

Interim report  
January – June  
2008



# Interim report January – June 2008

## Second quarter

- Prices for fibre continues to increase while prices for sawlogs are stable.
- Agreement signed for biofuel production based from residuals from the pulp production.
- Stable sales volume to pulp and paper industry but sales to sawmill industry remains low.
- Net profit largely unchanged at MSEK 267 (278).
- Net sales for the quarter amounted to MSEK 2,164 (1,968).
- Operating profit after change in value of forest assets amounted to MSEK 474 (416), including capital gains from the sale of forest properties of MSEK 114 (81).

## Six months January – June

- Increased timber prices.
- Low sales to the sawmill industry.
- Property sales programme continues as planned.
- Net profit for the six-month period largely unchanged at MSEK 630 (648).
- Consolidated net sales for the period January–June 2008 amounted to MSEK 4,096 (3,748), including capital gains from the sale of forest properties of MSEK 199 (188).
- Operating profit after change in value of forest assets amounted to MSEK 1,065 (980).

MSEK	Quarter 2		January–June	
	2008	2007	2008	2007
Net sales	<b>2,164</b>	1,968	<b>4,096</b>	3,748
Operating profit before change in value of forest assets	<b>190</b>	328	<b>486</b>	734
Change in value of forest assets	<b>284</b>	88	<b>579</b>	246
Operating profit	<b>474</b>	416	<b>1,065</b>	980
Profit before tax	<b>384</b>	367	<b>889</b>	859
Profit for the period	<b>267</b>	278	<b>630</b>	648
Earnings per share, SEK	<b>2.26</b>	2.35	<b>5.32</b>	5.47

## ■ CEO's comments

In the second quarter of 2008 Sveaskog's sales increased with 10% compared with the same period in the previous year. This increase is attributable to a generally higher price level for the entire product range. Furthermore, the mix between the different product groups – sawlogs, pulpwood and biofuel – has changed. The proportion of sawlogs is decreasing due to the less favourable business climate for the sawmills, while the proportion of pulpwood and biofuel is increasing.

The pulp industry is to a higher extent turning to the domestic market for its raw material supplies since Swedish supply has a favourable price level in international terms. Sveaskog naturally seeks to achieve higher prices for wood raw material. This provides opportunities to increase investments for growth and new technology which also can make forestry more efficient and benefit the industry over time.

The planting season started unusually early this year due to the favourable weather conditions. This meant that planting and other silvicultural measures were carried out earlier than normal with good results. The hot, dry weather, however, led to a number of natural

forest fires which thankfully did not cause extensive damage.

Sveaskog's partly owned company (50%) Setra Group AB was affected significantly by the weaker market for sawn timber, which had a substantial impact on Sveaskog's earnings. Compared with the same period in the previous year, Setra's results had a negative effect on Sveaskog's profit of MSEK 136.

Felling and transport costs continue to rise due to a changed felling ratio (a higher proportion of pre-commercial thinning) and higher fuel prices.

So far this year, 128 transactions covering an area of 19,400 ha have been completed within Sveaskog's land sales programme. Including the formation of nature reserves and replacement land, the total sold area amounts to 23,900 ha with a total purchase price of MSEK 631.

At the beginning of June, Preem, Södra and Sveaskog each acquired a 20% stake in SunPine AB through a purchase agreement with Kiram AB, owned by the entrepreneur Lars Stigsson. The plan is to build Sweden's first biodiesel production plant based on wood raw material (pine oil). The first plant will be located in

Piteå and is expected to be in operation during the fourth quarter of 2009. The investment in Piteå will amount to approximately MSEK 250.

During the second quarter meetings were held with all employees under the so-called vision meetings concept. This is the third time that Sveaskog's CEO has held these meetings and they provide an opportunity for valuable dialogue with all employees.

#### ■ Market

The global economic upturn is slowing down and the growth rate is decreasing. There is still considerable unrest in the financial markets. In addition to this unease, the economy is being affected by higher food and energy prices which has led to inflationary pressure in many markets.

The slowdown in the Swedish economy has continued in 2008 as a result of global economic trends, financial unrest and generally more cautious consumption. The industrial climate is still relatively good but growth in production decreased considerably during the last quarter.

#### Sawmill industry

Demand in the wood products market remains low and prices of sawmill products are falling. Declining order bookings in both the home and export markets mean that many sawmill companies are restricting their production which is leading to redundancies and dismissals.

Underlying conditions for export markets in Europe a few years ahead are relatively good. A stable market for home/housing repairs and extensions is forecasted for Western Europe and a good market for all construction in Eastern Europe. Analysts do not currently expect a fast turnaround, forecasts presently does not indicate a higher demand for wood products until 2010.

#### Pulp and paper industry

The economic development for the pulp industry is stronger than for the paper industry. Low pulp stocks due to shortages of raw material and lower production capacity meant the pulp prices continued to increase. Producers are trying to achieve further price increases in order to compensate for a substantial loss of revenue due to the weak US dollar. Price increases are expected to be more moderate in the future, however, with the possibility of some fall in prices when new production capacity in South America comes on stream. In addition, the European and North American pulp companies continue to work with productivity programmes designed to reduce costs and improve efficiency. Rationalisation and production cutbacks are increasing and further restructuring can be expected.

#### Biofuel market

Demand for biofuels is showing a stable increase and this positive trend is expected to continue. This development is driven by both the climate

change debate and the cost of alternative fuels. Forceful political measures are also accelerating development. The EU's binding target of 20% renewable energy by 2020 is expected to create a need for additional forest raw materials of approximately 250 million cubic metres.

#### ■ Timber market

##### Northern Europe

The timber market in the Baltic area continues to be characterised by high demand for raw material which had a positive impact on prices. The increased Russian export duties and notification of further increases have led to greater activity among all players in the Baltic region. The Finnish forest industry is increasing its presence in Sweden and exports of Swedish roundwood to countries in Northern Europe are increasing. For some products, such as pulpwood and biofuel, prices continue to rise while reduced production at the sawmills is putting some pressure on sawlog prices.

##### Northern Sweden

In northern Sweden there were substantial supplies of all roundwood grades with good demand for pine and spruce sawlogs as well as pulpwood. Price increases were implemented for all products during the quarter.

The supply of biofuel is substantial. Increased demand and effects from production cutbacks at sawmills will probably lead to shortages during the autumn. The conditions for price increases are favourable.

##### Central Sweden

In central Sweden, supplies of pine and spruce sawlogs were high with strong flows and good demand. Supplies and flows of softwood and hardwood pulpwood were strong to normal with good demand. Price increases were implemented for all products during the quarter. Further price increases have been announced for all products with effect from 1 August.

The market situation for biofuel remains good with high demand.

##### Southern Sweden

The timber market in southern Sweden is still affected by the storm Per and forest infested by the bark beetle. Sawlogs and pulpwood have been sold in the market at the prices that prevailed before the storm and with high demand. There is a shortage of hardwood pulpwood. Sawmills and pulp mills have relatively large stocks of timber raw material. Transport capacity is currently a bottleneck for the market.

The market situation for biofuel remains good with high demand. Prospects for price increases are good.

#### ■ Other units within the Group

Sveaskog Naturupplevelser had slightly lower sales but somewhat stronger earnings than in the same quarter last year. The improved earnings are due mainly

to lower costs and partly to a good start for the fishing season at Mörrum.

Demand for **Svenska Skogsplantor's** products is high with improved pricelevel. Both sales and earnings were slightly higher than in the same quarter a year ago. In May, 200,000 seedlings, treated with Conniflex, were delivered and planted. Conniflex is the mechanical pine weevil protection system developed and patented by the company.

Sveaskog's share of profits of **Setra Group AB** amounts to MSEK –33 compared with MSEK 48 in the same quarter last year.

### ■ Sales, earnings and profitability

#### Second quarter

During the quarter net sales for the Sveaskog Group rose 10% compared with the same period in 2007. The increase is mainly due to higher timber prices. Deliveries fell 4% compared with the same period a year ago.

Operating profit before change in value of forest assets decreased, however, and amounted to MSEK 190 (328). The decline in earnings is mainly explained by a substantial decrease in share of profits from Setra Group AB but also by increased pension costs due to an extended mortality assumption as well as an expanded insurance programme for forest assets.

Sveaskog's share of profit of Setra Group amounted to MSEK –33 (48).

Operating profit after change in value of forest assets amounted to MSEK 474 (416), which includes capital gains from the sale of forest properties of MSEK 114 (81). Calculation of capital gains changed slightly with effect from 1 January 2008 when Sveaskog switched to a primarily value-based calculation method instead of the previous area-based method since this provides a better picture of the gains incurred.

Net financial items at MSEK –90 (–49) showed some impairment since net debt increased as a result of dividends to Sveaskog's owner totalling MSEK 2,810, as well as a generally higher interest rate level. The increase in net debt accounts for 41% of the decline compared with the second quarter of 2007 which means that higher interest rates account for 59%. Net profit was on a par with the previous year at MSEK 267 (278).

#### January–June

The Sveaskog Group's net sales increased to MSEK 4,096 (3,748). Roundwood deliveries were approximately 5% higher than in the same period in the previous year. The higher delivery volume combined with higher timber prices increased net sales by approximately 9%.

Operating profit before change in value of forest assets was MSEK 486 (734). The change is mainly explained by the substantial change in profits from

Setra Group AB but also by lower capital gains from the sale of development land, lower deliveries from own forests and an expanded insurance programme for forest assets. Sveaskog's share after tax of the profits of Setra Group AB amounted to MSEK –33 (103). Net financial items amounted to MSEK –176 (–121) which represents a decline of MSEK 55, of which the increased volume in the debt portfolio accounts for 58% of increased costs and higher interest rates for the remaining 42%.

Operating profit after change in value of forest assets amounted to MSEK 1,065 (980). Change in value of forest assets includes consolidated capital gains from the sale of forest properties of MSEK 199 (188). In addition an IAS 41 adjustment in the value of forest capital amounted to MSEK 380 (58).

### ■ Cash flow, investments and financial position

Cash flow from operating activities amounted to MSEK 315 (265). The improved cash flow is mainly due to a positive change in working capital.

Investments in property, plant and equipment amounted to MSEK 57 (27). These mainly consists of forest machines and forest roads. Investments in shares amounted to MSEK 57 (0). Sales of property plant and equipment, primarily forest properties, amounted to MSEK 629 (386). In the first half of 2008, the interest-bearing net debt decreased by MSEK 83 to MSEK 7,216 MSEK. During the second quarter, long-term loans for a total value of MSEK 500 were issued via the MTN programme (Medium Term Notes) and private placements.

### ■ Personnel

The number of employees at 30 June 2008 was 715 (744).

Salary reviews were carried out for all employee categories. A limited adjustment to the extensive organisational restructuring carried out in 2006 was decided and will be implemented in stages during the summer and early autumn.

### ■ 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 six months of 2008 amounted to MSEK 53 (42). Loss after financial items was MSEK 456 (–262), which includes capital gains from property sales of MSEK 42 (25). 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

MSEK	3 months		6 months		12 months	
	Q2 2008	Q2 2007	Jan-June 2008	Jan-June 2007	July 2007- June 2008	Full year 2007
Net sales	2,164	1,968	4,096	3,748	7,611	7,263
Other operating income	8	7	13	64	59	110
Raw materials and consumables	-933	-819	-1,912	-1,662	-3,506	-3,256
Change in inventories	-112	-71	-117	-53	-72	-8
Other external costs	-728	-645	-1,263	-1,156	-2,532	-2,425
Staff costs	-157	-144	-262	-278	-488	-505
Depreciation according to plan	-19	-16	-36	-32	-70	-66
Share of profits of associates	-33	48	-33	103	112	248
<b>Operating profit before change in value of forest assets</b>	<b>190</b>	<b>328</b>	<b>486</b>	<b>734</b>	<b>1,113</b>	<b>1,361</b>
Change in value of forest assets (Note 1)	284	88	579	246	1,095	762
<b>Operating profit</b>	<b>474</b>	<b>416</b>	<b>1,065</b>	<b>980</b>	<b>2,208</b>	<b>2,123</b>
Financial items	-90	-49	-176	-121	-318	-263
<b>Profit before tax</b>	<b>384</b>	<b>367</b>	<b>889</b>	<b>859</b>	<b>1,890</b>	<b>1,860</b>
Tax	-117	-89	-259	-211	-489	-441
<b>Profit for the period</b>	<b>267</b>	<b>278</b>	<b>630</b>	<b>648</b>	<b>1,401</b>	<b>1,419</b>
<b>Earnings per share, SEK</b>	<b>2.26</b>	<b>2.35</b>	<b>5.32</b>	<b>5.47</b>	<b>11.84</b>	<b>11.99</b>
- based on average number of shares outstanding, million	118.4	118.4	118.4	118.4	118.4	118.4

## Summary balance sheet

MSEK	30 June 2008	30 June 2007	31 Dec 2007
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	9	10	9
Forest land (Note 1)	1,988	2,032	2,015
Other property, plant and equipment	523	510	525
Biological assets – standing forest (Note 1)	26,605	26,679	26,591
Other non-current assets	421	305	447
	<b>29,546</b>	<b>29,536</b>	<b>29,587</b>
<b>Current assets</b>			
Inventories	542	577	668
Current receivables, etc., non-interest bearing	2,465	2,031	2,244
Current interest-bearing receivables	0	0	0
Cash and cash equivalents	481	664	185
	<b>3,488</b>	<b>3,272</b>	<b>3,097</b>
Total assets	<b>33,034</b>	<b>32,808</b>	<b>32,684</b>
<b>EQUITY AND LIABILITIES</b>			
Equity	15,439	16,800	15,586
<i>Non-current liabilities</i>			
Interest-bearing liabilities and provisions	4,291	3,671	3,861
Other liabilities and provisions	8,129	8,125	8,162
	<b>12,420</b>	<b>11,796</b>	<b>12,023</b>
<i>Current liabilities</i>			
Interest-bearing liabilities	3,407	2,704	3,623
Other liabilities	1,768	1,508	1,452
	<b>5,175</b>	<b>4,212</b>	<b>5,075</b>
Total equity and liabilities	<b>33,034</b>	<b>32,808</b>	<b>32,684</b>



## Sveaskog Group

### ■ Summary cash flow statement

MSEK	Jan-June 2008	Jan-June 2007	Full year 2007
Operating profit	1,065	980	2,123
Adjustment for non-cash items, etc.	-600	-402	-1,090
Interest received	52	34	50
Interest paid	-188	-135	-346
Tax paid	-193	-220	-424
<b>Cash flow from operating activities before change in working capital</b>	<b>136</b>	<b>257</b>	<b>313</b>
Change in working capital	179	8	-333
<b>Cash flow from operating activities</b>	<b>315</b>	<b>265</b>	<b>-20</b>
Investments in property, plant and equipment	-57	-27	-87
Investment in shares	-57	-	-3
Sale of property, plant and equipment	629	386	1,063
Change in interest-bearing receivables	-2	150	149
<b>Cash flow from investing activities</b>	<b>513</b>	<b>509</b>	<b>1,122</b>
Dividend paid	-810	-491	-2,480
Change in financial liabilities	278	-245	937
<b>Cash flow from financing activities</b>	<b>-532</b>	<b>-736</b>	<b>-1,543</b>
<b>Cash flow for the period</b>	<b>296</b>	<b>38</b>	<b>-441</b>
<b>Cash and cash equivalents, opening balance</b>	<b>185</b>	<b>626</b>	<b>626</b>
<b>Cash and cash equivalents, closing balance</b>	<b>481</b>	<b>664</b>	<b>185</b>

### ■ Statement of changes in equity

MSEK	Jan-June 2008	Jan-June 2007	Full year 2007
<b>Opening equity, 1 January</b>	<b>15,586</b>	<b>16,620</b>	<b>16,620</b>
Change in hedging reserve, net	34	23	26
Translation differences for the period, etc.	0	0	1
Profit for the period	630	648	1,419
<b>Total income and expenses for the period</b>	<b>664</b>	<b>671</b>	<b>1,446</b>
Cash dividend	-810	-491	-2,480
<b>Closing equity at the end of the period</b>	<b>15,439</b>	<b>16,800</b>	<b>15,586</b>

### ■ Key figures\*

	Jan-June 2008	Jan-June 2007	Full year 2007
Operating margin, %	26	26	29
Return on equity, % 1)	8	8	9
Equity ratio, %	47	51	48
Debt/equity ratio, times	0.47	0.34	0.47
Interest cover, times 1) 3)	2.6	3.9	4.8
Interest-bearing net debt, MSEK	7,216	5,711	7,299
Net earnings per share, SEK 2)	5.32	5.47	11.99
Average number of employees	991	995	1,027
Number of employees	715	744	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	6 months		12 months	
	Jan-June 2008	Jan-June 2007	July 2007- June 2008	Full year 2007
Operating income	53	42	90	78
Operating expenses	0	-1	-1	-1
<b>Operating profit</b>	<b>53</b>	<b>41</b>	<b>89</b>	<b>77</b>
Financial items	-509	-303	-388	-182
<b>Profit/loss after financial items</b>	<b>-456</b>	<b>-262</b>	<b>-299</b>	<b>-105</b>
Appropriations	-	-	-	-
Tax	128	73	225	170
<b>Profit/loss for the period</b>	<b>-328</b>	<b>-189</b>	<b>74</b>	<b>65</b>

### ■ Summary balance sheet

MSEK	30 June 2008	30 June 2007	31 Dec 2007
<b>Non-current assets</b>			
Property, plant and equipment	79	163	85
Financial assets			
Interest-bearing	2,205	2,801	2,506
Non-interest bearing	24,934	24,971	24,934
	<b>27,139</b>	<b>27,772</b>	<b>27,440</b>
	<b>27,218</b>	<b>27,935</b>	<b>27,525</b>
<b>Current assets</b>			
Current receivables, etc., non-interest bearing	1,336	653	1,160
Short-term investments	5,920	3,508	5,425
Cash and bank balances	0	0	0
	<b>7,256</b>	<b>4,161</b>	<b>6,585</b>
<b>Total assets</b>	<b>34,474</b>	<b>32,096</b>	<b>34,110</b>
<b>Equity</b>	<b>7,540</b>	<b>9,976</b>	<b>8,678</b>
<b>Untaxed reserves</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Non-current liabilities and provisions</b>			
Interest-bearing liabilities and provisions	3,498	2,751	3,005
<b>Current liabilities and provisions</b>			
Interest-bearing liabilities and provisions	23,365	19,318	22,385
Other liabilities and provisions	71	51	42
	<b>23,436</b>	<b>19,369</b>	<b>22,427</b>
<b>Total equity and liabilities</b>	<b>34,474</b>	<b>32,096</b>	<b>34,110</b>

### ■ Summary cash flow statement

MSEK	Jan-June 2008	Jan-June 2007	Full year 2007
<b>Cash flow from operating activities</b>	<b>-1,010</b>	<b>-802</b>	<b>-2,776</b>
<b>Cash flow from investing activities</b>	<b>348</b>	<b>1,124</b>	<b>1,523</b>
<b>Cash flow from financing activities</b>	<b>662</b>	<b>-322</b>	<b>1,253</b>
<b>Total cash flow</b>	<b>0</b>	<b>0</b>	<b>0</b>
Cash and cash equivalents, opening balance	0	0	0
Cash and cash equivalents at the end of the period	0	0	0

### ■ Statement of changes in equity

MSEK	Jan-June 2008	Jan-June 2007	Full year 2007
<b>Opening equity, 1 January</b>	<b>8,678</b>	<b>10,656</b>	<b>10,656</b>
Cash dividend	-810	-491	-2,480
Group contribution	-	-	607
Tax effect of group contribution	-	-	-170
Net profit/loss for the period	-328	-189	65
<b>Closing equity at the end of the period</b>	<b>7,540</b>	<b>9,976</b>	<b>8,678</b>

### ■ 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 Group of companies.

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 June 2008 has been calculated at 28,593 (28,711), of which 26,605 (26,679) comprises the fair value of standing forest and 1,988 (2,032) a fixed cost for land. The change in the balance sheet amounts to –118 (–171).

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, 24 July 2008

Sveaskog AB (publ.) (556558-0031)

Göran Persson <i>Chairman</i>	Håkan Ahlqvist	Lars Johan Cederlund
Thomas Hahn	Birgitta Johansson-Hedberg	Eva Färnstrand
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Eva-Lisa Lindvall	Kurt Larsson	Staffan Härdelin
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This report has not been reviewed by the company's auditors.

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### Financial calendar

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Year-end report 2008      29 January 2009

Sveaskog Förvaltnings AB

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