

Interim report January – June 2010



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Second quarter

- Net sales rose to SEK 1,970 million (1,679), as a result of both increased volumes and higher prices.
- Operating profit from continuing operations improved to SEK 471 million (194).
- Share of profits of the associate company Setra Group amounted to SEK 40 million (–35).
- Change in value of forest assets amounted to SEK 55 million (253).
- Profit for the period amounted to SEK 436 million (355).

Six-month period January–June

- Net sales rose to SEK 3,647 million (3,169).
- Operating profit from continuing operations almost doubled to SEK 798 million (406).
- Share of profits of the associate company Setra Group amounted to SEK 40 million (–132).
- Change in value of forest assets amounted to SEK 100 million (473).
- Profit for the period amounted to SEK 731 million (588).

SEKm	Quarter 2		January–June	
	2010	2009	2010	2009
Net sales	1,970	1,679	3,647	3,169
Operating profit from continuing operations	471	194	798	406
Operating profit	645	558	1,093	992
Profit before tax	578	495	978	846
Profit for the period	436	355	731	588
Earnings per share	3.68	3.00	6.18	4.97

CEO's comments

The positive earnings trend towards the end of 2009 continued during the first half of 2010. Operating profit from continuing operations for the first half of 2010 amounted to SEK 798 million (406). Operating profit from continuing operations has thus almost doubled compared with the same period in the previous year. The main reasons for the improvement in earnings are increased net sales generated by higher volumes and, above all, higher average prices.

Costs increased proportionally in relation to the higher business volume. The cost-cutting programme initiated in 2009 contributed to lower staff costs and improved efficiency.

Demand was good and we were able to increase both sales volumes and prices for our products.

During the first half of the year Sveaskog delivered over six million cubic metres (m³sub) of wood raw material which is an increase of 8% compared with the same period in the previous year. As in the previous year, approximately half of deliveries came from the company's own forests. Sales of sawlogs and pulpwood increased in volume by a total of over 6% and biofuel by 15%. The increase in biofuel deliveries was mainly due to higher demand from CHP plants.

The associate company Setra Group has a very positive earnings trend compared with the previous year. The improved result is mainly due to a stronger market for wood products. Internal efficiency improvements and cost savings also made a positive contribution. Profit from Sveaskog's holding in the associate company Setra Group therefore improved substantially. Setra's improved

earnings and the positive market scenario provide good conditions for a sale, which is the strategy for Sveaskog and the company's other two principal owners.

During the first half of the year Sveaskog sold approximately 19,800 hectares of forest land, primarily within the assignment from the owner to strengthen private forestry. The area was about the same as last year but a higher proportion of land deals took place in northern Sweden where hectare prices are lower, which explains the lower capital gains with SEK 90 million.

Overall profit for the first half of 2010 amounted to SEK 731 million (588).

SunPine's biodiesel facility in Piteå was inaugurated in May. The facility is the world's first commercial-scale plant for the production of diesel based on tall oil. SunPine AB is owned by Sveaskog, Preem, Södra and the entrepreneurial company Kiram.

In June 2010 the Swedish parliament decided on a clarified assignment for Sveaskog, whose operations will continue to be based on commercial terms and generate a market rate of return. Sveaskog's core business is forestry and we drive the development of business, new methods and modern technology which help to raise the value of the forest and the company's returns.

At market prices, Sveaskog is to sell 10% of the land held by the company at its formation in 2002 in order to allow reallocation and strengthen private forestry, particularly in sparsely populated areas. Furthermore, Sveaskog will transfer forest properties corresponding to a maximum of 100,000 hectares to the state. These will be used by the state as replacement land when land with high natural values is acquired from other forest owners.

■ Market

The global economic recovery continues. Economic development in Sweden is positive and GDP is expected to rise faster than the average in the EU over the next few years. The Swedish industrial structure with a significant export volume favours growth when global trade is expanding. In the short term a weaker exchange rate against the US dollar also increases industrial competitiveness.

On the other hand, exports to other European countries are impeded when growth weakens in the eurozone and the Swedish krona gains in strength against the euro.

Sawmill industry

The business climate in the sawmill industry is assessed as having stabilised slightly above the average level for the last five-year period. Fewer sawmills than before believe in rising production, growing demand and higher prices in future.

Despite the recession the wood products market has been relatively good. Supplies have been low due to limited raw material deliveries from Germany and Finland and the after-effects of the cold winter which have restricted production. At the same time demand from sawmill customers is rising. The sawmills have therefore succeeded in retaining or raising their prices to some extent in recent months. Financial anxiety in Europe, however, appears to have had a dampening effect.

The most recent forecasts from Euroconstruct regarding construction in Europe indicate declining construction activity during 2010. One key reason for this is that many infrastructure products are being postponed when several countries are forced to make cutbacks in order to balance their economies. At the same time, forecasts for housing starts have been revised upwards compared with six months ago and the repairs and extensions sector continues to do well.

The uncertainty in the European wood products market is compensated by continued positive market growth in the Middle East and North Africa. Over time increased demand for wood products is also expected in the US and Asia.

Pulp and paper industry

Business development in the pulp and paper industry is good.

As previously, the pulp industry accounts for the most positive development with rising order bookings and higher prices. Many companies have very low stocks of finished products. Production, which was previously expected to increase in future, is now relatively stable with full capacity utilisation at most industries.

The paper industry sees on the whole a weak rise in production and good incoming orders. The order backlog is assessed as balanced to good and hopes for future price development have brightened during the past month. Forecasts differ between different paper grades with graphic papers developing less well while writing-paper, packaging paper and board are performing better.

Energy sector/biofuel market

Energy prices are showing a long-term rising trend. Recently, however, oil prices have fallen back to some extent. This is explained by the sharp fall in the exchange rate for the euro against the US dollar in May–June as a result of the more uneasy situation in the European financial markets. Variable electricity rates on the Nordic spot market have fallen back to normal levels after the price peaks in the winter. There are many indications that the short-term trend is towards lower energy prices since demand remains relatively weak while capacity utilisation in production is rising and coal and oil prices are balanced.

■ Timber market

Northern Europe

The timber market in the Baltic region is returning to normal as the business climate strengthens. As a result, imports to Sweden and Finland from the Baltic countries are rising. The greatest demand is for birch pulpwood and prices rose sharply during the first half of the year. Demand for softwood pulpwood is also rising as pulp and paper mills in Sweden and Finland increase their production.

Russia had previously announced an increase of export duties for roundwood. This increase is expected to be postponed indefinitely.

Sweden

There is high pressure in the Swedish timber market following substantial price increases in the spring. Primarily prices for sawlog grades in southern Sweden have been raised. Sawmills are also positioning themselves ahead of increased competition for raw material when the forest companies Södra and Holmen put new sawmills into operation next year. Rising timber flows from central Sweden to southern Sweden have also forced price increases in the Bergslagen area and further north forest owners are now waiting for rising prices.

The timber market is largely balanced. Most sawmills are well supplied with raw material. Demand in the timber market for pulpwood is good. High forest industry production throughout Sweden is driving competition for timber in the market which is being handled by raising pulpwood prices in stages. Despite a positive market development, many forest owners have a wait-and-see attitude.

The biofuel market is balanced which will reduce price increases ahead of the coming heating season. Customers are better informed about regional price differences and the developed long-distance logistics contribute to previous regional raw material deficits, in the Mälars Valley for example, now tending to be less price-driving. Imports and exports of biofuel take place but do not have any major impact on the market. Development in Götaland is stronger than in the rest of the country since the expansion of demand is relatively stronger.

■ Sales, earnings and profitability

Second quarter

During the quarter net sales increased by 17% compared with the same in 2009 and amounted to SEK 1,970 million (1,679). The change is explained by both increased delivery volumes and higher prices. Selling prices rose by an average of 15%.

Operating profit from continuing operations improved substantially and amounted to SEK 471 million (194) due to higher prices and delivery volumes.

Capital gains from property sales, primarily sales to private forestry, amounted to SEK 79 million (146).

Share of profits of Setra Group amounted to SEK 40 million (–35).

Operating profit before change in value of forest assets improved and amounted to SEK 590 million (305).

Change in value of forest assets amounted to SEK 55 million (253). The lower increase is due to higher timber removals from own forests as well and price and discount effects.

After change in value of forest assets, operating profit amounted to SEK 645 million (558).

Net financial items amounted to SEK –67 million (–63). The higher cost compared with the second quarter of last year is explained by higher interest expenses for pensions.

Profit for the period was 23% higher than in the same period last year and amounted to SEK 436 million (355).

January–June

Net sales increased to SEK 3,647 million (3,169), which corresponds to an increase of 15%. Average timber prices increased by 13% and volumes by 8%.

Operating profit from continuing operations improved substantially and amounted to SEK 798 million (406). The improved result is mainly explained by higher prices and delivery volumes.

Capital gains from property sales, primarily sales to private forestry, amounted to SEK 155 million (245).

Share of profits of Setra Group amounted to SEK 40 million (–132).

Operating profit before change in value of forest assets improved and amounted to SEK 993 million (519).

Change in value of forest assets amounted to SEK 100 million (473). The reasons for the lower increase are the same as during the second quarter.

After change in value of forest assets, operating profit amounted to SEK 1,093 million (992).

Net financial items amounted to SEK –115 million (–146). The change is mainly due to a lower interest rate level and lower average loan portfolio.

Profit for the period was 24% higher than in the same period last year and amounted to SEK 731 million (588).

■ Cash flow, investments and financial position

Cash flow from operating activities amounted to SEK 395 million (390).

Investments in property, plant and equipment amounted to SEK 132 million (124). These mainly comprised forest land, machines and vehicles. Investments in shares totalled SEK 29 million (252).

Sales of property, plant and equipment, mainly forest properties, amounted to SEK 441 million (537).

Interest-bearing net debt decreased during the first half of the year by SEK 211 million to SEK 5,820 million.

■ Personnel

The number of employees at 30 June 2010 was 729 (724). The average number of employees which included seasonal employees totalled 928 (957). Staff costs decreased by SEK 35 million. This is partly an effect of the cost-cutting programme initiated in 2009 and partly due to lower pension costs and lower provisions for restructuring.

■ Other units within the Group

Sveaskog Naturupplevelser AB increased its sales by 11% to SEK 69 million (62).

The increased sales mainly relate to higher hunting leases where Sveaskog continues to work to adjust prices which have in principle remained unchanged for ten years to market levels, as well as leases of land and fishing waters to eco-tourism companies.

Svenska Skogsplantor AB had largely unchanged sales which amounted to SEK 236 million (238). During the spring, Svenska Skogsplantor and Sveaskog launched Conniflex, which is a new, effective and environmentally friendly mechanical plant protection against the pine weevil. The protection, which consists of a coating of glue and sand, will replace that chemical pesticides which are currently used on pine and spruce seedlings. Expansion of treatment capacity and volumes is under way.

The associate company **Setra Group AB** reports considerably better earnings due to the improved business climate in the wood products market as well as internal efficiency improvements and cost savings. Sveaskog's share of the company's profits amounted to SEK 40 million compared with SEK –132 million in the first half of the previous 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 operating income for the first half of 2010 amounted to SEK 7 million (16). Loss after financial items amounted to SEK 173 million (–278), of which capital gains on property sales accounted for SEK 1 million (11). 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

SEKm	3 months		6 months		12 months	
	Q 2 2010	Q 2 2009	Jan–June 2010	Jan–June 2009	July 2009– June 2010	Full year 2009
Net sales	1,970	1,679	3,647	3,169	6,512	6,034
Other operating income	6	2	9	5	20	16
Raw materials and consumables	-598	-558	-1,271	-1,262	-2,276	-2,267
Change in inventories	-67	-132	-75	-97	55	33
Other external costs	-695	-610	-1,211	-1,080	-2,406	-2,275
Staff costs	-122	-168	-256	-291	-505	-540
Depreciation according to plan	-23	-19	-45	-38	-84	-77
Operating profit from continuing operations	471	194	798	406	1,316	924
Capital gains from property sales	79	146	155	245	317	407
Share of profits of associates	40	-35	40	-132	33	-139
Operating profit before change in value of forest assets	590	305	993	519	1,666	1,192
Change in value of forest assets (Note 1)	55	253	100	473	1,350	1,723
Operating profit	645	558	1,093	992	3,016	2,915
Financial items	-67	-63	-115	-146	-240	-271
Profit before tax	578	495	978	846	2,776	2,644
Tax	-142	-140	-247	-258	-709	-720
Profit for the period/year	436	355	731	588	2,067	1,924
Earnings per share, SEK	3.68	3.00	6.18	4.97	17.46	16.25
- calculated on average number of shares, million	118.4	118.4	118.4	118.4	118.4	118.4

Statement of comprehensive income

SEKm	3 months		6 months		12 months	
	Q 2 2010	Q 2 2009	Jan–June 2010	Jan–June 2009	July 2009– June 2010	Full year 2009
Profit for the period/year	436	355	731	588	2,067	1,924
Other comprehensive income						
Exchange differences	0	0	-1	0	-2	-1
Cash flow hedges	14	30	22	2	38	18
Tax attributable to cash flow hedges	-4	-8	-6	-1	-10	-5
Total other comprehensive income for the period/year, net after tax	10	22	15	1	26	12
Total comprehensive income for the period/year	446	377	746	589	2,093	1,936

Summary balance sheet

SEKm	30 June 2010	30 June 2009	31 Dec 2009
ASSETS			
Non-current assets			
Intangible assets	8	9	9
Forest land (Note 1)	2,012	2,028	2,013
Other property, plant and equipment	563	523	556
Biological assets – standing forest (Note 1)	27,931	27,028	28,028
Other non-current assets	520	470	457
	31,034	30,058	31,063
Current assets			
Inventories	514	512	596
Current receivables, etc., non-interest bearing	2,492	2,225	2,064
Current interest-bearing receivables	0	3	0
Cash and cash equivalents	651	218	506
	3,657	2,958	3,166
TOTAL ASSETS	34,691	33,016	34,229
EQUITY AND LIABILITIES			
Equity	18,157	16,551	17,898
Non-current liabilities			
Interest-bearing liabilities and provisions	3,958	4,686	3,972
Other liabilities and provisions	8,165	7,982	8,221
	12,123	12,668	12,193
Current liabilities			
Interest-bearing liabilities	2,513	2,088	2,566
Other liabilities	1,898	1,709	1,572
	4,411	3,797	4,138
TOTAL EQUITY AND LIABILITIES	34,691	33,016	34,229

Sveaskog Group

■ Summary cash flow statement

SEKm	Jan–June 2010	Jan–June 2009	Full year 2009
Operating profit	1,093	992	2,915
Adjustment for non-cash items, etc.	-285	-563	-2,048
Interest received	6	12	12
Interest paid	-121	-158	-283
Paid tax	-110	-29	-94
Cash flow from operating activities before change in working capital	583	254	502
Change in working capital	-188	136	32
Cash flow from operating activities	395	390	534
Investments in property, plant and equipment	-132	-124	-203
Investments in shares	-29	-252	-255
Sales of property, plant and equipment	441	537	980
Change in interest-bearing receivables	0	-1	0
Cash flow from investing activities	280	160	522
Dividend paid	-487	-89	-89
Change in financial liabilities	-43	-982	-1,200
Cash flow from investing activities	-530	-1,071	-1,289
Cash flow for the period/year	145	-521	-233
Cash and cash equivalents, opening balance	506	739	739
Cash and cash equivalents, closing balance	651	218	506

■ Summary statement of changes in equity

SEKm	Jan–June 2010	Jan–June 2009	Full year 2009
Opening equity, 1 January	17,898	16,051	16,051
Total comprehensive income for the period/year	746	589	1,936
Dividend paid in accordance with AGM decision	-487	-89	-89
Total income and expenses for the period	259	500	1,847
Closing equity at the end of the period/year	18,157	16,551	17,898

■ Key figures*

	Jan–June 2010	Jan–June 2009	Full year 2009
Operating margin, %	30	31	48
Return on equity, % 1)	11.9	8.3	11.3
Equity ratio, %	52	50	52
Debt/equity ratio, multiple	0.32	0.40	0.34
Interest cover, multiple 1) 3)	5.5	0.9	2.8
Interest-bearing net debt, SEKm	5,820	6,552	6,031
Earnings per share, SEK 2)	6.18	4.97	16.25
Average number of employees	928	957	958
Number of employees	729	724	721

* Definitions, see 2009 Annual Report 2009.

1) Rolling 12 months.

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

3) Operating profit before change in value of forest assets adjusted by capital gains on property sales plus financial income divided by financial expenses.

Parent Company

Summary income statement

SEKm	6 months		12 months	
	Jan–June 2010	Jan–June 2009	July 2009– June 2010	Full year 2009
Operating income	7	16	35	44
Operating expenses	0	0	-1	-1
Operating profit	7	16	34	43
Financial items	-180	-294	-388	-502
Profit/loss after financial items	-173	-278	-354	-459
Tax	45	73	93	121
Profit/loss for the period/year	-128	-205	-261	-338

Summary balance sheet

SEKm	30 June 2010	30 June 2009	31 Dec 2009
ASSETS			
Non-current assets			
Property, plant and equipment	64	67	65
Financial assets			
Interest-bearing	2,370	2,920	2,520
Non-interest bearing	24,934	24,934	24,934
	27,304	27,854	27,454
	27,368	27,921	27,519
Current assets			
Current receivables, etc., non-interest bearing	512	108	494
Short-term investments	4,681	4,837	4,767
Cash and bank balances	0	0	0
	5,193	4,945	5,261
TOTAL ASSETS	32,561	32,866	32,780
Equity	12,505	12,913	13,120
Non-current liabilities and provisions			
Interest-bearing liabilities and provisions	3,169	3,869	3,169
Current liabilities and provisions			
Interest-bearing liabilities and provisions	16,845	16,039	16,455
Other liabilities and provisions	42	45	36
	16,887	16,084	16,491
TOTAL EQUITY AND LIABILITIES	32,561	32,866	32,780

Summary statement of changes in equity

SEKm	Jan–June 2010	Jan–June 2009	Full year 2009
Cash flow from operating activities	-55	1,522	420
Cash flow from investing activities	151	175	598
Cash flow from financing activities	-96	-1,697	-1,018
Total cash flow	0	0	0
Cash and cash equivalents, opening balance	0	0	0
Cash and cash equivalents, closing balance	0	0	0

Summary statement of changes in equity

SEKm	Jan–June 2010	Jan–June 2009	Full year 2009
Opening equity, 1 January	13,120	13,207	13,207
Cash dividend	-487	-89	-89
Group contribution	-	-	461
Tax effect of group contribution	-	-	-121
Other	-	-	-
Profit/loss for the period/year	-128	-205	-338
Closing equity at the end of the period/year	12,505	12,913	13,120

■ Accounting principles

The interim report for the Group is prepared in accordance with IAS 34 Interim Financial Reporting, the Swedish Annual Accounts Act and the Securities Market Act. For the Parent Company the interim report is prepared in accordance with the Annual Accounts Act and the Securities Market Act, which are in accordance with the regulations in RFR 2.3 Accounting for Legal Entities. The accounting principles for the Parent Company and the Group applied in this report are unchanged compared with the most recently published annual report except that with effect from 1 January 2010 the Group applies IAS 27 (revised) Consolidated and Separate Financial Statements as well as IFRS 3 (revised) Business

Combination. These standards are not assessed as having any material effect on the Group's financial statements.

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

The market-related value of Sveaskog's forest assets at 30 June 2010 has been calculated at 29,943 (28,056), of which 27,931 (27,028) comprises the fair value of standing forest and 2,012 (2,028) an identified cost for land. The change in the balance sheet amounts to 887 (463).

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 described material risks and uncertainties facing the Parent Company and other companies in the Group.

Stockholm, 22 July 2010
Sveaskog AB (publ.) (556558-0031)

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

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Financial calendar

Interim report January–September 2010

26 October 2010

Year-end report 2010

27 January 2010

Interim report January–March 2011 and AGM

28 April 2011

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