



Interim Report January – September 2004

Sveaskog conducts forestry and timber sales based on its holdings of approximately 3.5 million ha of productive forest land. The forestry operations also include property management as well as commercial activities relating to hunting, fishing and recreation. The forestry operations are conducted under the Sveaskog name. The Group also includes industrial operations in the form of cartonboard manufacture, AssiDomän Cartonboard. In addition, Sveaskog has a 50% stake in the wood products industry company Setra Group AB.

MSEK	Quarter			January-September	
	2004 Q3	2004 Q2	2003 Q3	2004	2003
Net sales	1,862	2,321	1,726	6,212	6,429
Operating profit	270	529	270	1,170	1,197
<i>(of which, capital gains from property sales)</i>	(81)	(91)	(44)	(240)	(152)
Profit after net financial items	161	398	152	793	802
Net profit for the period	116	286	110	571	578
Net earnings per share (SEK)	0.98	2.41	0.93	4.82	4.88

- Operating profit for the third quarter was MSEK 270, a seasonal decrease of 49% compared with the previous quarter. Earnings for the forestry operations decreased mainly due to lower delivery volumes and higher silvicultural costs. Earnings from the cartonboard business (Cartonboard) fell, mainly due to the annual maintenance shutdown. Share of profits from Setra Group and gains from property sales also decreased.
- Compared with the third quarter of 2003, operating profit was unchanged, mainly due to higher gains from property sales. Earnings for the forestry operations decreased due to higher silvicultural costs. Cartonboard's earnings were negatively affected by the maintenance shutdown. Share of profits from Setra Group was lower.
- Operating profit for January - September decreased by 2% compared with the same period in 2003. Earnings declined for the forestry operations due to lower delivery volumes and higher silvicultural costs. A less favourable business climate for the sawmill operations led to a lower share of profits from Setra Group. Earnings from Cartonboard and property sales rose.

Market

The global economic recovery continues but has slowed down mainly due to weaker development in the US and parts of Asia. Growth within the eurozone remains comparatively weak. In Sweden the industrial climate continues to improve with a high order intake. Development is also strong within the construction industry.

The market situation for the Swedish pulp and paper industry is improving but at a weaker rate than for the rest of industry. The order backlog is still regarded as comparatively low. Higher production volumes and some price increases are forecast for the rest of the year.

The market for the sawmill industry remains weak due to high production. Demand is good and order bookings have increased slightly but production volumes have not been absorbed by the market. The order backlog remains low. Production volumes are expected to remain, leading to a risk of low prices.

Sveaskog

Sawlog volumes in the timber market in northern Sweden were normal. Demand was restrained for pine and good for spruce. Demand for softwood fibre was good. No major price changes occurred. Timber supplies in southern and central Sweden were also normal. Demand was balanced for pine sawlogs and strong for spruce sawlogs. There was largely a balance between supply and demand for fibre raw material.

The overall market for Sveaskog's cartonboard products is stable although the market for virgin-fibre based packaging board is relatively weak. Development for Setra Group's sawmill operations was negatively affected by the strong surplus of sawn timber, primarily redwood products, which continued in the third quarter and led to a fall in redwood prices.

Good demand for fibre raw material is expected to continue for the remainder of 2004. High import prices are stabilising the price level for domestic timber. Demand for spruce sawlogs is also expected to be good while the pine sawlog market is more uncertain. A continued stable development is expected for Sveaskog's cartonboard business. The sawmill operations in Setra Group are expected to be affected by a surplus of redwood products while the whitewood market is more stable.

Sales and earnings

Third quarter

Net sales in the third quarter reached MSEK 1,862, a decrease of 20%, compared with the previous quarter (Q2 2004). Within the Forestry operations there was a seasonal reduction in timber sales and deliveries from Svenska Skogsplantor. For Cartonboard, lower volumes due to the maintenance shutdown in the third quarter contributed to reduced sales.

Compared with the same period (Q3) in 2003 total net sales rose 8%. The Forestry operations' sales increased mainly due to higher prices. Cartonboard's sales also rose (volume and price).

Operating profit amounted to MSEK 270, a seasonal decrease of MSEK 259 or 49%, compared with the previous quarter. Compared with the third quarter of 2003, the result was unchanged.

For the forestry operations delivery volumes fell sharply for seasonal reasons during the third quarter – both in total and from own forests. The proportion of deliveries from own forests fell slightly. Compared with the same quarter in 2003, the total delivery volume was somewhat lower. The proportion from own forests increased.

Operating profit for the forestry operations (excl. property sales) amounted to MSEK 182, a decline of MSEK 195 or 52% compared with the previous quarter and of MSEK 13 or 7% compared with the same quarter in 2003.

The change in comparison to the previous quarter is mainly seasonal. Lower timber delivery volumes and lower invoicing from Svenska Skogsplantor, together with higher silvicultural costs, contributed to the lower earnings. Earnings for the second quarter were also positively affected by annual invoicing of hunting rents.

Compared with the third quarter of 2003, silvicultural costs rose, due among other things to greater activity.

Return on net operating assets in the forestry operations (properties valued at tax assessment values) was 4.6% (12-month rolling).

For the cartonboard operations delivery volumes decreased in the third quarter by 7%, compared with the previous quarter. The lower volume was partly due to the annual maintenance shutdown in September 2004. Compared with the third quarter of 2003, however, deliveries rose 9%.

Operating profit was MSEK 81, a decrease of MSEK 14 compared with the previous quarter and of MSEK 2 compared with the same quarter in 2003. The operating margin amounted to 13%.

The decrease compared with the previous quarter was mainly due to the maintenance shutdown. Higher raw material prices also contributed to the decrease. The decline compared with 2003 is also due to the maintenance shutdown. In 2003, the shutdown did not take place until the fourth quarter. Higher deliveries and higher prices for finished goods and the sale of electricity certificates counteracted the negative effects of the maintenance shutdown and higher raw material costs.

Return on net operating assets in the cartonboard operations was 10.7% (12-month rolling).

Sveaskog's share of profit in Setra Group amounted to MSEK -12, compared with MSEK 2 in the previous quarter and MSEK 7 in the third quarter of 2003. This lower result is mainly due to seasonally lower sales volumes and a reduced margin, mainly for sawn redwood products.

Gains from property sales amounted to MSEK 81, a decline of MSEK 10 compared with the previous quarter, mainly due to high sales related to the formation of nature reserves in the previous quarter. Sales in the Strengthening Private Forestry programme increased. Compared with the same quarter in 2003, capital gains increased by MSEK 37.

Net financial items amounted to MSEK -109, which is an improvement of MSEK 32 compared with the previous quarter, due to both lower net borrowing and lower average interest rates.

January – September

In the first nine months of 2004 *net sales* amounted to MSEK 6,212, a decline of 3% compared with the same period in 2003. This decline is an effect of the formation of Setra Group in 2003. Sales increased for both the forestry and cartonboard operations.

Operating profit was MSEK 1,170 a decrease of MSEK 27 or 2% compared with 2003.

For the forestry operations total delivery volumes were slightly lower than in 2003. Deliveries from own forests increased. Operating profit was MSEK 831, a decline of MSEK 67 or 7%. Lower timber deliveries and higher silvicultural and development costs were only partly compensated by higher timber prices.

For the cartonboard operations delivery volumes increased by 7% compared with 2003. Operating profit was MSEK 253, an increase of MSEK 23 or 10% compared with

the previous year, despite the annual maintenance shutdown. A similar shutdown in 2003 occurred in the fourth quarter. Higher delivery volumes and income from the sale of electricity certificates contributed to the improved earnings. Higher prices were offset by higher raw material costs.

Share of profit in Setra Group was MSEK -28. In 2003 operating profit from AssiDomän Timber was included with MSEK 72 as well as share of profit in Setra Group of MSEK 7. Lower selling prices and higher raw material costs contributed to the lower earnings.

Gains from property sales amounted to MSEK 240, an increase of MSEK 88 compared with 2003 due to an increased sales volume. Within the framework of the ongoing sales programme designed to strengthen private forestry, approximately 30,500 ha was sold during the period compared with approximately 14,300 ha in the same period last year.

Net financial items amounted to MSEK -377 (-395). Lower interest expenses contributed to this improvement. *Profit after net financial items* amounted to MSEK 793 (802).

The period's *net tax* is calculated at MSEK -222, corresponding to an average tax rate of 28%. *Net profit for the period* amounted to MSEK 571 (578).

Cash flow, investments and financial position

Cash flow from operating activities in the first nine months of 2004 amounted to MSEK 440, a decrease of MSEK -185 compared with the same period in 2003. The difference is mainly attributable to a lower operating surplus.

Cash flow from investing activities was MSEK 679, an increase of MSEK 605 over 2003. The increase is mainly due to increased sales of fixed assets and repayment of loans by Setra Group.

Cash flow from financing activities amounted to MSEK -1,112, compared with MSEK -849 during the same period in 2003. The larger outflow is due, among other things, to a higher dividend and payment of a redemption amount to former minority owners in the former AssiDomän AB.

In total, *interest-bearing net debt* fell by MSEK 380 in January – September 2004.

Financial targets

	Target	2004	2003	2002
		12-month rolling	Full year	Full year
Return on net operating assets, % 1)	Min. 5.0 2)	5.0	5.5	5.4
Interest cover, times	Min. 2.0	2.9	2.9	2.4
Debt equity ratio, times	Approx 1.0	0.71	0.76	0.77

1) Excl. property sales. 2) Currently 5.8% taking present group structure into account.

Introduction of IAS/IFRS rules

Sveaskog is affected by introduction of IAS 19 Employee Benefits, IAS 32 Financial Instruments: Disclosure and Presentation, IAS 39 Financial Instruments: Recognition and Measurement and IAS 41 Agriculture. Preparatory work ahead of introduction of

the new standards, as described in the 2003 Annual Report, is proceeding according to plan.

Lower future timber harvesting

During 2004, Sveaskog has carried out new calculations relating to future, long-term harvesting volumes. These show that the present felling levels are not sustainable over time. Felling in the company's own forests in Norrbotten and Västerbotten will therefore be reduced by 15%, corresponding to approximately 400 km³sub. This reduction will be carried out in stages and be completed by 2007. These measures are a consequence of heavy felling by former owners as well as ongoing property sales and the setting aside of land for nature reserves.

A review has been started in order to adjust the felling organisation to future harvesting levels. The result for the fourth quarter will be charged with a reserve allocation to cover the costs of such adjustment.

New President

Sveaskog's former President, Lars Sköld, left his position on 1 September. Gunnar Olofsson, formerly head of the Forestry operating area within Sveaskog, has been appointed as acting President.

Stockholm, 25 October 2004

Sveaskog AB (publ.) (556558-0031)

Gunnar Olofsson
President

Financial calendar

Year-end report 2004	31 January 2005
Interim report January-March 2005	28 April 2005

The interim report is unaudited.

Sveaskog Group

Accounting principles

This interim report has been prepared in accordance with the Swedish Financial Accounting Standards Council's recommendation RR 20 Interim Financial Reporting, and applying the same accounting and valuation principles as the annual report for 2003, with the exception that the Swedish Financial Accounting Standards Council's recommendation RR 29 Employee Benefits has been introduced with effect from 1 January 2004. The effects of this change are described in the table "Changes in shareholders' equity" below.

Income statement	3 months			9 months		12 months	
	Q3 2004	Q2 2004	Q3 2003	Jan-Sept 2004	Jan-Sept 2003	Oct 2003- Sept 2004	Full year 2003
MSEK							
Net sales	1,862	2,321	1,726	6,212	6,429	8,203	8,420
Other operating income	83	94	46	247	157	347	257
Raw materials and consumables	-688	-737	-645	-2,269	-2,018	-2,985	-2,734
Change in inventories	3	-129	56	-84	51	-26	109
Other external costs	-675	-722	-626	-2,032	-2,295	-2,787	-3,050
Staff costs	-236	-231	-227	-669	-880	-886	-1,097
Share of profits of associated companies	-12	2	7	-28	7	-50	-15
Depreciation according to plan	-67	-69	-67	-207	-254	-280	-327
Operating profit	270	529	270	1,170	1,197	1,536	1,563
Financial items	-109	-131	-118	-377	-395	-498	-516
Profit after financial items	161	398	152	793	802	1,038	1,047
Tax	-45	-112	-42	-222	-224	-104	-106
Net profit for the period	116	286	110	571	578	934	941
Net earnings/share, SEK	0.98	2.41	0.93	4.82	4.88	7.89	7.95
- based on number of shares outstanding, millions	118.4	118.4	118.4	118.4	118.4	118.4	118.4

Balance sheet	30 Sept 2004	30 Sept 2003	31 Dec 2003
MSEK			
Fixed assets, non-interest bearing	23,644	24,010	23,950
Inventories	831	774	946
Current receivables, etc., non-interest bearing	1,829	1,584	1,646
Liquid assets and interest-bearing receivables	476	707	840
Total assets	26,780	27,075	27,382
Shareholders' equity	13,005	12,953	12,715
Non-interest bearing liabilities and provisions	4,036	4,178	4,184
Interest-bearing liabilities and provisions	9,739	9,944	10,483
Total shareholders' equity and liabilities	26,780	27,075	27,382

Sveaskog Group

Cash flow statement	Jan-Sept	Jan-Sept	Full year
MSEK	2004	2003	2003
Operating surplus	1,162	1,296	1,612
Change in working capital, etc.	-265	-250	-492
Interest paid, taxes, etc.	-457	-421	-423
Cash flow from operating activities	440	625	697
Investments in fixed assets	-171	-183	-302
Acquisitions	-	-	-4
Sale of fixed assets	479	257	464
Change in interest-bearing receivables	371	0	-
Cash flow from investing activities	679	74	158
Cash flow from financing activities	-1,112	-849	-872
Total cash flow	7	-150	-17
Liquid assets, opening balance	319	336	336
Exchange differences in liquid assets	0	0	0
Liquid assets, closing balance	326	186	319

Changes in shareholders' equity	Jan-Sept	Jan-Sept	Full year
MSEK	2004	2003	2003
Opening equity, 1 January according to adopted balance sheet	12,715	12,727	12,727
Effect of introduction of RR 29 Employee Benefits, net after tax effect	74	-	-
Restated opening equity	12,789	12,727	12,727
Shareholders' contribution	-	11	11
Cash dividend	-355	-296	-896
Takeover of Svenska Skogsplantor	-	-73	-73
Exchange differences for the period	0	6	5
Net profit for the period	571	578	941
Closing equity at the end of the period	13,005	12,953	12,715

Key figures *	Jan-Sept	Jan-Sept	Full year
	2004	2003	2003
Operating margin, %	19	16	19
Return on capital employed, % 1)	7	7	7
Return on equity, % 1)	6	6	7
Equity ratio, %	49	48	46
Debt/equity ratio, times	0.71	0.71	0.76
Interest cover, times	3.0	2.9	2.9
Interest-bearing net debt, MSEK	9,263	9,237	9,643
Net earnings per share, SEK 2)	4.82	4.88	7.95
Average number of employees	1,760	2,252	2,211
Number of employees	1,511	1,524	1,519

1) 12-month rolling.

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

* Definitions, see 2003 Annual Report.

Business areas

Quarterly breakdown of net sales by business area and for the Group

MSEK	2004			2003				2002	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Forestry operations	1,317	1,742	1,523	1,540	1,255	1,681	1,485	1,388	1,149
Cartonboard	611	661	588	516	548	587	580	527	548
Other and intra-group deliveries	-66	-82	-82	-65	-77	-72	-84	11	-8
Total remaining units	1,862	2,321	2,029	1,991	1,726	2,196	1,981	1,926	1,689
Units transferred to Setra Group	-	-	-	-	-	807	769	754	638
Other and intra-group deliveries	-	-	-	-	-	-534	-516	-472	-396
Total Group	1,862	2,321	2,029	1,991	1,726	2,469	2,234	2,208	1,931

Quarterly breakdown of earnings by business area and for the Group

MSEK	2004			2003				2002	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Forestry operations	182	377	272	293	195	379	324	261	171
Cartonboard	81	95	77	52	83	71	76	14	79
Other and eliminations	-62	-36	-28	-55	-59	-32	-73	-6	-78
Total remaining units	201	436	321	290	219	418	327	269	172
Property sales	81	91	68	98	44	73	35	19	12
Operating profit for remaining units including property sales	282	527	389	388	263	491	362	288	184
Units transferred to Setra Group	-	-	-	-	-	31	41	45	15
Share of profits of Setra Group	-12	2	-18	-22	7	-	-	-	-
Other and eliminations	-	-	-	-	-	-7	9	2	10
Operating profit	270	529	371	366	270	515	412	335	209
Financial items	-109	-131	-137	-121	-118	-140	-137	-136	-148
Profit after financial items	161	398	234	245	152	375	275	199	61
Tax	-45	-112	-65	118	-42	-105	-77	-28	-18
Net profit for the period	116	286	169	363	110	270	198	171	43
Net earnings/share, SEK	0.98	2.41	1.43	3.07	0.93	2.28	1.67	1.45	0.36
- based on average number of shares, millions	118.4	118.4	118.4	118.4	118.4	118.4	118.4	118.4	118.4

Quarterly breakdown of deliveries and production volumes by business area

	2004			2003				2002	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Forestry operations									
Deliveries, 000 m ³ sub 1)	3,047	3,746	3,754	3,794	3,165	3,717	3,816	3,581	3,000
Deliveries, 000 m ³ sub 2)	1,451	1,832	1,551	1,777	1,413	1,744	1,649	1,844	1,397
Cartonboard									
Deliveries, ktonnes	87	94	84	76	80	85	82	78	78
Production, ktonnes	85	87	88	78	89	87	87	68	84
Units transferred to Setra Group									
Deliveries, 000 m ³ st	-	-	-	-	-	399	380	403	330
Production, 000 m ³ st	-	-	-	-	-	417	396	408	315

1) Total deliveries

2) Deliveries from own forests