

Year-end report 2008




SVEASKOG

Year-end report 2008

Fourth quarter

- Increasing impact from economic downturn.
- Falling timber prices.
- Low sales volume to sawmills, and pulp and paper industry.
- Reduced demand and lower sales volume within land sales programme.
- Net sales for the quarter amounted to MSEK 1,735 (1,976).
- Operating profit before change in value of forest assets amounted to MSEK 81 (359).
- Operating profit after change in value of forest assets amounted to MSEK 409 (619), including capital gains from the sale of forest properties of MSEK 71 (207).
- Profit for the period amounted to MSEK 634 (432).

Full year

- Effect of weak economic climate.
- Higher average timber prices compared with 2007.
- Lower demand primarily for sawlogs.
- Reduced demand within land sales programme.
- Net sales amounted to MSEK 7,240 (7,263).
- Operating profit before change in value of forest assets amounted to MSEK 634 (1,361).
- Operating profit after change in value of forest assets amounted to MSEK 1,774 (2,123) including capital gains from the sale of forest properties of MSEK 330 (571).
- Net profit amounted to MSEK 1,406 (1,419).

MSEK	Quarter 4		Full year	
	2008	2007	2008	2007
Net sales	1,735	1,976	7,240	7,263
Operating profit before change in value of forest assets	81	359	634	1,361
Change in value of forest assets	328	260	1,140	762
Operating profit	409	619	1,774	2,123
Profit before tax	215	549	1,316	1,860
Net profit	634	432	1,406	1,419
Earnings per share, SEK	5.35	3.65	11.88	11.99

CEO's comments

The relatively strong start to 2008 was overtaken by a weaker end to the year. During the fourth quarter the sales volume fell 11% compared with the same period in the previous year. During 2008 Sveaskog delivered a total of 12.5 million cubic metres of sawlogs, pulpwood and biofuel, which is a decrease of 8.5% compared with 2007. Total sales income could still be maintained at the 2007 level due to higher timber prices.

Sold volumes of sawlogs and pulpwood decreased by 10% during the year. The reduction was due to substantial production restrictions both within the pulp and paper industry and at many sawmills. The economic downturn did not affect biofuel customers. Here the expansion continues and in 2008 Sveaskog increased its sold volume of biofuel by 8% compared with 2007.

Sveaskog's operating profit during the fourth quarter and for the full-year 2008 was less favourable than in 2007 due to both lower deliveries and higher costs. Felling and transport costs rose sharply due to higher fuel prices, although these fell somewhat towards the end of the year. Since demand for sawlogs decreased, the proportion of thinning increased which increased

average logging costs. Earnings were also charged with costs for reprocessing forest damaged by the spruce bark beetle in southern Sweden.

Silvicultural activities are essential for the development of forest values and long-term profitability. During 2008 Sveaskog carried out silvicultural work on 102,300 hectares with measures such as seeding, planting and clearing.

Increased growth in the forest makes a positive climate contribution by increasing sequestration of carbon dioxide and producing more renewable wood raw material. Sveaskog is increasing growth by fertilising, processed seedling material and advanced clearance methods. Sveaskog also conducts research and development into more eco-compliant fertilisers. During 2008 we set aside a 2,000 hectare growth park in Västerbotten, where the aim is to increase growth by 50% through intensive silvicultural activities while studying effects on the forest eco-system at the same time.

Sales from property deals totalled MSEK 1,030, which is marginally lower than the MSEK 1,059 carried out in 2007. The number of deals, within the land sales programme, was largely the same as in 2007, 239 compared with 238. The financial crisis in

the autumn and the tighter credit market had a negative effect on demand and the number of completed deals.

Interest in establishing wind farms on Sveaskog's land remains high. Intensive work is under way to measure and plan suitable wind farm locations together with both major energy companies and smaller local entrepreneurs.

Setting aside forest land for ecoparks is an important part of Sveaskog's environmental policy, intended to strengthen biodiversity. We inaugurated four new ecoparks during 2008. We also launched a large-scale programme for nature conservation management in ecoparks and nature conservation forests. In total this involves activities on 135,000 hectares, which corresponds to approximately one-third of Sveaskog's sub-montane nature conservation area.

Sveaskog's associate company Setra Group AB operates in the wood products industry which is sensitive to economic fluctuations. 2007 was a very good year for most sawmills with higher margins and good earnings. During 2008 this situation changed and profits turned into extensive losses. Any immediate reversal of this trend is difficult to see since the construction industry has probably not yet bottomed out. Setra has been able to compensate for large parts of its loss of volume with production cutbacks and a reduction of stocks has led to a satisfactory cash flow. Sveaskog's share of profits for 2008 is estimated to amount to MSEK –110, but has not yet been confirmed.

During the year Sveaskog's total investments amounted to MSEK 172. Over one-third comprised investment in the associate SunPine AB, which is building Sweden's first commercial biodiesel plant in Piteå, as well as participation in a new issue in the research company SweTree Technologies AB. Over one-third was also invested in acquisition of forest land from the Swedish Forest Agency as well as smaller investments in land and buildings. Investments were also made in new forest machines.

The global financial crisis has affected Sveaskog due to a sharp increase in interest rate margins in the Swedish commercial paper market during the fourth quarter. However, due to its strong balance sheet Sveaskog has been able to act in the market even in these turbulent financial conditions.

■ Market

The global economy has now entered a recession, growth forecasts are being written down continuously and negative growth is predicted throughout the OECD area during 2009. Many analysts expect that the economy will not bottom out until the latter part of 2010 and will then turn upwards during 2011.

Sawmill industry

The wood products industry remains weak. Although there were faint signs during the autumn that the price

falls had started to level out, many analysts expect wood product prices to fall further when construction decreases. Many sawmill companies are restricting their production in order to meet falling incoming orders in home and export markets. Reduced demand means that the sawmills have a substantial build-up of stocks of finished goods which has pushed down prices in the market. Recently, there have been signs that the short-term balance in the wood products market has improved and that buyers' stocks of sawn timber have decreased. There are, however, no signs of an imminent positive turnaround in the market.

No major restructuring has taken place so far in the market but this is expected as companies' profitability declines.

Pulp and paper industry

Production fell in the pulp and paper industry during the past quarter and the business climate is weakening substantially. Pulp producers have rising stocks and pulp prices fell fast during the past quarter. The main reason is falling demand from paper manufacturers when they are forced to reduce their production for market reasons. There are signs that Swedish companies, which benefit from a weak currency, are increasing their market shares in Europe.

In order to manage increasingly low demand, forest industry companies are restricting their capacity. This mainly takes the form of temporary shutdowns, but also includes closures. As a consequence of the prevailing economic situation, structural deals can be expected in the future.

Biofuel market

The expansion of biofuel-based energy production continues. Intensive work is under way in the EU to find ways of securing supplies of raw material to the European energy sector in a sustained and eco-friendly manner. Swedish companies are receiving an increasing number of enquiries from foreign energy companies about their ability to supply biofuel. So far, however, export business is only on a limited scale.

■ Timber market

Northern Europe

The timber market in the Baltic region is characterised over time by shortages of both sawlogs and pulpwood grades, which in 2006–2007 led to rising prices. At present, however, the price trend is falling due to the less favourable economic situation which is leading to extensive production restrictions within both the wood products and the pulp and paper industries. The energy sector is resisting to some extent on the fibre side by establishing a price floor in the market. Expectations of rising raw material prices in the future and the need for companies to position themselves in the timber market mean that any price reductions do not directly reflect the dismal development in the forest industry or sawmill sector.

Sweden

In recent months the market for sawlogs has been affected by the sawmills' production restrictions in response to low demand for sawn timber and low prices for finished goods. As a result of this, the flow of cellulose chips to the pulp and paper industry has been weak. In southern Sweden sawlog stocks are being reduced after the storms which will affect sawlog prices. Sawmills are trying to keep their sawlog stocks low at the same time as they continue to conduct active marketing towards timber suppliers in order to safeguard their positions in the local timber market. The price trend for sawlogs is currently falling. The pulp and paper industry has fended off the weak flow of cellulose chips with stocks built up earlier and increased consumption of pulpwood. Price increases implemented earlier in order to keep pulpwood flows going are now being replaced by price reductions since all fibre-consuming industries are now well supplied.

Domestic demand for biofuel remains high and prices are approaching the pulpwood level. The reduced flow of by-products from the sawmill industry is having an increasing impact and biofuel suppliers which base a large part of their energy deliveries on by-products are starting to have difficulty in meeting contractual volumes. This favours Sveaskog which has forest fuel as the base of its deliveries which results in enquiries about volumes and increased prices.

Other units within the Group

Sveaskog Naturupplevelser's earnings for 2008 were somewhat better than in the previous year despite lower sales. The improved earnings are mainly explained by a more efficient organisation with lower costs and partly by a stronger salmon fishing season at Mörrum. During the year the company signed agreements with 30 new tourism companies which conduct operations on Sveaskog's land.

Svenska Skogsplantor's earnings were unchanged compared with the previous year. Demand for seedlings is good with rising prices. During the autumn a decision was made to streamline the offering of silvicultural services which resulted in a reduction in the permanent workforce. During the year approximately 200,000 seedlings treated with Conniflex were delivered and planted. Conniflex is the mechanical pine weevil protection system developed and patented by Svenska Skogsplantor in partnership with Sveaskog.

The associate company **Setra Group AB** reports a considerably less favourable result due to the weak business climate in the wood products market. Sveaskog's share of profits for 2008 is estimated to amount to MSEK -110 (248), but has not yet been confirmed. The planned broadening of ownership in the company has been made difficult by the weak economic situation and the resultant lack of venture capital.

Sales, earnings and profitability

Fourth quarter

During the quarter the Sveaskog Group's net sales decreased by 12% compared with the same period in 2007. This was mainly due to an 11% reduction in sales volume compared with the same period in the previous year.

Operating profit before change in value of forest assets decreased substantially and amounted to MSEK 81 (359). The decline in earnings was due to lower deliveries and prices, a write-down of the value of felling rights and a considerable deterioration in share of profit in the associate Setra Group.

Sveaskog's share of profits in Setra Group is estimated to amount to MSEK -36 (93).

After change in value of forest assets operating profit amounted to MSEK 409 (619), including capital gains from the sale of forest properties of MSEK 71 (207).

Net financial items at MSEK -194 (-70) were impaired because of increased interest expenses and costs for historical pensions. The provision made in accordance with recommendations from the Swedish Financial Supervisory Authority is attributable to increased average longevity. The company's positive tax effect for the period, MSEK 419 (-117), mainly stems from reduced corporation tax, from 28% to 26.3%, linked to a deferred tax liability.

Profit for the period amounted to MSEK 634 (432).

Full year

The Sveaskog Group's net sales were in principle unchanged compared with the previous year and amounted to MSEK 7,240 (7,263). Total roundwood deliveries were approximately 10% lower than in the previous year. This was compensated by increased timber prices.

Operating profit before change in value of forest assets was MSEK 634 (1,361). The change was mainly due to the substantially lower share of profit in Setra Group, a lower sales volume as well as lower capital gains from the sale of land for development. The high price of oil during the year also led to increased costs for transport, felling and silviculture.

Sveaskog's share of profits for 2008 is estimated to amount to MSEK -110 (248), but has not yet been confirmed.

Operating profit after change in value of forest assets amounted to MSEK 1,774 (2,123). Change in value of forest assets includes consolidated capital gains from the sale of forest properties of MSEK 330 (571). In addition there is an adjustment in the value of forest capital in accordance with IAS 41 of MSEK 810 (191). The capital gains calculation was changed with effect from 1 January 2008. On that date, Sveaskog switched to a value-based calculation method for calculating capital gains instead of the previous area-based method since this provides a more accu-

rate picture of the gains incurred. The value adjustment of forest capital according to IAS 41 is explained by the fact that the company's felling calculations were updated during the year and by a lower felling volume than in the previous year.

Net financial items amounted to MSEK –458 (–263), which is an impairment of MSEK 195. MSEK 94 of this increase is due to a provision for historical pensions. The remaining cost increase was due to the increase in volume of the lending portfolio and a higher interest rate level.

■ Cash flow, investments and financial position

Cash flow from operating activities amounted to MSEK 201 (–20). The improved cash flow was mainly due to a positive change in working capital.

Investments in non-current assets amounted to MSEK 113 (87). These mainly comprised forest machines and forest roads. Investments in shares comprised MSEK 58 (3). Sales of non-current assets, primarily forest properties, amounted to MSEK 1,026 (1,063). Interest-bearing net debt decreased by MSEK 263 to MSEK 7,036.

■ Personnel

At 31 December 2008 the number of employees was (726) and the average number of employees was 1,018 (1,027).

During the year co-operation was initiated with the Swedish Forest and Wood Trade Union regarding personnel issues as well as advanced follow-up of how contractors meet their commitments.

■ 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 2008 amounted to MSEK 72 (78). Profit after financial items was MSEK 4,376 (–105), which includes capital gains from property sales of MSEK 57 (50). The variance in earnings comprises an extra dividend from Sveaskog Förvaltnings AB to the Parent Company. 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) MSEK	3 months		12 months	
	Q4 2008	Q4 2007	Full year 2008	Full year 2007
Net sales	1,735	1,976	7,240	7,263
Other operating income	4	40	21	110
Raw materials and consumables	–753	–939	–3,259	–3,256
Change in inventories	67	30	–28	–8
Other external costs	–799	–711	–2,658	–2,425
Staff costs	–119	–112	–500	–505
Depreciation according to plan	–18	–18	–72	–66
Share of profits of associates	–36	93	–110	248
Operating profit before change in value of forest assets	81	359	634	1,361
Change in value of forest assets (Note 1)	328	260	1,140	762
Operating profit	409	619	1,774	2,123
Financial items	–194	–70	–458	–263
Profit before tax	215	549	1,316	1,860
Tax	419*	–117	90	–441
Net profit	634	432	1,406	1,419
Earnings/share, SEK	5.35	3.65	11.88	11.99
– based on average number of shares, million	118.4	118.4	118.4	118.4

* The tax effect is attributable to reduced corporation tax linked to deferred tax liability.

Sveaskog Group

Summary balance sheet

MSEK	31 Dec 2008	31 Dec 2007
ASSETS		
Non-current assets		
Intangible assets	9	9
Forest land (Note 1)	1,990	2,015
Other property, plant and equipment	515	525
Biological assets – standing forest (Note 1)	26,803	26,591
Other non-current assets	386	447
	29,703	29,587
Current assets		
Inventories	639	668
Advances to suppliers	387	338
Current receivables, etc., non-interest bearing	1,786	1,906
Current interest-bearing receivables	2	0
Cash and cash equivalents	739	185
	3,553	3,097
TOTAL ASSETS	33,256	32,684
EQUITY AND LIABILITIES		
Equity	16,087	15,586
Non-current liabilities		
Interest-bearing liabilities and provisions	4,440	3,860
Other liabilities and provisions	7,953	8,163
	12,393	12,023
Current liabilities		
Interest-bearing liabilities	3,340	3,623
Other liabilities	1,436	1,452
	4,776	5,075
TOTAL EQUITY AND LIABILITIES	33,256	32,684

Summary cash flow statement

MSEK	Full year 2008	Full year 2007
Operating profit	1,774	2,123
Adjustment for non-cash items, etc.	-930	-1,090
Interest received	64	50
Interest paid	-508	-346
Tax paid	-288	-424
Cash flow from operating activities before change in working capital	112	313
Change in working capital	89	-333
Cash flow from operating activities	201	-20
Investments in property, plant and equipment	-113	-87
Investments in shares	-58	-3
Sale of property, plant and equipment	1,026	1,063
Change in interest-bearing receivables	-2	149
Cash flow from investing activities	853	1,122
Dividend paid	-810	-2,480
Change in financial liabilities	310	937
Cash flow from financing activities	-500	-1,543
Cash flow for the period	554	-441
Cash and cash equivalents, opening balance	185	626
Cash and cash equivalents, closing balance	739	185

Summary statement of changes in equity

MSEK	Full year 2008	Full year 2007
Opening equity, 1 January	15,586	16,620
Change in hedging reserve, net	-97	26
Translation difference for the period, etc.	2	1
Profit for the period	1,406	1,419
Total income and expenses for the period	1,311	1,446
Cash dividend	-810	-2,480
Closing equity at the end of the period	16,087	15,586

Sveaskog Group

Key figures*

	Full year 2008	Full year 2007
Operating margin, %	25	29
Return on equity, % 1)	9	9
Equity ratio, %	48	48
Debt/equity ratio, times	0.44	0.47
Interest cover, times 1) 3)	1.4	4.8
Interest-bearing net debt, MSEK	7,036	7,299
Net earnings per share, SEK 2)	11.88	11.99
Average number of employees	1,018	1,027
Number of employees	741	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

	12 months	
MSEK	Full year 2008	Full year 2007
Operating income	72	78
Operating expenses	0	-1
Operating profit	72	77
Financial items	4,304	-182
Profit/loss after financial items	4,376	-105
Appropriations	-	-
Tax	270	170
Net profit	4,646	65

Summary balance sheet

MSEK	31 Dec 2008	31 Dec 2007
ASSETS		
Non-current assets		
Property, plant and equipment	69	85
Financial assets		
Interest-bearing	3,082	2,506
Non-interest bearing	24,934	24,934
	28,016	27,440
	28,085	27,525
Current assets		
Current receivables, etc., non-interest bearing	1,016	1,160
Short-term investments	5,685	5,425
Cash and bank balances	0	0
	6,701	6,585
TOTAL ASSETS	34,786	34,110
Equity	13,207	8,678
Untaxed reserves	0	0
Non-current liabilities and provisions		
Interest-bearing liabilities and provisions	3,599	3,005
Current liabilities and provisions		
Interest-bearing liabilities and provisions	17,918	22,385
Other liabilities and provisions	62	42
	17,980	22,427
TOTAL EQUITY AND LIABILITIES	34,786	34,110

■ 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 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 31 December 2008 has been calculated at 28,793 (28,606), of which 26,803 (26,591) comprises the fair value of standing forest and 1,990 (2,015) a fixed cost for land. The change in the balance sheet amounts to 187 (-181).

The Board of Directors and the CEO hereby confirm that this year-end 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, 29 January 2009
Sveaskog AB (publ.) (556558-0031)

Göran Persson <i>Chairman</i>	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	Gunnar Olofsson <i>President and CEO</i>

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–March 2009	23 April 2009
Interim report January–June 2009	23 July 2009
Interim report January–September 2009	20 October 2009

Sveaskog Förvaltnings AB

GROUP OFFICE

Sveaskog Förvaltnings AB Stockholm

Torggatan 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