity, % 1)	7	8	9
Equity ratio, %	48	52	48
Debt/equity ratio, times	0.45	0.32	0.47
Interest cover, times 1,3)	2.6	4.8	4.8
Interest-bearing net debt, MSEK	7,067	5,488	7,299
Net earnings per share, SEK 2)	6.52	8.34	11.99
Average number of employees	991	999	1,027
Number of employees	726	718	726

* Definitions, see 2007 Annual Review

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

MSEK	9 months		12 months	
	Jan–Sept 2008	Jan–Sept 2007	Oct 2007– Sept 2008	Full year 2007
Operating income	69	63	84	78
Operating expenses	-1	-1	-1	-1
Operating profit	68	62	83	77
Financial items	-790	-479	-493	-182
Profit/loss after financial items	-722	-417	-410	-105
Appropriations	-	-	-	-
Tax	202	117	255	170
Profit/loss for the period	-520	-300	-155	65

■ Summary balance sheet

MSEK	30 Sept 2008	30 Sept 2007	31 Dec 2007
Non-current assets			
Property, plant and equipment	78	161	85
Financial assets			
Interest-bearing	2,461	2,801	2,506
Non-interest bearing	24,934	24,934	24,934
	27,395	27,735	27,440
	27,473	27,896	27,525
Current assets			
Current receivables, etc., non-interest bearing	249	158	1,160
Receivables from group companies, interest-bearing	5,553	3,441	5,425
Cash and bank balances	210	0	0
	6,012	3,599	6,585
Total assets	33,485	31,495	34,110
Equity	7,348	9,865	8,678
Untaxed reserves	0	0	0
Non-current liabilities and provisions			
Interest-bearing liabilities and provisions	3,098	2,750	3,005
Current liabilities and provisions			
Interest-bearing liabilities and provisions	22,952	18,831	22,385
Other liabilities and provisions	87	49	42
	23,039	18,880	22,427
Total equity and liabilities	33,485	31,495	34,110

■ Summary cash flow statement

MSEK	Jan–Sept 2008	Jan–Sept 2007	Full year 2007
Cash flow from operating activities	-354	-575	-2,776
Cash flow from investing activities	108	1,142	1,523
Cash flow from financing activities	456	-567	1,253
Total cash flow	0	0	0
Cash and cash equivalents, opening balance	0	0	0
Cash and cash equivalents, closing balance	210	0	0

■ Statement of changes in equity

MSEK	Jan–Sept 2008	Jan–Sept 2007	Full year 2007
Opening equity, 1 January	8,678	10,656	10,656
Cash dividend	-810	-491	-2,480
Group contribution	-	-	607
Tax effect of group contribution	-	-	-170
Net profit/loss for the period	-520	-300	65
Closing equity at the end of the period	7,348	9,865	8,678

■ 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. These accounting principles are described in Sveaskog's Annual Report for 2007, Note 1 Accounting Principles.

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 at 30 September 2008 has been calculated at 28,672 (28,691), of which 26,690 (26,667) comprises the fair value of standing forest and 1,982 (2,024) a fixed cost for land. The change in the balance sheet amounts to -19 (-181).

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, 28 October 2008

Sveaskog AB (publ.) (556558-0031)

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Thomas Hahn	Birgitta Johansson-Hedberg	Eva Färnstrand
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Financial calendar

Year-end report 2008

29 January 2009

AGM 2009

23 April 2009

Review Report

To the Board of Directors of Sveaskog AB, reg. no. 556558-0031

We have reviewed the interim report for Sveaskog AB for the period 1 January until 30 September 2008. The Board of Directors and the President are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

We conducted our review in accordance with the Standard on Review Engagements SÖG 2410, "Review of Interim Financial Information Performed by the Independent Auditors of the Entity". A review consists of making inquiries, primarily to persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review has a different focus and is substantially less in scope than an audit conducted in accordance with Standards on Auditing in Sweden RS and other generally accepted auditing practices in Sweden. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed on the basis of a review does not give the same level of assurance as a conclusion expressed on the basis of an audit.

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not, in all material respects, prepared for the Group in accordance with IAS 34 and the Annual Accounts Act, and for the Parent Company, in accordance with the Annual Accounts Act.

Stockholm, 28 October 2008

Mikael Eriksson

*Authorised Public Accountant
Öhrlings PricewaterhouseCoopers*

Martin Johansson

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

Sveaskog Förvaltnings AB

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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. The company works with land sales, offers hunting and fishing opportunities and makes land available to local entrepreneurs within eco-tourism.

The forest is Sveaskog's core business and the company's vision is to lead the way in the development of forest values. Sveaskog has annual sales of approximately SEK 7 billion and 730 employees. Sveaskog is owned by the Swedish state.

