



**Interim report
January – June 2009**

Interim report

January – June 2009

Second quarter

- Stabilised prices for wood raw material.
- Increased demand for and deliveries of sawlogs.
- Continued low sales volume to the pulp and paper industry.
- Net sales amounted to SEK 1,679 million (2,164).
- Operating profit, excluding share of earnings of Setra Group, amounted to SEK 194 million (223).
- Share of earnings of Setra Group amounted to SEK –35 million (–33).
- Operating profit after change in value of forest assets amounted to SEK 558 million (474), including capital gains from the sale of forest properties of SEK 146 million (114).
- Profit for the period amounted to SEK 355 million (267).

Six-month period January–June

- Low sales volume and falling prices for sawlogs and pulpwood.
- Good demand for biofuel with increased deliveries.
- Operating profit, excluding share of earnings of Setra Group, amounted to SEK 406 million (519).
- Share of earnings of Setra Group amounted to SEK –132 million (–33).
- Operating profit after change in value of forest assets amounted to SEK 992 million (1,065), including capital gains from the sale of forest properties of SEK 245 million (199).
- Profit for the period amounted to SEK 588 million (630).

SEKm	Quarter 2		January–June	
	2009	2008	2009	2008
Net sales	1,679	2,164	3,169	4,096
Operating profit before change in value of forest assets	159	190	274	486
Change in value of forest assets	399	284	718	579
Operating profit	558	474	992	1,065
Profit before tax	495	384	846	889
Profit for the period	355	267	588	630
Net earnings per share, SEK	3.00	2.26	4.97	5.32

CEO's comments

Profit for the second quarter amounted to SEK 355 million, which is 33% higher than in the previous year. The improvement is explained by a sales increase of sawlog and a larger portion of timber from Sveaskog's own forests. The six-month result remained affected by the weak market with low production and falling prices. Profit for the period January–June reached SEK 588 million compared with SEK 630 million in the first half of 2008.

Demand in the market stabilised during the second quarter with clear increases within specific segments. In the sawmill industry the earlier negative view of the wood products market turned markedly positive. The pulp industry increased production volumes in response to higher order bookings and prices showed signs of rising, particularly in export markets.

During the first half of 2009 Sveaskog delivered a total of 5.6 million m³sub of sawlogs and pulpwood, which is 19% less than in the same period in 2008. Average prices were 3% lower than in the previous year.

Biofuel deliveries for the 2008/2009 season have largely been completed and Sveaskog can conclude a very strong season with total deliveries in excess of 2 TWh. Energy deliveries during the first half of the year

amounted to 722,000 m³sub, an increase of 45% compared with the same period last year. During the first half of the year we also signed strategic agreements with several biofuel customers, which will ensure a continued favourable development of the biofuel business.

The forecast for the rest of the year indicates a continued low sales volume compared with previous periods. Against the background of the weak economic climate, the company decided on an action programme designed to reduce costs and increase efficiency. As a consequence some 40 employees have left or will leave the company. A review of the number of offices and other costs is also being carried out. These savings will gradually have an effect starting in the third quarter.

During the second quarter Sveaskog completed some 40 property sales comprising over 10,700 hectares, primarily within the programme designed to strengthen private forestry. The number of sales in the first half of the year totalled 144 comprising 19,500 hectares. Sales from property transactions in the first half totalled SEK 543 million, which is SEK 88 million lower than in the same period in 2008. Demand was comparatively good but the situation in the credit market affected the number of completed transactions.

During the second quarter Sveaskog acquired a

1,200 hectare forest property south of Eskilstuna from Sörmland County Council. This acquisition accounted for a major portion of investments in property, plant and equipment during the quarter, which also included forest machines and ongoing building of new forest roads.

During the quarter Sveaskog decided to set up a growth research park in Asa, Småland, where in co-operation with the Swedish University of Agricultural Sciences (SLU) we will study the feasibility of increasing growth of wood raw material by 50% within the framework for sustainable forestry. We also decided on field trials in Norrbotten into trading with the forest's carbon dioxide sequestration. Our expectation is that this trading can provide incentives to increase the climate benefit of the boreal forest.

Inauguration of the Ledfat and Skatan ecoparks during the spring means that Sveaskog has now established 25 of 36 planned ecoparks. As part of sustainable forestry we continue to invest in active care of the significant nature conservation areas we set aside on Sveaskog's land.

In common with several other sawmill groups in Europe, the associate company Setra Group AB has shown negative development for some time. Substantial operating losses and major restructuring costs have worsened the company's financial position. During the second quarter a new issue of approximately SEK 495 million was carried out and the company now has a stable financial base. In addition, a new Board of Directors was elected and a new CEO appointed. The operating loss for the first half of the year was SEK 340 million, compared with SEK 77 million in the previous year. The second quarter saw a relative improvement with a loss of SEK 71 million (–82).

■ Market

There are indications that the fall in growth slowed during the second quarter. There remains considerable uncertainty, however, about future development.

Sawmill industry

The business climate for the sawmill industry has seen a turnaround during the last quarter. The earlier gloomy view of the business climate for the wood products market is now less negative. Supplies of wood products in the European market from the major producer countries have decreased fast during 2009. This, combined with generally low stocks at sawmill customers, led to a supply-driven price upturn and a substantially increased wood products trade since March–April. The previously high stocks of finished goods have now returned to normal levels.

Production in Sweden remains at a relatively low level. It was 16% lower during the period January–May compared with the same period last year. Swedish companies are still benefiting from the weak krona and production at Swedish sawmills is rising at present.

Some analysts believe that the positive market

development during the second quarter is temporary and that a downturn will occur during the fourth quarter of 2009.

Pulp and paper industry

The pulp industry saw a weak increase in production during the most recent quarter. Order bookings are rising, mainly in the export market. Production volume is expected to increase in future and further increases in pulp prices are expected. The falling trend for pulp prices has reversed with rising prices in the past two months.

The business climate for the pulp industry is still better than for the paper industry.

Biofuel market

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

■ Timber market

Northern Europe

The timber market in the Baltic region remains characterised by the effects of the recession and activity in the markets in Russia and the Baltic countries is low. Production cutbacks are leading to low demand and therefore stable prices. Market players are concentrating on biofuel where activity and demand have been higher.

The Finnish forest industry is contracting due to production cutbacks and low volumes and has reduced its purchases by 60–80% compared with the previous year. Many of the forest industry companies' sawmills are idle.

In the Baltic region the sawmill sector was quick to respond when demand for wood products gathered pace.

Sweden

The timber market fluctuated sharply during the quarter. From a cautious start with low demand for timber, the quarter ended with rising demand and in many cases incentives in the form of supplements and premiums to forest owners prepared to sign contracts before the summer. Price falls gradually ceased and prices have probably reached their lowest level for the year.

Sawmills cancelled planned product cutbacks and the rate of production is increasing. The wood products industry is worried that there will be a shortage of sawlogs after the holiday period due to low felling activity in the forest. Shortages of sawlogs in Finland also mean that the sawmills are looking for raw material in Sweden. Sveaskog's exports to Finland have risen.

In general, production levels in the pulp and paper industry stabilised during the quarter and no further reductions are anticipated at present.

Biofuel deliveries for the 2008/2009 heating season are largely completed and most contracts have been signed for the next heating season. Biofuel imports to Sweden are increasing to meet the growing demand.

■ Other units in the Group

Sveaskog Naturupplevelsers's earnings for the first half of the year were somewhat stronger than in the same period in the previous year. The company has started a market adjustment of prices for hunting while hunting teams are being given greater opportunities to influence the content of their hunting rights. This is intended to give a greater number of hunters access to hunting grounds. Extensive aerial inventories of elk were carried out during the period. The fishing season in Mörrum got off to a stronger start than in the previous year.

Svenska Skogsplantor's earnings for the first half were slightly weaker compared with the previous year. Demand for seedlings is good. Earnings were negatively affected, however, by problems with deliveries and quality due to insect damage to some seedling batches.

The associate company **Setra Group AB** reports slightly less favourable earnings for the second quarter compared with the same period last year. Sveaskog's share of the company's result amounted to SEK –35 million compared with SEK –33 million in the same quarter in the previous year. During the quarter Sveaskog provided the company with SEK 248 million via a pre-emptive rights issue designed to improve the company's financial position. This capital contribution corresponds to Sveaskog's holding. In July, after the end of the period under review, the SEK 495 million new issue was completed. Sveaskog continues to own 50% of the company.

■ Sales, earnings and profitability

Second quarter

During the quarter the Sveaskog Group's net sales decreased by 22% compared with the same period in 2008. This was mainly due to a 20% reduction in sales volume compared with the same period in the previous year.

Operating profit before change in value of forest assets decreased and amounted to SEK 159 million (190). The decline in earnings was mainly due to lower delivery volumes and partly to restructuring costs in conjunction with the ongoing cost-cutting programme.

Sveaskog's share of profits in Setra Group amounted to SEK –35 million (–33).

After change in value of forest assets, operating profit amounted to SEK 558 million (474), including capital gains from the sale of forest properties of SEK 146 million (114).

Net financial items amounted to SEK –63 million (–90). The volume of the average loan portfolio was lower in the second quarter of 2009 compared with the same quarter in the previous year.

Profit for the period amounted to SEK 355 million (267), which is 33% higher than in the previous year.

January–June

The Sveaskog Group's net sales decreased to SEK 3,169 million (4,096). Roundwood deliveries were 19% lower than in the same period in the previous year. The sharp reduction in the delivery volume combined with some price falls for wood raw material reduced net sales by 23%.

Operating profit before change in value of forest assets amounted to SEK 274 million (486). The change was due more or less equally to lower deliveries combined with falling timber prices as well as a substantially less favourable share of profit of Setra Group AB.

Sveaskog's share of profits after tax in the associate company Setra Group AB amounted to SEK –132 million (–33).

Net financial items improved by SEK 30 million to SEK –146 million (–176).

Operating profit after change in value of forest assets amounted to SEK 992 million (1,065). Change in value of forest assets includes consolidated capital gains from the sale of forest properties of SEK 245 million (199). In addition there was an IAS 41 adjustment of the value of forest assets of SEK 473 million (380).

■ Cash flow, investments and financial position

Cash flow from operating activities amounted to SEK 390 million (315).

Investments in property, plant and equipment amounted to SEK 124 million (57). These mainly comprised investments in forest properties, forest machines and forest roads. Investments in shares comprised SEK 252 million (57), of which SEK 248 million relates to the new issue in Setra Group. Sales of property, plant and equipment, primarily forest properties, amounted to SEK 537 million (629). Interest-bearing net debt decreased in the first half of the year by SEK 484 million to SEK 6,552 million.

■ Personnel

The number of employees at 30 June 2009 was 724 (715). During the quarter the company initiated and completed negotiations to reduce the number of employees. The reduction in the number of employees will start to have an impact on costs in the third quarter.

■ 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 2009 amounted to SEK 16 million (53). Loss after financial items was SEK 278 million (–456). The Parent Company's expenses mainly comprise interest expenses as a result of the acquisition of Sveaskog Förvaltnings AB. The company has no employees.

Sveaskog Group

Summary income statement

(Note 1) SEKm	3 months		6 months		12 months	
	April-June 2009	April-June 2008	Jan-June 2009	Jan-June 2008	July 2008- June 2009	Full year 2008
Net sales	1,679	2,164	3,169	4,096	6,313	7,240
Other operating income	2	8	5	13	13	21
Raw materials and consumables	-558	-933	-1,262	-1,912	-2,609	-3,259
Change in inventories	-132	-112	-97	-117	-8	-28
Other external costs	-610	-728	-1,080	-1,263	-2,475	-2,658
Staff costs	-168	-157	-291	-262	-529	-500
Depreciation according to plan	-19	-19	-38	-36	-74	-72
Share of profits of associates	-35	-33	-132	-33	-245	-146
Operating profit before change in value of forest assets	159	190	274	486	386	598
Change in value of forest assets (Note 1)	399	284	718	579	1,279	1,140
Operating profit	558	474	992	1,065	1,665	1,738
Financial items	-63	-90	-146	-176	-428	-458
Profit before tax	495	384	846	889	1,237	1,280
Tax	-140	-117	-258	-259	91	90
Profit for the period	355	267	588	630	1,328	1,370
Earnings/share, SEK	3.00	2.26	4.97	5.32	11.22	11.57

Statement of comprehensive income

(Note 1) SEKm	3 months		6 months		12 months	
	April-June 2009	April-June 2008	Jan-June 2009	Jan-June 2008	July 2008- June 2009	Full year 2008
Profit for the period	355	267	588	630	1,328	1,370
Other comprehensive income						
Exchange differences	0	0	0	0	1	2
Cash flow hedges	30	56	2	44	-174	-132
Tax attributable to cash flow hedges	-8	-15	-1	-12	46	35
Total other comprehensive income for the period, net after tax	22	41	1	32	-126	-95
Total comprehensive income for the period	377	308	589	662	1,202	1,275

Summary balance sheet

SEKm	30 June 2009	30 June 2008	31 Dec 2008
ASSETS			
Non-current assets			
Intangible assets	9	9	9
Forest land (Note 1)	2,028	1,988	1,990
Other property, plant and equipment	523	523	515
Biological assets – standing forest (Note 1)	27,028	26,605	26,803
Other non-current assets	470	421	350
	30,058	29,546	29,667
Current assets			
Inventories	512	542	639
Current receivables, etc., non-interest bearing	2,225	2,465	2,173
Current interest-bearing receivables	3	0	2
Cash and cash equivalents	218	481	739
	2,958	3,488	3,553
TOTAL ASSETS	33,016	33,034	33,220
EQUITY AND LIABILITIES			
Equity	16,551	15,439	16,051
Non-current liabilities			
Interest-bearing liabilities and provisions	4,686	4,291	4,440
Other liabilities and provisions	7,982	8,129	7,953
	12,668	12,420	12,393
Current liabilities			
Interest-bearing liabilities	2,088	3,407	3,340
Other liabilities	1,709	1,768	1,436
	3,797	5,175	4,776
TOTAL EQUITY AND LIABILITIES	33,016	33,034	33,220

Sveaskog Group

Summary cash flow statement

SEKm	Jan-June 2009	Jan-June 2008	Full year 2008
Operating profit	992	1,065	1,738
Adjustment for non-cash items, etc.	-563	-600	-894
Interest received	12	52	64
Interest paid	-158	-188	-508
Tax paid	-29	-193	-288
Cash flow from operating activities			
before change in working capital	254	136	112
Change in working capital	136	179	89
Cash flow from operating activities	390	315	201
Investments in property, plant and equipment	-124	-57	-113
Investments in shares	-252	-57	-58
Sale of property, plant and equipment	537	629	1,026
Change in interest-bearing receivables	-1	-2	-2
Cash flow from investing activities	160	513	853
Dividend paid	-89	-810	-810
Change in financial liabilities	-982	278	310
Cash flow from financing activities	-1,071	-532	-500
Cash flow for the period	-521	296	554
Cash and cash equivalents, opening balance	739	185	185
Cash and cash equivalents, closing balance	218	481	739

Summary statement of changes in equity

SEKm	Jan-June 2009	Jan-June 2008	Full year 2008
Opening equity, 1 January	16,051	15,586	15,586
Total comprehensive income for the year	589	663	1,275
Dividend paid in accordance with annual general meeting decision	-89	-810	-810
Total income and expenses for the period	500	-146	465
Closing equity at the end of the period	16,551	15,439	16,051

Key figures*

	Jan-June 2009	Jan-June 2008	Full year 2008
Operating margin, %	31	26	24
Return on equity, % 1)	7	8	9
Equity ratio, %	50	47	48
Debt/equity ratio, multiple	0.40	0.47	0.44
Interest cover, multiple 1,3)	1.8	2.6	1.3
Interest-bearing net debt, SEKm	6,552	7,216	7,036
Earnings per share, SEK 2)	4.97	5.32	11.57
Average number of employees	957	991	1,018
Number of employees	724	715	741

* Definitions, see 2008 Annual Report.

1) Rolling 12 months.

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

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

Parent Company

Summary income statement

SEKm	6 months		12 months	
	Jan-June 2009	Jan-June 2008	July 2008- June 2009	Full year 2008
Operating income	16	53	35	72
Operating expenses	0	0	-1	-1
Operating profit	16	53	34	71
Financial items	-294	-509	4,520	4,305
Profit/loss after financial items	-278	-456	4,554	4,376
Tax	73	128	215	270
Profit/loss for the period	-205	-328	4,769	4,646

Summary balance sheet

SEKm	30 June 2009	30 June 2008	31 Dec 2008
ASSETS			
Non-current assets			
Property, plant and equipment	67	79	69
Financial assets			
Interest-bearing	2,920	2,205	3,082
Non-interest bearing	24,934	24,934	24,934
	27,854	27,139	28,016
	27,921	27,218	28,085
Current assets			
Current receivables, etc., non-interest bearing	108	1,336	1,016
Short-term investments	4,837	5,920	5,685
Cash and bank balances	0	0	0
	4,945	7,256	6,701
TOTAL ASSETS	32,866	34,474	34,786
EQUITY AND LIABILITIES			
Equity	12,913	7,540	13,207
Non-current liabilities and provisions			
Interest-bearing liabilities and provisions	3,869	3,498	3,599
Current liabilities and provisions			
Interest-bearing liabilities and provisions	16,039	23,365	17,918
Other liabilities and provisions	45	71	62
	16,083	23,436	17,980
TOTAL EQUITY AND LIABILITIES	32,866	34,474	34,786

Summary cash flow statement

SEKm	Jan-June 2009	Jan-June 2008	Full year 2008
Cash flow from operating activities	1,522	-1,010	4,581
Cash flow from investing activities	175	348	-504
Cash flow from financing activities	-1,697	662	-4,077
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 2009	Jan-June 2008	Full year 2008
Opening equity, 1 January	13,207	8,678	8,678
Cash dividend	-89	-810	-810
Group contribution	-	-	963
Tax effect of group contribution	-	-	-270
Other	-	-	-
Profit/loss for the period	-205	-328	4,646
Closing equity at the end of the period	12,913	7,540	13,207

■ Accounting principles

This interim report for the Sveaskog Group is prepared in accordance with IAS 34 Interim Financial Reporting, in accordance with the requirements stipulated in the Swedish Financial Accounting Standards Council's recommendation RR 31 Interim Reporting for Groups.

The same accounting principles are applied in this interim report as in the Annual Report. These accounting principles are described in Sveaskog's Annual Report for 2008, Note 1 Accounting Principles.

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

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

The market-related value of Sveaskog's forest assets at 30 June 2009 has been calculated at 29,056 (28,593), of which 27,028 (26,605) comprises the fair value of standing forest and 2,028 (1,988) a fixed cost for land. The change in the balance sheet amounts to 463 (–118).

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

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

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

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Financial calendar

Interim report January–September 2009 20 October 2009

Year-end report 2009 28 January 2010

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