

**Our business  
operations  
2006**



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## Presenting Sveaskog

Sveaskog is Sweden's largest forest owner, with 15% of the country's productive forest land, and is a leading supplier of sawlogs, pulpwood and biofuel. The company is also actively engaged in land transactions, offers hunting and fishing opportunities, and makes land available to local entrepreneurs within nature-based tourism.

The forest is Sveaskog's core business and the company's vision is to lead the way in the development of forest values. Sveaskog contributes to long-term sustainable development by exemplary management of its forests and by combining a focus on profitability with eco-responsibility.

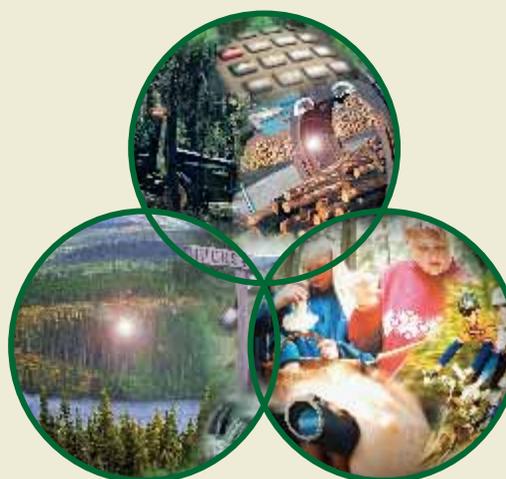
Sveaskog will provide its owner with a return on its forest assets and be a model employer and business partner. The company makes long-term investments in research and development and has an active dialogue with its stakeholders.

Sveaskog's operations are decentralised and characterised by a local presence throughout Sweden. The Group has annual sales of approximately SEK 6 billion and 730 employees. Sveaskog is owned by the Swedish state.

### Key figures, Group

|  | 2006         | 2005  |
|--|--------------|-------|
| Net sales, MSEK  | <b>6,030</b> | 6,155 |
| Operating profit before change in value of forest assets, MSEK | <b>782</b>   | 691   |
| Change in value of forest assets, MSEK                         | <b>842</b>   | 180   |
| Operating profit, MSEK   | <b>1,624</b> | 871   |
| Profit before tax, MSEK  | <b>1,338</b> | 524   |
| Profit from discontinued operations, MSEK                      | <b>1,152</b> | 246   |
| Profit for the year, MSEK                                      | <b>2,138</b> | 616   |
| Return on equity, %  | <b>13</b>    | 4     |
| Return on net operating assets, %                              | <b>5.3</b>   | 2.8   |
| Equity ratio, %  | <b>51</b>    | 43    |
| Number of employees  | <b>731</b>   | 773   |
| Average number of employees                                    | <b>1,027</b> | 1,116 |

#### Economic responsibility



Environmental  
responsibility

Social  
responsibility

## 2006 in summary

### ■ Results

Net sales for the full year 2006 fell 2% compared with the previous year. Deliveries decreased by 7% and totalled 13 million cubic metres, which is 1 million cubic metres less than in 2005. Operating profit for the forestry operations improved sharply despite this, due to increased prices and a positive result for the internal efficiency enhancement programme. Operating profit before change in value of forest assets increased to MSEK 782 (691).

### ■ Sale of AssiDomän Cartonboard

At the end of 2005, Sveaskog signed an agreement for the sale of the cartonboard operations AssiDomän Cartonboard AB in Frövi to Kinnevik's wholly owned subsidiary Korsnäs. The deal was finalised in 2006 following examination by the competition authorities. As a result of this sale, Sveaskog is a pure-play forest-owning company.

### ■ Extra dividend and new targets

At an Extraordinary General Meeting held in December, an extra dividend was decided of MSEK 1,539 or SEK 13 per share, in addition to the SEK 3 decided at the Annual General Meeting. The General Meeting also decided to introduce new financial targets for Sveaskog due to the company's development towards a pure-play forest-owning company.

### ■ Increased growth

In order to be able to meet an increased need for wood raw material and contribute to an improved climate, Sveaskog is working to boost growth in the forest. During the year the company used processed seed and seedling material and improved methods for reforestation. Sveaskog also increased the addition of nutrients on suitable land.

### ■ Increased investment in R&D

Increased forest growth, more effective technology and new applications for wood raw material are prioritised areas for research and development at Sveaskog. During the year, Sveaskog invested in

Linotech AB, a development company that develops eco-friendly impregnation of wood using linseed oil as a base. Sveaskog is a part owner of SweTree Technologies a company that conducts research into the biology and biochemistry of trees and plants, which provides knowledge and opportunities to develop new products.

### ■ Vision meetings

Vision meetings were held in the spring where Sveaskog's CEO, Gunnar Olofsson, met all employees. Questions discussed were the company's vision and targets and the recently drafted code of conduct.

### ■ New organisation

On 1 July 2006, Sveaskog established an enhanced organisation designed to create greater efficiency and improved profitability. The organisation is based on a coherent forestry operation with three main processes – Market, Production and Silviculture – and five geographic markets.

### ■ Storm and the spruce bark beetle

In the wake of the storm Gudrun, the spruce bark beetle (*Ips typographus*) population increased dramatically in southern Sweden. During 2006, approximately 70,000 cubic metres was infested

on Sveaskog's land. Damage inflicted by the spruce bark beetle in 2007 will depend both on the weather and the efficacy of a number of different measures. The storm in January 2007 exacerbated the situation. Sveaskog is carrying out extensive work to make an inventory of and process the areas affected. The aim is to remove trees affected by the spruce bark beetle by 15 May and windthrown trees by 15 June 2007.

### ■ Consideration prioritising

20% of Sveaskog's productive forest land is to be set aside for nature conservation purposes. This work consists of three parts: creation of ecoparks, setting aside forests for nature conservation, and consideration for nature in production forests.

Consideration prioritising is what Sveaskog calls the methodology it uses to select forest areas that are most important for the conservation and development of biological diversity.

### ■ Ecoparks

Four new ecoparks were inaugurated during the year: Malingsbo in Bergslagen, Leipipir and Storklinten in Norrbotten and Böda on Öland.

# 3.35

million hectares of productive forest land is owned by Sveaskog.

# 235

property transactions within the land sales programme in order to strengthen private farming and forestry were carried out during the year.

# 6

billion kronor  
Sveaskog's sales in 2006.

# 730

is the number of employees at Sveaskog in 2006.

# 1,100

employees and entrepreneurs attended Sveaskog's advanced training course in production and environment.

# 36

million seedlings were planted in 2006.

# 782

million kronor was the operating profit for 2006.

Bo Dockered, Chairman of Sveaskog:

## The forest guarantees continued prosperity

The forest is one of Sweden's key industries. Further processing of forest products is a guarantee for continued prosperity. As a major forest owner and independent player, Sveaskog's role is to vitalise not just the timber market but society as a whole, in the opinion of Sveaskog's Chairman, Bo Dockered.

### How do you see the 2006 financial year?

"I am very pleased with the work done in the company. We reported a strong financial result and the company's management and employees are working well on the assignments and goals set by our owner."

### What were the most important events for Sveaskog in 2006?

"We continued to streamline the business into a forest-owning company as decided by Parliament when Sveaskog was formed. We sold the board mill AssiDomän Cartonboard in Frövi to Korsnäs and were well paid. Through this deal we have placed Frövi in a strong industry structure which provides opportunities for long-term and competitive development. Korsnäs is a strong and competent owner. We have also been highly successful with our land sales programme which is intended to strengthen private farming and forestry. In this way, we helped to ensure a living countryside."

### What is Sveaskog's role in the forest industry?

"Sveaskog's most important role is to nurture and develop our forest holdings which are a significant asset for Sweden. We do this in a long-term perspective. We do not try to maximise short-term returns but conduct profitable and sustainable forestry with high nature conservation ambitions. To my mind this is what the individual citizen, market players and the government expect and appreciate.

"One prerequisite if the forest industry is to continue to be the backbone of the Swedish economy is that we conduct

active and profitable forestry. As a major landowner, Sveaskog can be a driving force in research and development into new methods, technologies and products that raise efficiency and production in forestry. One example is new methods for making better use of forest residue for bioenergy. Sveaskog also accepts major responsibility by investing in the development of new applications for both the forest and wood raw material. This is essential for Sweden as a leading forest nation in the future."

### What is the significance of the land sales programme?

"With Sveaskog's geographically wide-spread and extensive land holdings, we can strengthen private forestry, particularly in sparsely populated areas. We do this through our land sales programme. We also have an agreement with the Swedish Environmental Protection Agency under which Sveaskog provides replacement land when the state wishes to use private land for nature reserves and other purposes for the common good. In this way Sveaskog contributes to the achievement of the national environmental objective for Sustainable Forests.

"Interest in buying forest land is encouraged and is considerable. The rate of Sveaskog's sales rises every year. Our assignment is to sell 5–10% of productive forest land. So far, we have sold approximately 4%. We will now up the pace still further. These sales provide a unique opportunity, especially for forest owners and people living in northern Sweden who can often choose which areas they wish to purchase and when the deal should be made."

### Sveaskog plans to boost growth in the forest. How does this tally with high ambitions for nature conservation?

"The greenhouse effect and climate change are the biggest and most urgent environmental issues facing the world today. The forest is also affected by climate change through heightened risks for storm fellings, root rot, insect damage and unnatural changes in biological diversity. At the same time, the forest plays a key role in reducing global warming. The growing forest acts as a carbon sink since it binds carbon and reduces the volume of carbon dioxide in the atmosphere. Emissions that affect the climate can be reduced by increased use of renewable wood raw material in packaging, construction, production of heat and electricity, and as vehicle fuel. That is why we are increasing forest growth, within the framework of statutory legislation and requirements and Sveaskog's own ambitious environmental policy."

### Sveaskog both purchases and sells timber. How does that benefit the timber market?

"Sveaskog has a vitalising effect on the timber market which traditionally was characterised by a small number of strong purchasers and a large number of small timber suppliers. Since Sveaskog is a major supplier and independent from the pulp and paper industry, we can help to break down the oligopolic structure of the timber market in certain areas. Our presence has led to greater transparency. We supply wood raw material both from our own forests and from other sources. This means that we can guarantee access to timber for

our customers and offer them a consistent flow of raw material with special products, grades and dimensions – something that is becoming increasingly important if the Swedish forest and wood products industry is to improve its profitability and competitiveness.

“This also contributes to increased competition within timber purchasing which benefits private forest owners and increases the value of their deliveries and forest assets.”

**Why does Sveaskog still own 50% of the wood products company Setra Group?**

“Our intention is to reduce our ownership in Setra Group. The company has developed well and reports good profitability for 2006. In our opinion the company will be ready for an IPO in 2008. We are broadening ownership of the company in stages because this is of vital importance for the value of the forest holdings owned by Sveaskog and other landowners. The sawmills are the most significant customers for forest owners in terms of earnings and guaranteeing the value of the forests requires a sawmill industry that is profitable over time and internationally competitive. Today, many Swedish sawmills function as chipping machines to provide raw material to the cellulose industry, which reduces the value of the wood raw material. This is not good for Sweden. We need strong sawmill groups of the size of Setra that are independent of the cellulose industry and which focus on value-adding processing and growth.”

**Sveaskog has established a new subsidiary to focus on nature-based tourism. Why does Sveaskog want to encourage tourism entrepreneurs?**

“The forest has many values. We can increase the return on the forest capital by making land available to more people. But we do not want to conduct tourist activities ourselves. Instead, we want to provide opportunities for private players and entrepreneurs to set up different types of tourism companies on our lands. We can help them with training, marketing and certification that guarantees a good experience for the consumer. Properly utilised there is major potential here. We develop this through the subsidiary Sveaskog Naturupplevelser.”



**What responsibility does Sveaskog take for other development in sparsely populated areas?**

“In addition to strengthening private farming and forestry through land sales, Sveaskog contributes to a living countryside by creating jobs and infrastructure. Forestry has been made more efficient through extensive mechanisation, but still employs a lot of people. The need of resources for planting, cleaning, thinning, felling, road building and maintenance, timber transports, snow clearance and so on will always exist. In addition, Sveaskog creates conditions for jobs in the forestry and wood products industries and the service sector. One example is the county of Norrbotten where Sveaskog creates employment for over 1,700 people. And then I have not included the jobs generated indirectly within municipalities, county councils and local business. Development of the biofuel sector and nature-based

tourism means that the number of jobs can rise even more.

“In both forestry and our research and development investments into new technology or new silvicultural methods, Sveaskog co-operates with companies and researchers in the forest counties. In this way we contribute to a world-leading, spearhead competence being developed and retained in sparsely populated areas. This strengthens Sweden!

“Sveaskog is also the country's largest private road maintenance company with almost 45,000 kilometres of forest roads. The company's policy is to keep the roads open to give hunters, anglers, local people and tourists access to the forest and countryside. It is this, combined with the company's leasing out of hunting grounds and fishing waters and investments in open-air recreation areas that I believe will be valued increasingly highly in the future.”



CEO Gunnar Olofsson about the year and the future

## 2006 gave us a good starting point for 2007

"2006 was a strong year for Sveaskog. Despite lower deliveries, we improved the operating profit by MSEK 91 to MSEK 782. Including changes in the value of forest assets, operating profit increased to MSEK 1,624, which is almost double the 2005 figure.

"The subsidiary Svenska Skogsplantor increased its sales and improved earnings by 71% to MSEK 26. Good demand, a changed product mix and a higher proportion of silvicultural services lie behind this result. Sveaskog Naturupplevelser, which works with game preservation and leases for hunting, fishing and nature experiences, improved its earnings through a new range of services and higher revenues.

"The wood products company Setra Group AB, of which Sveaskog owns 50%, continues its positive development. Operating profit amounted to MSEK 257, which is an improvement of MSEK 362 over with the previous year. The sawn products industry developed very well and comprehensive internal efficiency improvement work is starting to have an effect. Setra develop its value-added processing in 2006, among other things through the acquisition of Rolfs Såg in Kalix. Going further down the value chain is an important part of

the company's strategy to create stable profitability and increased international competitiveness."

#### **Why has Sveaskog increased land sales?**

"There is considerable demand and we have a smooth functioning sales operation. In 2006 over 53,000 hectares of land was sold for over a billion. This is more than ever, but in line with our forecast. The price was better than expected due to substantial demand for forest properties. Most was sold to private farming and forestry and people living in sparsely populated areas. In future years we expect to increase sales still further."

#### **Are you pleased with the earnings trend?**

"The earnings trend is extremely positive in view of the fact that Sveaskog decreased felling in its own forests in northern Sweden and our increased costs for processing after the storm Gudrun. Profitability was also affected by the sale of the board mill AssiDomän Cartonboard, which previously made a positive contribution to operating profit. After the sale, we conducted a review of the capital structure which resulted in new financial targets for the company. We also paid an extra SEK 1.5 billion dividend to our owner."

#### **What is Sveaskog strategy in the timber market?**

"Our strategy is to create higher returns on the forest capital by increasing the value of our deliveries. This will be achieved by developing attractive products and services and establishing long-term co-operation with customers that see the potential of wood raw material. New solutions that increase profitability for both customers and ourselves will raise the value of the wood raw material. One example is our co-operation with Smurfit Kappa Group in Piteå. This means increased use of biofuels, new logistics solutions as well as research into gasification of black liquor for vehicle fuel, electricity and raw material for manufacturing industry."

#### **How does the market situation for the company's products look?**

"Sveaskog's products are in demand and we see a positive price trend throughout

the range. The business climate is strong with good demand for customers' products. Wood product prices in Europe rose due to increased building activity. Prices are expected to level out after the first quarter of 2007 and stabilise at an historically high level. The pulp and paper industry expects continued positive development. Demand for biofuels is rising."

#### **How can Sveaskog further improve profitability in forestry?**

"We develop forest values through higher productivity, research, new machine concepts and methods. Sveaskog funds and conducts several development projects focused on technologies to increase production such as driverless harvesting robots and new units for multi-tree handling. With more efficient control, technology and measurement systems we can increase precision and extract the very products for which there is customer demand. In this way we will increase profitability in forestry."

#### **Sveaskog's vision is to lead the way in the development of forest values. How do you do this?**

"Our role is to develop the economic, environmental and social values of forest. With our silvicultural activities we lay the foundation for long-term growth in volume and value. At the same time as increasing growth in the forest by 20% by 2030, we are making extensive efforts to preserve and develop the natural and cultural values of the forest."

#### **Why does Sveaskog conduct research into new applications for wood raw material?**

"This guarantees a long-term demand for our wood raw material and increases the value of the forest capital, leads to industrial development in Sweden and has positive environmental effects. One example is the investment in the development company Linotech AB, of which Sveaskog became a part owner in 2006. Linotech conducts research into and develops new technologies for eco-friendly impregnation of wood products using linseed oil as a base. Another example is the investment in the company SweTree Technologies in Umeå, which conducts research into the biology and biochemistry of trees and plants. This

provides knowledge for development of new products."

#### **How does Sveaskog find a balance between return requirements and environmentally and socially sustainable utilisation of the forest?**

"The decision to reduce felling levels in our own forests in northern Sweden over a 15-year period is an expression of how we prioritise long-term, sustainable forestry. Our environmental policy means that we set aside 20% of productive forest land for nature conservation. We are forming 34 ecoparks in Sweden of major significance for biological diversity.

"In order to increase knowledge of alternative forestry methods, Sveaskog has initiated a pilot project with continuity forestry on approximately 3,000 hectares in three areas of Sweden. In this project, we will document the impact forestry has on recreation, natural values, and growth, biological effects and other land use such as reindeer farming. Through research we also develop game management and co-operation between forestry and the reindeer industry."

#### **What are Sveaskog's challenges in 2007?**

"A high-priority activity during the year is to process timber damaged by storms and the spruce bark beetle in a short time and without personal injury.

"During 2006 Sveaskog introduced a new process-focused organisation with clearer responsibilities and roles, more efficient working methods and a stronger market orientation. At the same time, we started a review of internal control and a programme for better results and we will continue to work with this in 2007.

"Developing our culture and operations on the basis of the company's social targets and code of conduct – which specifies how Sveaskog should act as a business partner, employer and member of society – is an important and long-term process. Sveaskog's ISO and FSC\* certifications are important tools in this work.

"During 2006 I met all the employees to discuss our vision, goals and operational development. I will continue to do this. It is my way of showing them the appreciation they deserve."

# Sveaskog's approach to sustainable development

Sveaskog contributes to sustainable development. This involves simultaneous efforts to achieve economic growth, a healthy environment and social responsibility. With Sveaskog's reporting on the achievement of its objectives and targets within economy, environment and social responsibility, the company's aim is to contribute to greater transparency and awareness as a basis for a dialogue about its operations.

## ■ Economic responsibility

Sveaskog will be a profitable company. This will provide the necessary funding to invest in and introduce new, eco-compliant and efficient technology.

## ■ Environmental responsibility

Environmental work is based on the environmental policy and the environmental targets that guide operations. Forestry is conducted according to the Swedish FSC\* standard. Sveaskog's environmental policy also states, among other things, that 20% of productive forest land must be managed as land for nature conservation. Other forest land is managed in an effective manner with market-based return requirements. The growing forest absorbs carbon dioxide and active cultivation of the forest also plays a key role from an environmental aspect in counteracting the greenhouse effect and climate change.

## ■ Social responsibility

In order to be entrusted to conduct business and develop operations, Sveaskog must be a good partner and employer – for customers, employees, contractors, suppliers and other stakeholders. Sveaskog conducts responsible business activities based on a code of conduct and policies. As an employer, Sveaskog seeks to offer employees stimulating work in a good and safe working environment. Sveaskog will create opportunities for active outdoor pursuits in the forest. The company seeks an open dialogue with stakeholders both locally and at national level.

### Economic responsibility



**Environmental responsibility**

**Social responsibility**



Four new ecoparks will be inaugurated in 2007. Ejheden in Dalarna, Kilsbergen in Örebro county, Jovan in Västerbotten and Dubblabergen in Norrbotten.

# Owner guidelines

Sveaskog belongs to a group of state-owned companies that operate subject to market terms and requirements. These requirements involve a long-term approach, efficiency, profitability, ability to develop, and environmental and social responsibility.

The Swedish state owns forests because long-term state ownership of forest land is an important national concern. The forest is important as a source of raw material and provides employment and recreational opportunities.

## ■ Ownership objective

Sveaskog's forests are to be managed in an exemplary manner, from both a production and environmental viewpoint, in order to ensure long-term sustainable development. Operations are to be conducted on market terms and generate a return that is at least on a par with comparable operations.

## Special guidelines

Sveaskog's owner, the Swedish state, has stipulated special conditions for the operations in addition to its ownership objective.

## ■ Independent player

Sveaskog is to be an independent player and contribute to increased competition in the timber market. All customers are to be treated in a professional and equal manner.

## ■ Strengthen private farming and forestry

Sveaskog's substantial and geographically widespread land holdings mean that Sveaskog will make active efforts to offer re-allocation and add-on purchasing opportunities for land in order to strengthen private farming and forestry. The intention is that sales of land to private individuals will facilitate livelihoods and local development in the forests and countryside. Sparsely populated areas will be prioritised in the sales activities. Over time, such sales will comprise 5–10% of land held by Sveaskog at its formation.

## ■ Replacement land

Sveaskog also offers replacement land to the state in conjunction with the formation

of nature reserves and when land is set aside for other purposes for the common good. All transfers of land from Sveaskog are made at market prices.

## ■ Nature-based tourism

Opportunities for experiences of various kinds based on the forest and its resources, create conditions for Sveaskog to conduct extended operations within nature-based tourism, recreation and experiences. These operations are conducted on commercial terms. In an introductory phase, Sveaskog's lands in northern Sweden will be given priority.

## ■ Transfer industrial operations

Sveaskog's owner does not aim to be a long-term owner of industrial operations within forestry. For this reason existing industrial operations within Sveaskog will be placed in new structures. In the work of changing the ownership structures, Sveaskog will ensure opportunities to obtain a good payment for the assets.

Members of the public were invited to attend Sveaskog's 2006 AGM. Some 60 people attended. The meeting included an opportunity to ask questions about the company's operations.





The Häckren ecopark in western Jämtland is a sub-montane wilderness landscape. The forest is very old here. The most ancient tree is an impressive 450-years old. In Häckren you can experience magnificent countryside, enchanted small lakes, murmuring brooks, swamps that tempt with the golden sheen of cloudberries in late summer. There is abundant wildlife. Capercaillie, golden eagle and brown bears are just some of the animals you might encounter or whose tracks you may see.

# Mission, vision and strategic direction

Sveaskog's strategic direction is based on owner guidelines, operational targets and market conditions.

## Mission

*"Sveaskog will increase the return on its forest capital through sustainable development of the benefits within all forest applications."*

## Vision

*"Sveaskog will lead the way in the development of forest values."*

This is the company's vision and the starting point for all its activities. This vision distinguishes Sveaskog from other companies. It clearly indicates that the forest with its different assets is the core business. Forest values are about economic growth and returns, biological diversity, reduced environmental impact, Swedish cultural history, hunting and fishing and each individual's personal relationship with nature. What forest values have in common is their contribution to long-term

sustainable development – economic, environmental and social.

Sveaskog's intention is to lead the way which means pushing forward development and setting a good example.

## Strategic direction

Sveaskog's strategic direction is based on owner guidelines, operational targets and market conditions.

Sveaskog's core business is the forestry operations with a focus on silviculture, timber harvests, sales of wood raw material and development of the forest's other values, among other things by leasing land for hunting, fishing and nature-based tourism.

### ■ Long-term, sustainable forestry

Sveaskog manages and develops its own forest holdings in a long-term perspective. This means that the company conducts sustainable forestry, where profitability

is balanced with high aims for nature conservation. Sveaskog seeks to increase the value of its forest holdings. This is achieved, among other ways, by making efforts to achieve good land consolidation, investing in silvicultural measures for improved quality and forest growth, and developing technologies and methods that raise productivity in forestry and facilitate co-operation with other businesses and operations in the forests.

Sveaskog will set aside 20% of its productive land as land for nature conservation. This work will be done to high standards and based on considerable knowledge of the company's own land holdings.

In line with efforts to conduct sustainable forestry, Sveaskog has decided to reduce extraction from its own forests, primarily in northern Sweden. One reason is that the forest has an uneven age structure, with a low proportion of forest ready for final felling in some areas. Possible timber extraction is also affected

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Sveaskog's vision is to lead the way in the development of forest values, Leading the way involves pushing forward development and setting a good example. The picture shows the Norra Vätterns Skärgård ecopark, a unique lake archipelago.



by land set aside for nature conservation and by reductions in the company's holdings through Sveaskog's land sales programme.

#### **Innovative and reliable partner**

By developing close, strategic and long-term co-operation with customers who realise the potential of the wood raw material, Sveaskog will create a high return on its forest capital. Sveaskog wants to be a reliable and sought-after partner that can offer an innovative and value-creating range of products and services. This applies, for example within logistics and service.

In order to offer developing and competitive customer solutions, Sveaskog complements raw material volumes from its forests with raw material from other forest owners, by-products from sawmills in Sweden and through imports.

Sveaskog is independent of the forest industry and through an active and independent role in the timber market can contribute to increased competition and cost-effective raw material flows from forest to processed product. This encourages the development of a competitive wood products industry while raising the value of the forest assets belonging to Sveaskog and private landowners.

#### **Developed biofuel business**

Sveaskog will develop its biofuel operations in terms of both volume and profitability. By developing applications for biofuels in co-operation with customers, the company can increase the return on the forest capital over time.

Wood raw material is a valuable energy asset with a partly unexploited potential in Swedish energy supplies.

#### **Increased productivity and new applications**

Sveaskog invests in research and development that ensures long-term demand for wood raw material and thus increases the value of the company's forest capital.

Sveaskog is a driving force in research and development into new methods, technologies and products that enhance efficiency and productivity in forestry. Another prioritised area for the company's R&D is new applications for both the forest and wood raw material.

In its R&D investments, Sveaskog co-operates with companies in forest counties and with industry wide bodies.

#### **Promote nature-based tourism**

In co-operation with local entrepreneurs, Sveaskog develops hunting and fishing opportunities and makes attractive land available for nature-based tourism. By

leasing land on commercial terms to private entrepreneurs for different tourist products, employment opportunities will be created in sparsely populated areas. Co-operation with other state land managers and players in the tourist industry is designed to promote the development of nature-based tourism.

#### **Broaden ownership in Setra Group AB**

Sveaskog and the other part owners of the company are seeking broader ownership for Setra Group AB and examining the possibility of an IPO. The aim is to create a profitable company that is internationally competitive. This will help to guarantee the value of the Swedish forests over time.

The formation of Setra Group in 2003 marked the start of placement of Sveaskog's sawmills in a new ownership structure. Setra Group was formed through a merger of what was then AssiDomän Timber and Mellanskog's sawmill operations. Today, Sveaskog owns 50% of Setra Group, whose other owners are LRF with 22%, Skogsägarna Mellanskog with 26% and other shareholders with 2%.

Jan Karlsson works as a stand treatment manager at Sveaskog in the Bergslagen market area.



Elisabeth Tun is an accountant at Sveaskog.



Staffan Hårdelin is a planning manager in Västerbotten.



# Operational targets

Based on the objectives of its owner and principles for sustainable development, Sveaskog has developed defined financial, environmental and social responsibility targets. The financial targets were revised in 2006. An Extraordinary General Meeting held in December adopted new targets to apply from 1 January 2007.

## Financial targets

### TARGETS WITH EFFECT FROM 1 JANUARY 2007

In 2006, Sveaskog sold its industrial operations, AssiDomän Cartonboard, and thus became a pure-play forest-owning company. This has consequences for the return the company can be expected to generate over time and therefore what financial targets are reasonable.

#### YIELD

Target a minimum of 3.5%. Operating profit before change in value of forest assets, divided by average net operating assets (excl. deferred tax).

#### TOTAL RETURN ON NET OPERATING ASSETS

Target a minimum of 7% while the land sales and nature reserve formation programmes are being carried out. Operating profit divided by average net operating assets (excl. deferred tax).

#### RETURN ON EQUITY

Target a minimum of 6% while the land sales and nature reserve formation programmes are being carried out. Profit after tax expressed as a percentage of average equity.

#### INTEREST COVER\*

The long-term target is 2.0, but this can vary within the band 1.5–2.5. Operating profit before change in value of forest assets plus financial income divided by financial expenses.

#### DEBT/EQUITY RATIO\*

Target should be 0.3–0.7. Interest-bearing net debt divided by equity.

#### DIVIDEND

The ordinary dividend should in the long term correspond to at least 60% of profit after tax, excluding non-cash changes in value according to IFRS. Sveaskog's

funding requirements and financial position in general will be taken into account.

\* Interest cover takes precedence over debt/equity ratio as a financial restriction.

## Environmental objectives and targets

### BIODIVERSITY

20% of productive forest land within each forest region is to be used for nature conservation. Within this framework, Sveaskog will create ecoparks corresponding to 5% of productive forest land. Sveaskog also works systematically to reduce game feeding damage.

### WATER AND LAND

Negative impact on water and ecosystems will be limited, among other things by identifying valuable water ecosystems and preparing action plans. The company also has an environmental target to reduce hauling damage in connection with felling.

### CLIMATE IMPACT AND EMISSIONS

Sveaskog will reduce emissions from combustion, including carbon dioxide from fossil fuels.

## Social targets

Sveaskog's values: added value, respect and dialogue form the foundation stones of efforts to balance economic, social and environmental considerations in the operations. Sveaskog's activities must reflect these values.

### SKILLS DEVELOPMENT AND PARTICIPATION

All employees must have the right competence for their working duties and

be given resources and opportunities for skills development, influence and participation in their own and the company's development. Sveaskog wants to increase the spread of knowledge and therefore encourages internal mobility.

### WORKING ENVIRONMENT AND HEALTH

Sveaskog's employees must have a good and safe working environment and employee health is a priority at Sveaskog.

### DIVERSITY

Sveaskog seeks diversity in terms of age, educational, cultural and ethnic background.

### EQUAL OPPORTUNITIES

The balance between women and men within Sveaskog will be improved, among other things, by raising the proportion of women in male-dominated units and personnel management positions.

### SOCIAL RESPONSIBILITY

Sveaskog will contribute to prosperity and sustainable development in the communities in which the company has operations. In addition to creating economic growth through forestry, Sveaskog will create opportunities for other business enterprises to operate in the forest. Sveaskog will develop the economic, ecological and social values of the forest and create conditions for an active outdoor life. The company seeks an open and active dialogue with stakeholders both locally and at national level.

### ETHICS

Sveaskog's relationships with customers and suppliers are to be characterised by high integrity, professionalism, respect and ethics. Confidence in Sveaskog is based on the company as a timber supplier being able to meet customers' expectations and satisfy their wishes.

### INFORMATION AND COMMUNICATION

Sveaskog will be perceived by employees and stakeholders as an open, competent, reliable and developing company that combines professionalism, environmental awareness and social responsibility.

# Sustainability at Sveaskog in 2006

## ■ Forestry's key role

Forestry and Sveaskog are of major importance for sustainable development. Domestic, renewable wood raw material can replace fossil fuels for the production of energy and vehicle fuel. At the same time the forest and forestry itself play a key role in counteracting the greenhouse effect and climate change, since the growing forest binds carbon dioxide to a considerable extent. This is one of many ecosystem services performed by the forest and which we often take for granted. The other values and functions of the forest are also relevant here, such as water purifier, habitat for plants and animals and an indispensable resource for leisure, recreation and nature experiences.

Today there is agreement that from an environmental viewpoint it is necessary to replace fossil fuels with biofuels. This also means that increased growth in the forest can have an overall positive environmental impact. In order to meet the growing demand for wood raw material, Sveaskog plans to boost growth in the forest in the years ahead within the framework of environmentally and socially responsible forestry. Sveaskog also supports environment-driven innovations. Examples during the year were the investments in eco-friendly fertilisers and the company's investment in Linotech AB which is developing an eco-friendly method for wood impregnation.

The emphasis on the other environmental functions of the forest is rising, at the same time as nature protection and conservation will continue to be important for

Sveaskog. In 2006, Sveaskog continued to develop nature conservation activities, including work on classification of nature conservation ambitions in landscapes, new ecoparks and restoration of wetlands.

## ■ Code of conduct implemented

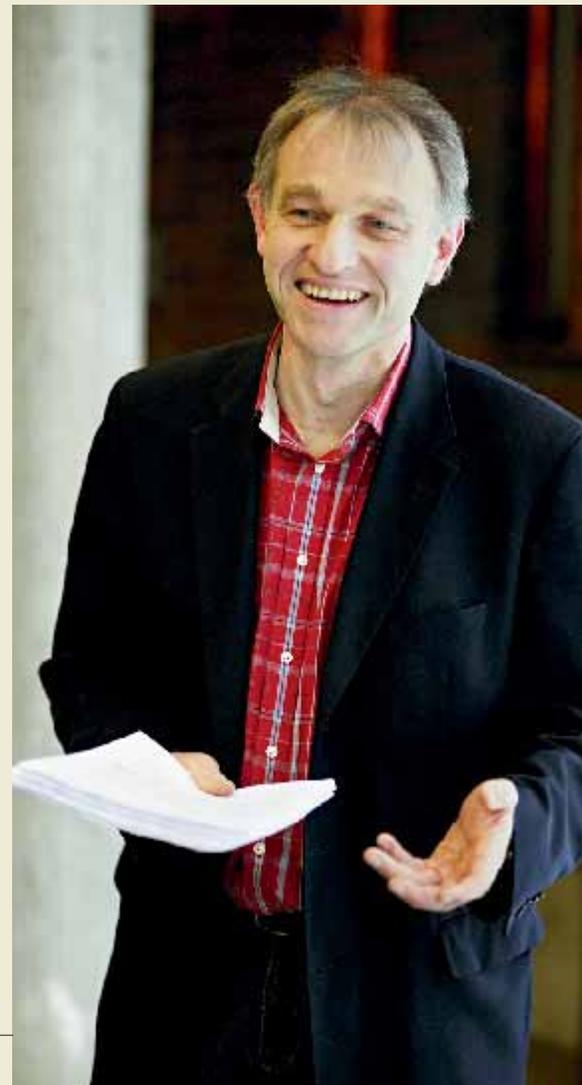
Within social responsibility, Sveaskog started to implement the code of conduct and social objectives that were developed and adopted in 2005. The year was therefore characterised by internal communication and initiation of activities within this area. One example is timber imports from Latvia, via Sveaskog's own purchasing organisation Sveaskog Baltfor, where requirements on the origins of the raw material are clearly formulated in agreements and contracts. With Sveaskog Baltfor's FSC\* certification, working methods were established in 2006 which enable the timber to be traced to its geographic origins.

Sveaskog's own forests have been certified for many years according to the Swedish FSC\* standard for socially beneficial, environmentally appropriate and economically viable forest management. Since 2005, the company has also been affiliated to the UN's Global Compact and its ten principles on human rights, fundamental principles and rights at work, anti-corruption and an improved environment. FSC\* and Global Compact are based on a globally sustainable development that combines economic development with consideration for the environment and social conditions. This ambition is very much in line with Sveaskog's objectives and values. Sveaskog's own sustainable development

work is based on a number of policies and guidelines. These include the following:

- Owner guidelines
- Code of conduct
- Policy for timber purchases in Sweden
- Import policy
- Environmental policy
- Guidelines for sustainable forestry
- Human resources policy
- Information policy

These policies and guidelines are available at [www.sveaskog.se](http://www.sveaskog.se)



Olof Johansson is head of environment and social responsibility at Sveaskog.

# Important events

## Environmental responsibility

- The market for biofuels continued to grow and Sveaskog delivered biofuel in the form of felling residues corresponding to 1.6 TWh, an increase of 22% compared with the previous year.
- Sveaskog continued its involvement in projects to develop biofuel, including black liquor gasification at Smurfit Kappa Group in Piteå. Black liquor is a valuable by-product from pulp mills. Gasification produces a synthetic gas that can be used to generate electricity and various types of vehicle fuels, such as DME.
- Through its involvement with the biotechnology company SweTree Technologies (STT) Sveaskog helped to develop a more modern and environmentally efficient fertiliser for nurseries based on the amino acid arginine.
- Sveaskog invested in Linotech AB, a company developing eco-friendly wood impregnation using linseed oil as a base.
- Four new ecoparks were inaugurated: Malingsbo in Bergslagen, Leipipir and Storklinten in Norrbotten and Böda on Öland.
- Wetlands restoration work continued and plans for restoration of the Gästern lake outside Oskarshamn were presented in November.
- Sveaskog sold land to the National Environmental Protection Agency totalling 9,813 hectares which will enable the formation of 86 new nature reserves.
- A systematic and independent review of consideration for nature in half of all Sveaskog's fellings in Norrbotten was carried out. The results generally showed high compliance with requirements for consideration for nature according to the Swedish FSC\* standard.

There is considerable demand for new biofuels. By gasifying black liquor, a synthetic gas can be produced to generate various types of vehicle fuel such as DME (dimethyl ethers). Volvo has modified an engine for this fuel.



## Social responsibility

- The focus in 2006 was on implementation and follow-up of the code of conduct. In spring 2006, CEO Gunnar Olofsson met all employees at vision meetings around the country. One key item at these meetings was a discussion of compliance with the code of conduct, what it means, and so on.
- During the year a total of 1,100 of Sveaskog's employees and contractors attended Operational Training – further training in production and environment. The training programme is designed to provide all employees and contractors with a good knowledge and understanding of the methods used in day-to-day forestry. Everyone should also have a good understanding of the underlying factors behind Sveaskog's guidelines and chosen methods.
- During 2006, timber management was certified according to the FSC's new traceability standard. This means approval for Sveaskog's system for timber tracing which excludes undesir-

able timber, such as wood from illegal felling. During the year the company's account executives were given further training in responsible timber trading.

- Forestry and the reindeer industry depend on the same forests and both industries must be able to develop in synergy with each other. Sveaskog works in several ways to facilitate co-operation between the reindeer industry and forestry. One such method is jointly run projects to develop land usage.  
At the end of 2006, a project was started designed to develop consultation between Sveaskog and reindeer farmers. This project will include the actual consultation procedure as well as decisions about which research projects and trials should be conducted and where these should take place.
- Together with the Swedish Forest Agency, Sveaskog has started a pilot project with continuity forestry. Continuity forestry means forestry with

no clear felling. This means that the forest continuously has trees in the ground and that felling is carried out by individual tree and not over an area. The project includes demonstrating and evaluating different cultivation methods. The three selected areas for this project are in Misterhult in the municipality of Oskarhamn, Handog in Östersund municipality and Ätnarova in Gällivare. The areas included in these trials total 3,000 hectares .

- In order to strengthen Sveaskog's managers in their role as leaders and thus create good conditions for a continued positive development of the company, a leader programme was started in autumn 2006. Lecturers include both external consultants and Sveaskog employees. The content of the programme is linked to Sveaskog's business, goals and assignment, but also includes tools for exercising good leadership. The programme will be complemented by leader development activities at individual level.



Dialogue with stakeholders is important for Sveaskog and excursions into the forest are often a good way to start a dialogue. Here the forests around Harasjömåla in Blekinge are being visited.

# Multi-year summary

|  | According to IFRS* |        |        | According to each year's annual report** |        |
|--|--------------------|--------|--------|--|--------|
|  | 2006               | 2005   | 2004   | 2003                                     | 2002   |
| <b>Income statements, MSEK</b>   |                    |        |        |  |        |
| Net sales  | 6,030              | 6,155  | 6,272  | 8,420                                    | 8,390  |
| Other operating income   | 58                 | 181    | 14     | 257                                      | 51     |
| Operating expenses   | -5,309             | -5,540 | -5,263 | -6,772                                   | -6,815 |
| Depreciation/impairments   | -93                | -59    | -68    | -327                                     | -365   |
| Share of profits of associates   | 96                 | -46    | -53    | -15                                      | -      |
| Operating profit before change in value of forest assets                   | 782                | 691    | 902    | 1,563                                    | 1,261  |
| Change in value of forest assets   | 842                | 180    | 206    | -  | -      |
| Operating profit   | 1,624              | 871    | 1,108  | -  | -      |
| Net financial items  | -286               | -347   | -425   | -516                                     | -495   |
| Profit before tax  | 1,338              | 524    | 683    | 1,047                                    | 766    |
| Tax  | -352               | -154   | 123    | -106                                     | -187   |
| Profit after tax, but before profit from discontinued operations           | 986                | 370    | 806    | -  | -      |
| Profit from discontinued operations, net after tax                         | 1,152              | 246    | 181    | -  | -      |
| Profit for the year  | 2,138              | 616    | 987    | 941                                      | 579    |
| <b>Balance sheets, MSEK</b>  |                    |        |        |  |        |
| Non-current assets, non-interest bearing                                   | 29,548             | 29,688 | 32,619 | 23,950                                   | 24,525 |
| Inventories  | 599                | 599    | 716    | 946                                      | 851    |
| Current receivables, etc., non-interest bearing                            | 1,940              | 1,949  | 2,216  | 1,646                                    | 1,525  |
| Cash and cash equivalents and interest-bearing receivables                 | 776                | 2,367  | 803    | 840                                      | 337    |
| Assets held for sale   | -                  | 3,354  | -      | -  | -      |
| Total assets   | 32,863             | 37,957 | 36,354 | 27,382                                   | 27,238 |
| Equity   | 16,620             | 16,275 | 16,135 | 12,715                                   | 12,727 |
| Non-interest bearing liabilities   | 9,610              | 9,399  | 10,072 | 4,184                                    | 4,353  |
| Interest-bearing liabilities   | 6,633              | 9,283  | 10,147 | 10,483                                   | 10,158 |
| Liabilities attributable to assets held for sale                           | -                  | 3,000  | -      | -  | -      |
| Total equity and liabilities   | 32,863             | 37,957 | 36,354 | 27,382                                   | 27,238 |
| Net operating assets   | 30,406             | 30,641 | 33,693 | 23,974                                   | 23,897 |
| <b>Cash flow</b>   |                    |        |        |  |        |
| Cash flow from operating activities  | 399                | -183   | 164    | 697                                      | 1,317  |
| Cash flow from investing activities  | 4,497              | 895    | 1,199  | 158                                      | -2,341 |
| Cash flow from financing activities  | -4,472             | -1,163 | -1,029 | -872                                     | -5,201 |
| Cash flow for the year   | 424                | -451   | 334    | -17                                      | -6,225 |
| Interest-bearing net debt  | 5,856              | 6,916  | 9,344  | 9,643                                    | 9,821  |
| <b>Key figures</b>   |                    |        |        |  |        |
| Return on equity, %  | 13.0               | 3.8    | 6.2    | 7.4                                      | 4.7    |
| Yield Forestry Operations (excl. property sales), MSEK                     | 922                | 617    | 1,064  | 1,191                                    | 1,025  |
| Yield, Group, %  | 2.6                | 2.2    | 3.1    | 6.5                                      | 5.3    |
| Return on net operating assets (incl. change in value of forest assets), % | 5.3                | 2.8    | 3.6    | 6.5                                      | 5.3    |
| Debt/equity ratio, times   | 0.35               | 0.42   | 0.58   | 0.76                                     | 0.77   |
| Equity ratio, %  | 51                 | 43     | 44     | 46                                       | 47     |
| Capital turnover, times  | 0.20               | 0.20   | 0.20   | 0.36                                     | 0.35   |
| Interest cover, times  | 4.7                | 2.3    | 2.3    | 2.9                                      | 2.4    |
| Gross margin, %  | 27                 | 16     | 20     | 23                                       | 19     |
| Operating margin, %  | 27                 | 14     | 18     | 19                                       | 15     |
| <b>Dividend</b>  |                    |        |        |  |        |
| Approved dividend total, MSEK ***  | 491                | 1,894  | 355    | 355                                      | 896    |
| <b>Investments, MSEK</b>   |                    |        |        |  |        |
| Company acquisitions and investments in shares                             | 2                  | 23     | 1      | 4  | 2,047  |
| Other investments  | 114                | 129    | 102    | 302                                      | 379    |
| <b>Personnel</b>   |                    |        |        |  |        |
| Number of employees  | 731                | 773    | 805    | 1,519                                    | 2,245  |
| Average number of employees  | 1,027              | 1,116  | 1,098  | 2,211                                    | 2,433  |
| Expensed salaries and other remuneration, MSEK                             | 349                | 361    | 370    | 731                                      | 777    |

\*\* Not restated to IFRS.

\*\*\* For 2006, proposed dividend. 2005 includes approved extra dividend MSEK 1,539.

## Definitions

### ADJUSTED EQUITY

Equity plus minority interests.

### CAPITAL TURNOVER

Net sales divided by average net operating assets.

### CHANGE IN VALUE OF FOREST ASSETS

The change in value that arises as a result of a change in the fair value of the standing forest discounted to a present value. Capital gains from the sale of forest properties are also included.

### DEBT/EQUITY RATIO

Interest-bearing net debt divided by adjusted equity.

### EQUITY RATIO

Adjusted equity divided by total assets, all calculated at year-end.

### GROSS MARGIN

Operating profit before depreciation and share of profits of associates expressed as a percentage of net sales.

### INTEREST COVER

Operating profit plus financial income divided by financial expenses.

### INTEREST-BEARING NET DEBT

Interest-bearing liabilities minus interest-bearing assets, all calculated at year-end.

### NET OPERATING ASSETS

Total assets excl. interest-bearing assets, tax assets and assets held for sale, minus non-interest-bearing liabilities excluding tax liabilities, all calculated at year-end.

### OPERATING MARGIN

Operating profit expressed as a percentage of net sales.

### RETURN ON EQUITY

Reported profit after tax expressed as a percentage of average adjusted equity.

### RETURN ON NET OPERATING ASSETS

Operating profit divided by average net operating assets.

### YIELD

Operating profit before change in value of forest assets divided by average net operating assets (excl. deferred tax).

### \* Effect of changed principle

Sveaskog is particularly affected by IFRS rules relating to biological assets with their requirement for recognition of standing forest at fair value. "Change in value of forest assets" is shown in the income statement. In the balance sheet the balance sheet items non-current assets, equity and non-interest bearing liabilities are mainly affected.

## Comments on the multi-year summary

### ■ 2002

2002 was Sveaskog's first financial year after the acquisition of the listed company AssiDomän AB. During the year, approximately 200,000 hectares of productive forest land was also acquired from Korsnäs AB together with the company's sawmill operations.

Demand for Sveaskog's products was relatively good which contributed to an improved operating profit.

### ■ 2003

Svenska Skogsplantor AB was transferred from the state to Sveaskog at the beginning of April. The intention was to reconstruct the company. At the end of the first half of the year, Sveaskog's sawmill operations, AssiDomän Timber Holding AB, were transferred through a non-cash issue to Mellanskog Industri AB. The company changed its name to Setra Group AB and became the largest wood products company in Sweden.

High demand for the Group's main products led to improved earnings.

### ■ 2004

Development for Sveaskog's products was favourable during the year with good demand from both the pulp and paper industry and the sawmills.

Due to the changed Group structure in 2003, sales in 2004 were slightly lower than in the previous year. Profitability remained satisfactory.

### ■ 2005

The year started with the dramatic storm Gudrun which felled a total of more than 62 million m<sup>3</sup>sub in southern Sweden. The storm-felled volume on Sveaskog's land was over 2.5 million m<sup>3</sup>sub.

The cost of processing and delivering this large volume of storm-damaged timber was very high for all forest owners. Furthermore, the major excess supplies of timber led to a marked negative price trend.

Sales decreased slightly and the impact on the Group's earnings was very negative.

An agreement was signed with Korsnäs AB in November for the sale of AssiDomän Cartonboard AB. In addition, ScandFibre Logistics AB was transferred to five Swedish forest industry companies at the beginning of the year.

### ■ 2006

The effects of the storm Gudrun gradually abated but had some negative effects, primarily in the first part of 2006. Demand for Sveaskog's products was good and despite a relative decrease in felled

and delivered volumes, operating profit improved considerably.

The deal with Korsnäs AB relating to AssiDomän Cartonboard AB was finalised in May, which generated a substantial capital gain. As a result of the sale of the company, Sveaskog is now a pure-play forest-owning company.

Extensive work to adjust the organisation to the new circumstances was started in the spring which led to relatively major changes, primarily in the forestry operations. Staffs and other operations were also adjusted.

The divestments carried out in recent years of businesses in the Group, combined with a positive cash flow, led to a significant reduction in the net debt. A comprehensive overview of Sveaskog's capital structure during the autumn led to new financial targets for the Group and an extra dividend of MSEK 1,539 was paid to the owner.

During the 2006 vision meetings there were intensive discussions about the company's vision: "Sveaskog will lead the way in the development of forest values."



Eva-Lisa Lindvall is a planning manager at Sveaskog in Norrbotten and is one of the participants in Sveaskog's leader programme in 2006 and 2007.



# Business environment and market

Increased demand for wood raw material in 2006 raised prices both in Sweden and internationally. The biofuel market is seeing strong growth. At the same time the forest is assuming an increasingly important role in new applications through biotechnology and as a cleaner of the environment.

## ■ Global trade flows

During 2006 the market was characterised by increased demand, particularly for sawn timber, but also for pulp and paper, which led to higher prices for these products.

China has boosted its production of sawn timber and paper products substantially which has affected global trade flows. This has led to significant imports of round timber and paper pulp by China in order to satisfy the country's growing forest industry. Large timber flows to China come from Oceania and Russia. China also buys felling rights in Russia in order to guarantee access to raw material and establish industrial production there. The Chinese demand for paper pulp has led to an expansion of pulp mills in South America.

Global timber flows are also affected by restructuring taking place in the Canadian sawmill and pulp industry. In western Canada attacks by bark beetles have destroyed large areas of forest which means that there is now and for some years ahead there will be a surplus among other things of pine timber. Since the quality of the damaged forest is lower, a large portion of this timber will be used a biofuel. The expansion of the European biofuel market is encouraging the construction of large pellet factories in Canada for exports to Europe. At the same time, a reduction of the maximum permitted felling levels has pushed up sawlog prices and led to the closure of sawmills and pulp mills, mainly in eastern Canada.

There is a surplus of fibre in the southeast USA since it is cheaper for fibre consumers to purchase raw material in Brazil than use existing local raw material. The surplus in southeast USA led to pellet production being started for exports to Southern Europe and elsewhere.

The favourable price trend for wood raw material is positive for Sveaskog which owns a resource that is in high demand. As

a result of global competition, Sveaskog probably has larger and more specialised customers who place higher demands on their suppliers of sawlogs, pulpwood and biofuel. This provides opportunities for closer co-operation, customised products, new applications and new logistics solutions.

## ■ Market around the Baltic

The wood product market was strong in 2006 due to a favourable construction climate in many European countries. Increased demand for sawn timber and processed products, combined with the fact that trade flows have adopted new routes, has led to higher prices. Russian exports of sawn timber to Western Europe have in principle ceased since Russia is using more and more wood raw material within the country and has substantially increased exports to China. The shortage of sawlogs in Europe means that prices are expected to be favourable in the next few years.

Baltic and Finnish sawmills have encountered problems with raw material

supplies, due among other things to their dependence on timber imports from Russia. A political decision in Russia to increase export duties on round timber with effect from 1 July 2007 will lead to further restructuring of the Finnish sawmill industry, among others.

Germany is Europe's largest producer of sawn timber and the German sawmill industry has seen strong growth. This has led to a shortage of wood raw material, which has affected the Austrian sawmill industry since its raw material base has decreased.

Higher electricity costs affect the forest industry, primarily mechanical pulp mills in Western Europe. Many producers of chemical pulp are making heavy investments to enable them to produce their own electricity using by-products from pulp manufacture. This means they can produce green electricity for their own needs or for sale on the electric grid.

## ■ Imports and exports

Imports of round timber to Sweden increased slightly compared with 2005,

### Major forest owners in Sweden, productive forest land

|   | 1,000 hectares |
|---|----------------|
| Sveaskog AB                               | 3,350          |
| SCA Skog AB <sup>1</sup>                  | 2,000          |
| Bergvik Skog AB <sup>2</sup>              | 1,999          |
| Holmen Skog AB                            | 1,035          |
| Statens fastighetsverk                    | 883            |
| Fortifikationsverket                      | 97             |
| Persson Invest Skog AB                    | 65             |
| Uppsala Akademiförvaltning                | 38             |
| Boxholms Skogar AB (incl. Öρμο Skogar AB) | 36             |
| Skogssällskapet förvaltning AB            | 30             |

<sup>1</sup> Incl. Scanninge Timber <sup>2</sup> Forest land company that includes Stora Enso's and Korsnäs' forest land holdings. Source: Swedish Forest Agency and companies' information.



although that was an abnormal year due to the storm Gudrun. Seen over a longer period, imports are decreasing. Instead, Sweden is gaining a stronger role as an export country of sawlogs and pulpwood. A clear increase in exports, although from low levels, can be noted to countries such as Finland which imported less raw material from Russia, and to Germany where the sawmill industry is going flat out.

Imports of chips from South America were not as large as expected. Sea transport costs remained high and a growing number of industries are being established in South America to convert wood raw material into paper pulp on site. Previously, pulp production primarily took place in North America and Scandinavia.

#### ■ Players in the Swedish forest market

The Swedish forest market is characterised by a few major forest companies, a large number of wood products companies and approximately 350,000 forest owners, of whom 90,000 are affiliated to forest owner associations with their own production. As a major forest owner, independent from the industry, Sveaskog has an independent role in the market which contributes to increased competition.

#### ■ Sawmill industry in Sweden

In economic terms the sawmills are forestry's most significant customers. This is because timber revenues account for the largest proportion of net stumpage which is the value of felled forest after costs for

felling and transport to a road.

Production of sawn timber has slowly risen in existing sawmills. Many sawmills enjoyed good profitability in the past year due to increased demand and rising prices for sawn timber.

The sawmills can probably look forward to a good business climate with high demand for another few years. At the same time, specialisation is taking place where sawmills are increasingly focusing on a niched range of products and grades. Examples of this include a focus on a single type of wood, production of building products for DIY chains or high-quality products for the joinery industry.

Several companies are planning to enter the biofuel market by manufacturing pellets from their by-products.

#### ■ Pulp and paper industry

Parts of the pulp and paper industry saw normal to good demand. Pure pulp production and production of newsprint went well, while it was more difficult for manufacturers of sack paper, cartonboard and graphic papers to raise prices. Although prices did move upwards recently for these products as well.

The market has become increasingly globalised in recent years. Production is shifting to the southern hemisphere. The major Scandinavian and North American players are interested in South America for fibre production and in China for paper production. Higher energy costs and increased costs for fibre raw material will

probably in time led to restructuring of the pulp and paper industry in Sweden. A few years ago there was a clear willingness to consolidate the industry through mergers between companies, but profitability was not as expected. Today, the trend is more for major European and North American companies to strengthen their production capacity in order to reduce costs and raise capacity utilisation in remaining units. Other trends are that several Chinese paper producers have started up and American investment companies are buying pulp and paper companies in order to delist them from the stock market and streamline their operations.

#### ■ Biofuel in Sweden

The market for biofuels for production of heating and electricity is growing fast in Sweden. Systems with green certificates and trading in emission rights are encouraging investments in power production using renewable biomass. For consumers, a transfer from heating based on electricity and oil is being accelerated by high oil prices and conversion subsidies. This has resulted, among other things, in a strong increase in pellet sales to home-owners. Wood fuel is by far the largest raw material source for bio-based energy supplies in Sweden. A number of new combined heat and power stations are planned by the power companies, pulp mills and large municipal companies around the country. Approximately 112 TWh of biofuel was used in 2006, including fuel used by the



Johan Dahlslätt is a machine operator at Sveaskog in Götaland. Sveaskog plays an active role in projects focused on equipment for multi-tree handling, automated crane head manoeuvring, fixed units with saws and shears for effective extraction of bioenergy and other techniques to improve production. Sveaskog will be introducing a number of these innovations in 2007.

forest industry itself. This corresponds to approximately 22% of Sweden's total energy requirements.

Many planned investments in the coming years mean that demand for biofuels should remain high in the future. Calculations show that new investments over the next few years will generate an increased requirement of about 10 to 12 TWh per year.

### ■ New applications with biotechnology

The development of society is very much characterised by the need for long-term, sustainable systems for production of goods and services. This means a gradual transfer from fossil to renewable materials and fuels. Wood raw material is becoming increasingly significant, both as a biofuel and as a component in modified materials produced through biotechnology. Development within biotechnology will in all probability increase the value of wood raw material over time, since it creates more applications. Sveaskog is therefore an active participant in a number of bioenergy and biotechnology projects.

Wood-based composites are already

used to replace plastic in cars. Car manufacturers Volvo and Mercedes use wood fibre in door panels and headlinings. Extremely light, but at the same time very strong, wood fibre material is used in space travel equipment by the US National Aeronautics and Space Administration, NASA. Modified fibre material can also replace the plastic layer in nappies and various types of liquid packaging. Modified materials are also used for clothes and furniture, which give the products new surface properties and new design characteristics.

Wood raw material can be processed into fuel for vehicles. For example, lignin, which is a component of wood, is gasified in order to produce the vehicle fuel dimethyl ether, DME, as a replacement for today's diesel. Sveaskog is taking part in a research project at Smurfit Kappa Group in Piteå for gasification of black liquor, which is a valuable energy residue from manufacture of paper pulp. Using a new gasification technology, the black liquor can be used more efficiently to produce electricity and fuel.

At Domsjö Fabriker in Örnsköldsvik ethanol is being produced from wood raw materials such as cellulose and hemicellulose. The factory is also developing a so-called bio-refinery. Domsjö Fabriker can convert wood into input materials that can be used in medicines and as a hardener in cement.

### ■ Ecosystem services

As a consequence of global climate change, there is increased interest in the forest's ecological functions or ecosystem services. One such function is the growing forest's sequestration of carbon dioxide. Another is the forest's ability to purify water. These ecosystem services have in the short term particular significance in developing countries where rapid deforestation is taking place.

Sveaskog is represented in the

### Green certificates and emissions trading

Green certificates are a Swedish system that will give Sweden increased production from renewable energy sources. The system is built up so that producers of renewable electricity receive a certificate for each MWh of electricity they produce. In order to increase demand for certificates, it is mandatory for electricity suppliers and some electricity consumers to buy a specific number of certificates in relation to their electricity deliveries/consumption, known as a quota obligation. The sale of certificates means that producers receive extra revenue in addition to revenues from electricity sales, which creates better economic conditions for eco-compliant electricity production. The European system with trading in emission rights functions in a similar way.

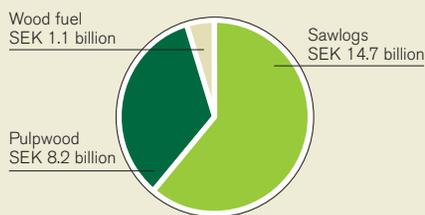
Source: Swedish Energy Agency.

international co-operation organisation Forest Trends, which is trying to push forward development of markets for ecosystem services. Forest Trends also works for sustainable development of the world's forests by bringing together players from different sectors, providing information and supporting business projects that might develop sustainable use. One major question for Forest Trends during the year was encouraging investors, companies and authorities in Russia and China to develop responsible usage of the forests in Siberia.

### ■ Tourism

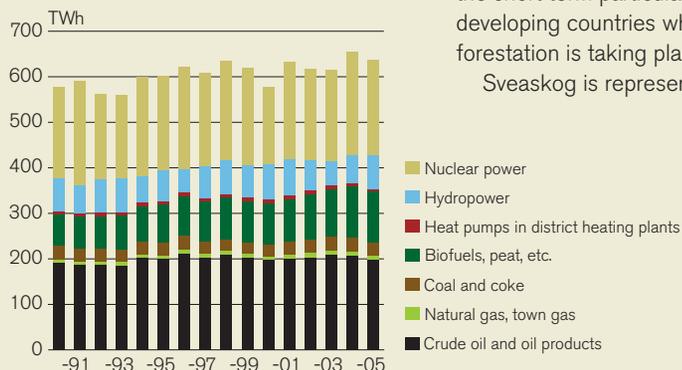
Sveaskog can raise the return on its forest capital by making land available to more people in various ways. Nature-based tourism, hunting and fishing provide experiences that have an economic value that goes hand in hand with modern forestry. One of Sveaskog's business segments is to develop these operations and encourage private companies and entrepreneurs that wish to strengthen Sweden's unique opportunities to offer active outdoor activities. These operations are conducted in the subsidiary Sveaskog Naturupplevelser AB.

VALUE BY PRODUCT GROUP IN THE SWEDISH TIMBER MARKET, SEK BILLION



Source: Forest Statistics Yearbook 2006.

SWEDEN'S ENERGY SUPPLIES, TWh



Source: Swedish Energy Agency 2006.

# Forest capital

Sveaskog's aim is to develop the value of its forests. Economic changes in value of the forest capital are mainly affected by three areas – growth, felling and property sales.

## ■ Economic value of the forest

Sveaskog's forest holdings represent substantial economic values. In 2006, these assets had a book value of MSEK 28,787. Book value decreased by MSEK 185 during the year. This was mainly due to increased sales under the land sales programme as well as more land transfers for the formation of nature reserves. Sveaskog also reports the value of its biological assets\*. The value of the biological assets changes due to how the forest grows and how much the company invests in silviculture. Value is also affected by felling volumes and the company's property sales and acquisitions.

In 2006 the value of the biological assets (value of the trees) was MSEK 26,747.

\* With effect from 2005, Sveaskog applies the new international accounting standards for forest assets (IAS 41 Agriculture). This means that a market valuation is performed of the company's biological assets. Biological assets refer to existing trees – not the land on which the forests grow. The intention is to determine a value for the standing forest.

## ■ Investments in forest capital

Growth and value-enhancing silvicultural measures are investments that increase the value of the forest capital. Examples of such measures are regeneration – with soil scarification, seeding and planting – as well as pre-commercial thinning and fertilising. In 2006, the company primarily increased fertilisation and regeneration with processed seedling material.

Annual growth on Sveaskog's productive forest land is 11.8 million m<sup>3</sup>fo or 3.5 m<sup>3</sup>fo/ha. Timber reserves on productive forest land total 311 million m<sup>3</sup>fo or 93 m<sup>3</sup>fo/ha. During the past five years timber extraction has averaged 71% of growth on cultivated land. This means that timber reserves increase in value every year. The greatest growth occurs in younger forest that is not yet ready for felling. Investments in forest capital also include building and maintaining roads on the company's land and acquisition of forest land. In 2006, Sveaskog invested MSEK 88 in road building and maintenance. Forest land was acquired for a value of almost MSEK 9.

## ■ Long-term sustainable felling level

The forest grows all the time which means that the potential earnings ability is relatively predictable.

In 2004, Sveaskog performed an analysis of long-term sustainable felling volumes. Subsequently Sveaskog started to reduce felling levels which led to an adjustment of felling resources and lower delivery volumes, mainly in northern Sweden.

Sveaskog's felling strategy is adapted to the age structure of the forest. This means that the company currently and for the next ten to fifteen years will have a considerably lower felling level than that which can be calculated as feasible.

The storm Gudrun in 2005 led to higher forest extraction than normal in southern and central Sweden. Felling levels returned to normal in 2006.

## ■ Economic valuation of forest capital

Calculations of the value of the forest capital are updated every quarter and based on Sveaskog's long-term felling

| Sveaskog's forest capital   |        |                      |                      |                      |                      |
|---|--------|----------------------|----------------------|----------------------|----------------------|
|   | 2006   | 2005                 | 2004                 | 2003                 | 2002 <sup>1)</sup>   |
| Total area of land, million ha  | 4.45   | 4.48                 | 4.54                 | 4.60                 | 4.60                 |
| - of which productive forest land, million ha                         | 3.35   | 3.37                 | 3.40                 | 3.46                 | 3.46                 |
| - of which cultivated, million ha                                     | 2.98   | 3.02                 | 3.05                 | 3.11                 | 3.19                 |
| Book value, MSEK  | 28,787 | 28,972 <sup>2)</sup> | 29,529 <sup>2)</sup> | 20,783 <sup>3)</sup> | 21,015 <sup>3)</sup> |
| Tax assessment value forest land, MSEK                                | 29,756 | 30,832               | 24,006               | 23,300               | 23,623               |
| Timber reserves*, million m <sup>3</sup> fo                           | 267    | 268                  | 270                  | 275                  | 276                  |
| Timber reserves*, m <sup>3</sup> fo/ha                                | 90     | 89                   | 88                   | 88                   | 86                   |
| Net growth*, million m <sup>3</sup> fo                                | 11.0   | 11.2                 | 11.3                 | 11.7                 | 11.7                 |
| Timber extraction from own forest, million m <sup>3</sup> sub         | 5.85   | 7.11                 | 6.60                 | 6.62                 | 6.39                 |
| Timber extraction as proportion of net growth on cultivated land *, % | 65     | 78                   | 72                   | 70                   | 70                   |

\* Cultivated land  
<sup>1</sup> Pertains pro forma to the Sveaskog Group <sup>2</sup> Fair value according to IFRS <sup>3</sup> According to previous accounting principles.  
 1 m<sup>3</sup>fo corresponds to approximately 0.82 m<sup>3</sup>sub.

| Return on forest capital   |
|--|
| The annual timber harvest is the most important factor for determining the economic value of the forest land. The year's timber harvest forms part of the annual total return in the form of a yield. Net income for the year from property sales and from hunting, fishing and nature experiences, is also included as a yield. In addition to yield, the total return also includes the year's change in forest value. This change depends on differences in actual harvested volume and felling potential, respectively, and thus a changed breakdown in time of the timber harvest, as well as changes in value due to property sales. |

calculations. A return calculation is made where future anticipated revenues are discounted to a present value. This means that the company includes the future value of the forest in its present value.

Calculations are performed on volumes anticipated for felling during an average rotation period for the forest. The sum of the rotation period's discounted cash flows is the value of the biological assets.

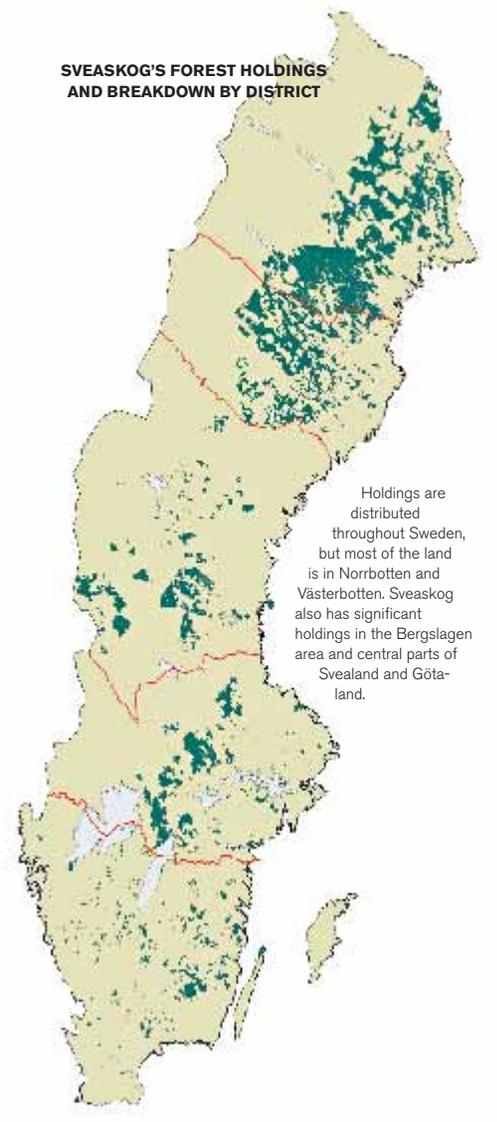
In simple terms, these calculations mean that selling prices and costs are applied to the volumes and grades that are expected to be felled each year. The levels of revenues and costs are based on an historical average. The estimated cash flow for each year is discounted using a nominal interest rate of 6.25%. Annual inflation is assumed to be 2%.

### Property sales

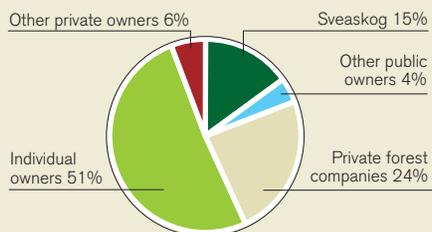
In 2006, Sveaskog sold a total of 53,000 hectares of land for over SEK 1 billion. Since 2002, Sveaskog has carried out an extensive land sales programme to private farmers and forest owners as well as people living in Norrland and in sparsely populated areas of southern Sweden. The purpose of the land sales programme is to strengthen private farming and forestry and thus make it easier for people to remain living in and derive an income from these areas. The target for the programme is to sell 5–10% of Sveaskog's land at market prices.

Since 2002, Sveaskog has sold approximately 160,000 hectares of forest land within the land sales programme. In 2006, 235 deals were completed for a total of 39,985 hectares of land. Land was sold for a total value of MSEK 603.

### SVEASKOG'S FOREST HOLDINGS AND BREAKDOWN BY DISTRICT

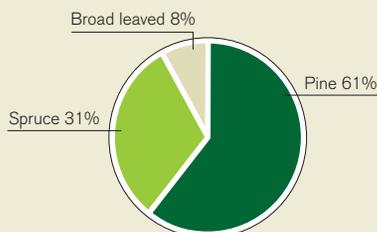


### SWEDISH FOREST OWNERSHIP STRUCTURE



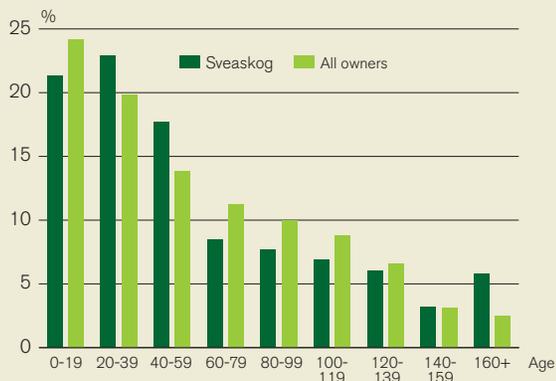
Source: Forest Statistics Yearbook 2006 and Sveaskog

### TYPE OF TREE SVEASKOG



Source: Sveaskog.

### AGE CATEGORY BREAKDOWN SWEDEN AS A WHOLE. SVEASKOG AND ALL OWNERS



Source: Forest Statistics Yearbook 2006 and Sveaskog

### Forest age structure

The age structure in Swedish forests is uneven. Forests in the age category 50–100 years are under-represented while forests in the age category 0–50 years and over 100 years are over-represented. The background is that silvicultural methods applied at the end of the 19th century and in the early 20th century created weak growing, thin and low-productive forests. Major restoration work was started in 1950 which led to large areas of high-growth forest that are not yet mature.

A relatively large portion of Swedish forest older than 100 years is exempt for nature conservation purposes.

Source: Swedish Forest Agency

# Research and development

Increased forest growth, more efficient technology and new applications for wood raw material are prioritised areas for research and development at Sveaskog.



In order to achieve the best possible impact and business benefit, a major part of Sveaskog's research work is conducted in co-operation with universities, colleges and industry wide research institutes such as the Forestry Research Institute of Sweden (Skogforsk), the Swedish Pulp and Paper Research Institute (STFI-Packforsk) and SP Träteknik (a collective research and development resource for the Swedish timber and wood manufacturing industries).

## ■ Increased growth – the role of the forest in climate work

Society's ambition to use more biofuels presents researchers with major challenges. If there is to be sufficient wood raw material in the future, new production enhancing methods must be developed and introduced in forestry.

Sweden is a world leader within forest biotechnology and Sveaskog is a partner in a number of future-focused projects. For example, vegetative propagation of

seedlings using somatic embryogenesis has major potential. This method opens opportunities for mass propagation of processed spruce seedlings with high growth and attractive quality characteristics.

Sveaskog is a part owner of the biotechnology company SweTree Technologies (STT) which among other things co-operates with Umeå Plant Science Centre (UPSC) to build up and make commercial use of knowledge of the basic biology of trees.

Sveaskog plans to put a driverless harvester robot into operation in 2007. The robot provides a better working environment, environmental gains and cost savings. For example, haulage damage in the forest will be reduced.

Through STT, Sveaskog is also involved in the development of new eco-friendly fertilisers based on the amino acid arginine. Trials with cultivation of spruce and pine seedlings in nurseries have been successful. The intention is to also develop arginine for mature forests where the need for an effective, modern fertiliser is substantial.

In order to meet demand for wood fuels, Sveaskog carried out trial extraction from stumps in Bergslagen in 2006. Both the environmental effects and the technical and economic prerequisites will be analysed in 2007.

More active cultivation of the Swedish boreal forests could double growth and double sequestration of carbon dioxide. Against this background, in co-operation with the Swedish University of Agricultural Sciences (SLU), LKAB, the County Administration Board in Norrbotten, Norrbotten County Council and Syvab, Sveaskog has taken the initiative to the Carbon Sink project in Norrbotten. The project will examine the possibilities of binding carbon in the ground and trees through various types of growth-promoting operations. The full-scale pilot project started in summer 2006. A project area totalling 600 hectares has been marked out and selected areas fertilised with bio-nutrients.

#### ■ More efficient technology

Sveaskog is involved in several projects related to the development of forestry technology and methods. The rapid rise in the use of biofuels makes it increasingly important to develop technologies and logistics within this field.

For example, new fixed units with saws and shears are being tested for harvesting biofuel in thin forests and alongside roads.

Sveaskog took part in tests of a driverless harvester robot during the year. The robot is part of a system for final felling that also includes two manned forwarders which act as couriers to the

robot. This system has many advantages for forestry and the industry. The operators have a better working environment with less vibration and noise. Robot technology also provides financial savings, saves time and has environmental gains due to less hauling damage on the ground. Sveaskog plans to take this system into operation during 2007.

Sveaskog is an external investor for the crane head steering project being conducted by Umeå University, SLU, Skogforsk and a number of machine manufacturers. The aim is to develop a new crane for harvesting machines using technology for steering the crane that will enhance the machine's performance while the operator's environment is improved.

#### ■ New applications for wood raw material

A vision that will probably be realised is that the forest industry's factories, primarily pulp mills, can become the core of future "bio refineries". Using wood raw material and by-products from the mills, electricity, "green" chemicals, biofuel and so on can be produced.

Sveaskog is one of the stakeholders in a national pilot project for black liquor gasification at Smurfit Kappa Group in Piteå. Black liquor is a high-energy by-product from chemical pulp mills. By gasifying black liquor, synthetic gas can be produced to generate electricity, vehicle fuels and renewable inputs for the food and pharmaceutical industries.

Sveaskog also supports a research programme into "tomorrow's forest products". This is about how modified wood and fibre products and biocomposites can replace fossil material.

During the year, Sveaskog invested in Linotech AB, a development company that develops eco-friendly impregnation of wood using linseed oil as a base. Wood impregnated with linseed oil can be used in several applications which increases the value of the product.

#### ■ EU's technology platform

Research into biofuel is a key part of the EU's strategic research programme which involves a total of SEK 440 billion until 2013. The vision for 2030 is that 25% of vehicle fuel in Europe will be biofuel. Sveaskog's research director, Ann-Britt

Edfast, is a member of the steering committee for the EU's technology platform for biofuel.

The increasingly extensive Swedish and European research investments into bio-energy technology, bio-refineries and new materials from the forest are important parts of a climate policy designed to replace fossil fuels and encourage the use of renewable resources. At the same time, new business opportunities are created for both forest owners and the forest industry.

#### ■ Nature conservation

Sveaskog has decided to use some of the forest land ravaged by fire in Norrbotten in summer 2006 for research into how forest fires affect biodiversity, the biochemistry of watercourses, forest regeneration and so on. The project is a co-operation between Sveaskog, SLU, Umeå University and Luleå College of Technology.

Regeneration of ground lichen is a postgraduate project at SLU and part of a joint programme involving Sveaskog and the reindeer industry. In order to minimise damage to ground lichen at soil scarification, various types of alternative and more gentle methods are being tried for sensitive areas. Artificial spreading of lichen fragments is one alternative for accelerating lichen recovery after soil scarification, but the feasibility of this method in practice needs to be further examined.

#### ■ Another use for the forest

In 2006, Sveaskog together with the Swedish Forest Agency took the initiative for large-scale trials with continuity forestry, as a complement to the dominant clear-felling of tracts. This trial will increase knowledge of the effects different types of continuity forestry will have on production, growth, biodiversity, outdoor activities, and other use of the land.

Sveaskog and SLU have also started a co-operation to study the effects of various feed creating measures. The aim is that this will lead to less game feeding damage and more robust game herds.

How are people with burnout syndrome affected by regular visits to the forest. This is being studied in the Forest and Health research project which is a co-operation between Sveaskog, the Swedish Forest Agency and SLU.

# Forestry Operations

Sveaskog increases the return on forest capital through sustainable development of the benefits from all forest applications. Since 1 July 2006, the company's forestry operations have been organised in three main processes: **Market, Production and Silviculture.** This will provide greater efficiency and improved profitability.

## Market

Sveaskog works with production, acquisition, sales and deliveries of sawlogs, fibre raw material and biofuel. The company is Sweden's leading timber supplier. Customers are primarily Swedish sawmills and pulp and paper mills. Biofuel products are sold to heating plants, combined power and heating plants and forest companies.

### Independent player

By playing an active and independent role in the timber market, Sveaskog contributes to cost-effective raw material flows from forest to processed product. Sveaskog's presence in the market also helps to strengthen competition. This is partly because the company is independent in relation to the pulp and paper industry and partly because the company exchanges and purchases timber with other players.

### Customised services provide added value

In order to be an attractive supplier,

Sveaskog must offer its customers consistent deliveries with the right volumes, grades, freshness, lengths and dimensions. Sveaskog meets these demands by efficient utilisation of its own forest holdings combined with timber procured from other forest owners and imports. Competitiveness is based on customising services to an increasing extent, in areas such as production, timber preparation, logistics and service. Such adjustments give customers added value in the form of increased cost efficiency or improved results from processing. This in turn helps Sveaskog to increase the value of its own deliveries and forest holdings over time.

A recently completed survey of Sveaskog's timber and biofuel customers shows that customer perceptions of Sveaskog have developed favourably during the past two years, particularly within competence and professionalism.

### Market 2005

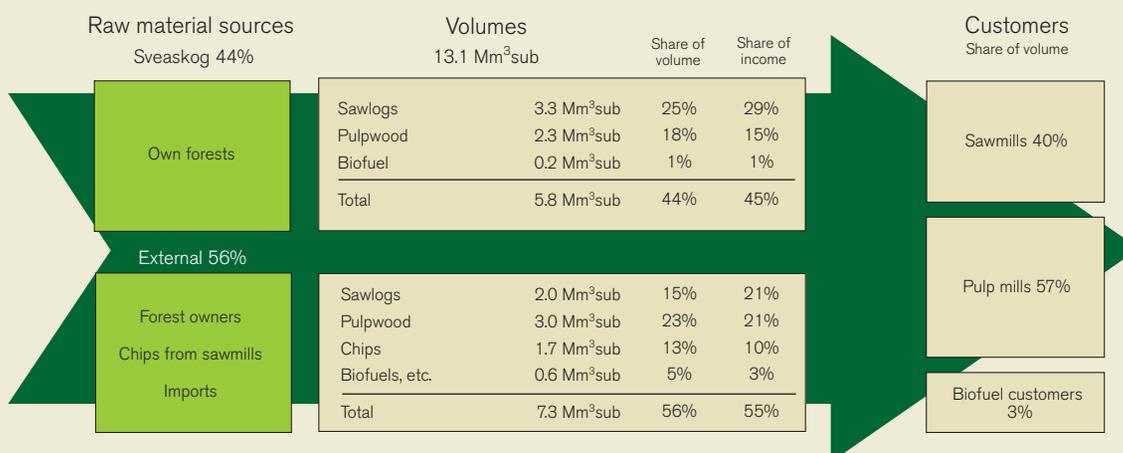
Sveaskog has approximately 80 sawlog customers, 20 fibre customers and some

30 biofuel customers. The total number of customers is on a par with the previous year.

The timber market in 2006 was characterised by increased demand for timber raw material and rising prices. Above all, demand for sawlogs increased. Many sawmills had timber shortages at times. Supply and demand for fibre raw material was more balanced.

The increased demand and ability to pay for wood raw material shows that things are going well for Sveaskog's customers. The market for sawn timber and processed wood products was positive during the year with raised prices. This was due to a favourable construction climate in many European countries. Demand for pulp was also good. The price rise for long-fibred paper pulp was clear, while the trend for finished paper products was more restrained. High energy prices and the falling dollar rate slowed profitability development for parts of the forest industry.

In 2005, the Swedish timber market was



strongly affected by the storm Gudrun in southern Sweden. There are still timber stocks in the storm area which affect the timber balance. But the effects of the storm lessened in 2006 and most of the timber stocks are expected to be sold in 2007. However, felling of forest damaged by the spruce bark beetle will affect the market in southern Sweden with continued spruce-dominated supplies.

### ■ Increased biofuel deliveries

In 2006, Sveaskog delivered biofuel corresponding to 1.6 TWh excluding imports. Compared with the previous year, delivered volumes of wood fuel rose 22%. Sveaskog's new contracts were mainly signed with customers in the forest industry, but also with heating plants and CHP plants.

Biofuel business is most extensive in central Sweden, but during the year was also established on a large scale in Norrbotten and Västerbotten. Customer facilities are often close to Sveaskog's forest holdings and their annual requirements range from 5 GWh to over 300 GWh.

A number of investments have been made and are planned within the Swedish pulp mills to produce electricity, among others by Billerud in Skårblacka and Karlsborg and by the Smurfit Kappa Group in Piteå.

Biofuel deliveries include felling residues (branches and tops), parts of trees, fuelwood – i.e. round timber that is not suitable for industrial use – and by-products from the sawmill industry. Sveaskog is conducting a pilot project with stump deliveries.

### ■ Timber supplies

Of Sveaskog's deliveries in 2006, 44% came from raw material from its own forests and the remainder came from external sources.

A large portion of the external sources are other Swedish forest owners. Sveaskog has approximately 8,000 external suppliers. These are mainly private forest owners who do not have the resources for felling and transport. Most of Sveaskog's purchases also include services such as forestry plans, felling plans, felling, transport, soil scarification and regenera-

tion. Sveaskog's timber purchases from Swedish forest owners are controlled by special guidelines.

Sveaskog buys by-products from sawmills and purchases and exchanges timber with other Swedish forest companies in order to optimise logistics and reduce transport costs.

Over 7% of Sveaskog's timber deliveries consist of imported timber, primarily from the Baltic countries. Imports totalled 975,000 m<sup>3</sup>sub, of which a large part was delivered from Sveaskog's subsidiary Sveaskog Baltfor. The main imports are pulpwood, chips and a growing volume of biofuel.

Prices for imported fibre raw material rose in 2006 as did prices for standing forest in Sweden.

### ■ VALS controls the timber flow

In 2006 Sveaskog worked intensively with forecasts. One key part of this work is optimisation of the VALS business management system which links together all Sveaskog's timber deals – from market assessments, via purchasing, felling and logistics to invoicing and other administration. Using VALS during the year further improved control of the timber flow in order to match Sveaskog's purchases with customer requirements.

### Support for safer imports

Sveaskog has an import policy for timber purchases outside Sweden. Purchased raw material may not come from illegal fellings or other controversial sources as defined by the FSC\*. In order to minimise the risks, Sveaskog works to guarantee and control traceability for all timber purchased from players outside Sweden. Sveaskog has two certificates for traceability, called Chain of Custody or CoC, one certificate according to the FSC\* standard and one according to the PEFC standard. Traceability certificates make it possible to guarantee the origins of the raw material – from forest via the industry to the consumer. Sveaskog also co-operates with the World Wide Fund for Nature, WWF, over development of responsible timber trading. This co-operation provides added security to follow-up and control of raw material flows.

## Production

### ■ Timber harvests

Sveaskog has a tract bank with information about the forest stands that are available for harvesting. This database contains felling volumes corresponding to two annual fellings in own forests and approximately one year for purchased forest. On the basis of the tract bank, Sveaskog prepares rolling three-month production plans based on customer orders. The final delivery mix to customers is the responsibility of Sveaskog's local organisation based on all raw material sources, such as own production, exchanges or imports.

In 2006, Sveaskog carried out felling activities (pre-commercial thinning and regeneration felling) on 49,000 hectares. Sveaskog's felling organisation consists of about 60 machine teams and 250 operators. Co-operation with contractors is important for Sveaskog. In its felling, the company co-operates with some 155 contractor companies throughout Sweden.

### ■ Open contractor procurement

In 2006, Sveaskog went out to tender for felling services in Götaland and Västerbotten. The aim was to make these tendering procedures open to competition and thus make them more professional. This type of procurement is intended to encourage partnerships and development together with the contractors.

Sveaskog's assessment of a bid examines, in addition to price, quality, delivery reliability, flexibility and willingness to develop.

Invitations to tender are also issued for a number of road-related activities, such as building new roads.

### ■ Timber accessibility

Sveaskog is Sweden's largest private road operator. In 2006, the company invested MSEK 58 in road maintenance. 390 kilometres of new roads were built. Major projects include a new method for recovering surface course gravel that collects in the verges.

Between 2004 and 2006, Sveaskog took part in a CTI, Central Tyre Inflation, project. With CTI the driver of a timber

vehicle can vary the tyre pressure while moving. This allows the vehicle to be driven on less good roads which leads to less wear. The project was headed by the Forestry Research Institute of Sweden, Skogforsk. The Swedish Road Administration will introduce new rules for gross weights for vehicles with CTI. Sveaskog will

thus be able to access timber volumes where a road investment is not motivated.

#### ■ New felling technology

Sveaskog makes active efforts to develop the company's own machine teams and contractors' teams in order to raise the quality of felling and preparation of the timber. The company also works with development of new felling methods and machine concepts.

During the year, Sveaskog took part in tests of a driverless harvester robot. The robot is part of a final felling system that also includes two manned forwarders, which act as couriers to the robot. Sveaskog has contributed to the development of multi-tree handling which has been tested by Skogforsk and made a breakthrough in 2006. The technology increases profitability when felling in thin forests. A new unit is attached to existing equipment in order to hold several trunks simultaneously.

Development has also been made in felling for bioenergy.

In 2006, Sveaskog completed a pilot project where harvester statistics can provide a basis for payment. This is a business where the landowner receives a receipt directly for the quality and volume of the felled timber. Another measure

improved in 2006 is machine templates that will be placed in all machines. This will enable price lists and customer specifications to be updated electronically via a file in the machine computer, instead of manually as before.

## Silviculture

In the silvicultural process the operational decisions are made on which areas of forest land should be used for forestry or set aside for nature conservation purposes. The responsibility here is to create new, strong growth forests in a cost effective manner after felling and to care for the growing forests so that they provide the best possible returns from thinning and final felling.

In 2006, Sveaskog successfully started work on competitive procurement of forestry services such as regeneration and stand treatment.

#### ■ Spruce bark beetle major threat

In the wake of the storm Gudrun, the spruce bark beetle population grew substantially in southern Sweden. A total of approximately 1.5 billion cubic metres of spruce forest was infested in 2006, of which about 70,000 cubic metres on

### Customers and deliveries at a glance

- In 2006 Sveaskog delivered a total of 13.1 million m<sup>3</sup>sub of timber. Of this delivery volume, round timber accounted for 10.6 million m<sup>3</sup>sub, which corresponds to approximately 14% of all industrial round timber deliveries in the Swedish timber market.
- Deliveries of timber raw material, including biofuel, from Sveaskog's forests amounted to 5.8 million m<sup>3</sup>sub, which is 9% less than in the previous year.
- Sveaskog's imports of raw material decreased by 28% compared with 2005 to 975,000 m<sup>3</sup>sub. This corresponds to 11% of total Swedish imports of wood raw material.
- Sveaskog delivered to approximately 80 sawlog customers, 20 fibre raw material customers and some 30 biofuel customers.



In 2006 Sveaskog invested MSEK 88 in maintenance and building of 390 kilometres of new roads. Sveaskog has approximately 45,000 kilometres of forest roads that are also open to the public.

Sveaskog's land. In 2007, the volume of spruce bark beetle-damaged forest risks being up to 10 million cubic metres. How damage from the spruce bark beetle develops in 2007 depends on the weather and the success of various measures.

In order to minimise insect damage, Sveaskog carried out an extensive inventory and felling work in the areas affected during the year.

### ■ Regeneration

Significant work was carried out during the year to develop common regeneration strategies for the entire company. The main purpose is to achieve higher growth in stands and lower regeneration costs. In northern Sweden adapted soil scarification was carried out on approximately 1,000 hectares, primarily on important grazing areas for reindeer.

Seeding as a regeneration method continued to increase since it leads to good regeneration results at comparatively low costs. The gains from modifications in seed and seedling materials has been in focus and the proportion of processed material increases from year to year. Regeneration work after the storm Gudrun continued. The area was mostly regenera-

ted with spruce and pine but some deciduous planting was also carried out.

### ■ Stand treatment

Pre-commercial thinning is a prioritised activity for Sveaskog, and this was carried out on an increased area in 2006. Pre-commercial strip thinning was also tested on about 400 hectares in Sweden in co-operation with Skogforsk and other forestry players. This method is partly mechanised where the strips are thinned by machine and central zones manually.

### ■ Increased growth

Sveaskog's aim is to increase growth in the forest and one way to achieve this is to increase fertilised areas. In 2006, 9,700 hectares of forest land was fertilised. All fertilising is done with GPS support and high precision.

### ■ Land usage

According to Sveaskog's environmental policy, 20% of Sveaskog's productive forest land is to be set aside for nature conservation. In the other areas, efficient and long-term, sustainable forestry is to be carried out.

### ■ Nature conservation work

Nature conservation work is conducted by Sveaskog forming ecoparks, setting aside nature conservation forests and taking day-to-day consideration in the production forests. Day-to-day consideration includes leaving trees, tree groups and edge zones after felling. The aim is not only to protect existing forests with high natural values but also to re-create forest environments of which there is a shortage in the country. Nature conservation work is carried out from a landscape perspective. This makes it easier to create environments that give threatened animals and plant species a chance to survive and spread. All Sveaskog's land holdings have been analysed and divided into 160 ecological landscapes (excluding the ecoparks) which

#### Silvicultural measures 2006, ha

|                           |              |
|---------------------------|--------------|
| Soil scarification        | 19,600 ha    |
| Planting                  | 17,100 ha    |
| No. of seedlings planted  | 35.8 million |
| Seeding                   | 5,100 ha     |
| Pre-commercial thinning   | 28,187 ha    |
| Fertilising               | 9,691 ha     |
| Ditch maintenance, metres | 29,090       |

Sara Berggren has worked as a logistician in Bergslagen since 2006.



Ove Ohlsson is a felling manager in Jönköping, Götaland.



Lennart Ask works as a machine operator in Västerbotten.



are between 1,500 and 100,000 hectares in size. Each landscape has been assessed and assigned an ambition level for nature conservation.

#### ■ **Ecoparks**

34 of the landscapes have been designated as ecoparks where at least 50% of the land will be used for nature conservation purposes. The ecoparks cover a total of 175,000 hectares or 5% of Sveaskog's land. An extensive inventory is being carried out and 15 ecoparks have been inaugurated so far. Four ecoparks were inaugurated in 2006: Malingsbo, Leipipir, Storklinten and Böda, a total of approximately 22,500 hectares. Another approximately 25,000 hectares were measured during the year ahead of next year's inaugurations.

#### ■ **Consideration prioritising**

10% of productive forest land is set aside as nature conservation forests that are totally excluded from forestry. Consideration prioritising is the name for the method used by Sveaskog to select the forest

areas in each ecological landscape that are most important for the preservation and development of biological diversity.

#### ■ **Burning and forest fires**

In order to meet FSC\* requirements, Sveaskog must burn 5% of the regeneration area of dry and healthy land as an average over five years. In 2006, 1,280 hectares of controlled burning and nature conservation burning was carried out. During the very dry summer about as much land burned in forest fires, of which almost 900 hectares in Norrbotten.

#### ■ **Co-operation with reindeer industry**

A project to develop co-operation with the reindeer industry was started at the end of 2006. The project has two parts. One part involves committee meetings with minutes, maps, document management and implementation of the committee's decisions. The other part will develop and test methods that are effective for forestry, but at the same time acceptable to the reindeer industry.

#### **Presenting FSC\***

FSC is an independent international organisation for certification of responsible forestry. The aim is that the forest should be managed in a responsible manner that is socially beneficial, environmentally appropriate and economically viable. FSC's logo on products represents independent certification of forestry and product manufacture according to FSC rules.

\* ©1996 Forest Stewardship Council, [www.fsc.org](http://www.fsc.org)  
certification number: SGS-COC-0110.

Sveaskog supplies 13 million cubic metres of timber to customers in the forestry, wood products and energy sectors. In the interests of efficient logistics, forest companies exchange timber with each other.



# Property deals

Sveaskog works actively with purchases, exchanges and sales of forest properties. These property deals make the structure of Sveaskog's own holdings more efficient. At the same time, the company conducts a major land sales programme designed to strengthen private farming and forestry, especially in sparsely populated areas.

Since 2002, Sveaskog has been carrying out an extensive sale of land to farmers and forest owners as well as residents in Norrland and in sparsely populated areas of southern Sweden. The purpose of the land sales programme is to strengthen private farming and forestry and thereby give people better opportunities to remain and earn a living in these areas.

The land sales programme was founded in a parliamentary decision that the company should sell 5–10% of its land holdings. This makes Sveaskog a major player in the forest property market in Sweden. All land sales are conducted at market prices.

## ■ Different methods in north and south

The extent of Sveaskog's land holdings varies in different parts of the country. The largest holdings are in Norrbotten and inner Västerbotten as well as in parts of Bergslagen.

Demand for forest properties also varies in different parts of the country. The greatest demand is in southern Sweden.

On the basis of the market scenario and its own holdings, Sveaskog carries out its land sales programmes in different ways in north and south Sweden.

In the south, Sveaskog selects suitable areas that are offered to the market via an estate agent. The size of these areas varies between 50 and 200 hectares. In the north, Sveaskog offers suitable land to people who have sent in an application. The size of the parcels sold is usually a maximum of about 500 hectares. Often there are good opportunities for applicants to affect the choice of parcels and the acquisition date.

In Sweden, forest properties change owner to a very limited extent. When forest land is sold a significant portion is acquired by relatives or acquaintances of the seller.

Sveaskog's land sales programme offers a unique opportunity for forest owners in general and residents in northern Sweden in particular to acquire forest land.

## ■ More deals every year

The pace of Sveaskog's land sales to strengthen private farming and forestry has increased steadily since the start of the sales programme.

In 2006, 235 deals were completed for approximately 40,000 hectares. Since the start in 2002, almost 1,000 deals have been finalised for 160,000 hectares.

In order to raise awareness of the programme, an information campaign, with advertisements and meetings in northern Sweden, was carried out in 2006. The result was a substantial increase in the number of applications.

## ■ Land for formation of nature reserves

Sveaskog transfers land when the state wishes to acquire land for various purposes for the common good. An inventory performed in 2004 of state forests in need of protection will result in Sveaskog transferring about 130,000 hectares of forest with high natural values to the Swedish Environmental Protection Agency for the formation of nature reserves. In this way, Sveaskog helps to make it easier for the state to formally protect forest land in accordance with the national environmental objective Sustainable Forests.

As a result of the storm Gudrun, transfers of land for nature reserves since 2005 mainly comprise land in Götaland.

During the year Sveaskog and the Swedish Environmental Protection Agency signed an agreement for 86 areas totalling about 9,800 hectares. The sales price amounts to MSEK 363.

## ■ Replacement land

The Swedish Environmental Protection Agency can also acquire so-called replacement land from Sveaskog. This land is used by the Swedish Environmental Protection Agency as exchange land and given to private landowners instead of financial compensation for transferring land to the state for the formation of nature reserves. In 2006, 20 such sales were carried out totalling 1,350 hectares.

## ■ Improved land consolidation

A well consolidated land holding increases the value of the forest and the efficiency of Sveaskog's operations. One aim for Sveaskog is therefore to improve land consolidation in conjunction with sales, purchases and exchanges of land. Another aim is to realise added values by selling land for use other than forestry. Sveaskog sells land to municipalities, companies and private individuals for establishment of industry or housing or site enlargements. In addition to the land sales programme and sales to the Swedish Environmental Protection Agency, in 2006 Sveaskog made 178 transfers for MSEK 78.

### Facts

In 2006, Sveaskog sold a total of 53,100 hectares of land for over SEK 1 billion. This is more than ever before. Most of the sales, approximately 40,000 hectares, were land that within Sveaskog's special land sales programme was sold to forest owners and private individuals in order to strengthen private farming and forestry.

# Sveaskog Naturupplevelser AB

In 2005, Sveaskog's articles of association were complemented to include nature-based tourism, primarily by making land available to private entrepreneurs and by co-ordinating work with nature-based tourism on state lands.

Based on Sveaskog's vision to lead the way in the development of forest values, it is natural for the company to make land available for hunting, fishing and nature experiences through various forms of leases. The focus of Sveaskog's work with nature-based tourism, on the other hand, is not to conduct tourism activities.

## ■ New subsidiary

Sveaskog's subsidiary Sveaskog Naturupplevelser AB was formed on 1 January 2006. Operations previously conducted at Sveaskog with leasing of hunting and fishing was transferred to the company. Sveaskog Naturupplevelser has three main tasks:

- To manage leases of land and fishing waters in a manner that creates increased values for the principals.
- To manage game and fishing stocks
- To develop commercial nature-based tourism in Sweden.

This mainly involves offering entrepreneurs opportunities to lease land and water-courses, and as part of this the company is responsible for "Sverigefiskekortet" (the Swedish Fishing Permit) and runs the marketplace **inatur.se**

Operations are conducted on market terms and the company co-operates with other state property managers and players in the tourist industry. Initially, priority is being given to Sveaskog's lands in the northern part of the country.

Sveaskog Naturupplevelser is based in Östersund. The company has annual sales of MSEK 55 and about 35 employees. The employees are spread around the country in order to have close contact with tourism entrepreneurs, hunting teams, fishing associations and the local communities in which tourism will be developed.

## ■ Development of nature-based tourism

Starting in 2007, in co-operation with the National Property Board, Sveaskog will offer a new fishing permit that will apply throughout the country – "Sverigefiskekortet". The permit will provide access to more than 1,000 fishing waters in 50 of Sweden's municipalities from north to south.

**inatur.se** will be Sweden's biggest marketplace for nature-based tourism. The site was developed in 2006 and launched in the first quarter of 2007. At **inatur.se** people will be able to find nature experiences and accommodation throughout Sweden. Activities such as fishing, dog sleigh rides, hunting, kayaking, trekking, riding, etc., can be booked and paid for online. With the aid of a sophisticated map database customers can plan their visits to the countryside and print out detailed maps.

**inatur.se** is operated by Inatur Sverige AB, a subsidiary of Sveaskog Naturupplevelser. The project is a close co-operation between the Norwegian state forest company Statsskog and Sveaskog. A corresponding marketplace is established in Norway at **inatur.no**.

## ■ Partners

Sveaskog has started to co-operate with the Swedish University of Agricultural Sciences, SLU, in Umeå, Mid Sweden University and the European Tourism Research Institute, ETOUR, in Östersund, through funding of two professorships in tourism.

During the year, Sveaskog and the Swedish Ecotourism Association decided to start to co-operate over nature-based tourism. Aspects the parties will work with include encouraging more and more skilled tourist entrepreneurs to emphasise

nature-based tourism in public debate. Sveaskog will provide funding for these joint efforts of MSEK 4.5 over a three-year period. During the year the company also started co-operation and contacts with other players such as the Swedish Travel and Tourist Industry Federation (RTS), the Swedish Association for Hunting and Wildlife Management, the Swedish Anglers' Association and the Federation of Swedish Farmers (LRF).

## Board and management

Mikael Linnander has been recruited as President of the company and Board members are Yngve Bergqvist, President of Icehotel AB, Maria Lilja, former president of Nyman & Schultz and European Manager of American Express Business Travel and Claes-Göran Österlund, President and Director of Göta Kanal. Board chairman is Gunnar Olofsson, President and CEO of Sveaskog.

## ■ Hjälmare Kanal

Hjälmare Kanal AB is a Sveaskog subsidiary. Hjälmare Kanal was completed in 1639 and is Sweden's oldest artificial waterway. The canal is 13 km long and has nine locks between lakes Mälaren and Hjälmaren. Hundreds of pleasure boats and large passenger boats pass through the canal every year. Some 40,000 tourists visit the canal area every year.

Work on a new visitors centre started in 2006 and the intention is that the centre will inspire visitors to discover the nature experiences available in the area. New nature trails and a cycle track start from the centre. The visitors centre will be inaugurated in May 2007. For further information, visit **www.sveaskog.se**

# Svenska Skogsplantor AB

The company has eight nurseries, one seed unit and a network of approximately 100 supply terminals. The company has approximately 90 employees.

Svenska Skogsplantor sold approximately 130 million forest seedlings in 2006. This corresponds to a market share of approximately 35%. Sveaskog is the company's biggest customer. Other customers are forest companies and private forest owners throughout Sweden.

## ■ Increased demand for seedlings

Svenska Skogsplantor's operations during 2006 were affected by increased demand for seedlings in southern Sweden as a result of the storm Gudrun, and therefore also by an unusually high seedling volume. This increase in volume is expected to continue for another year or so and a previously closed nursery is temporarily back in operation.

The hot summer provided a good growing climate which resulted in a fine seedling quality ahead of 2007.

Svenska Skogsplantor also offers

silvicultural services. In order to suit today's various landowner categories the company works continuously to develop its offering of services such as soil scarification, planting, cleaning and preparing forestry plans. The mild autumn was favourable for services of this type and they have expanded.

In 2006, flowering in the spruce seed plantations was very abundant which led to increased work in the form of cone picking and a much needed replenishment of stocks of processed spruce seed material.

## ■ Expansion of seed plantations

Svenska Skogsplantor is also actively involved in the extensive, nationwide build-up of new seed plantations for future access to high-quality processed seed. Sustainable genetic modification of forest cultivation materials and physiological development of seeds and seedlings are important for the

entire forest industry. Genetically improved forest cultivation material can increase forest growth per unit area. In addition, timber quality is enhanced as well as the tree's ability to adapt and its resistance to different types of damage.

The focus on increasing the proportion of rooted planting material grown in open cultivation systems continued. The design of the pot in the new cultivation systems means that root systems develop more naturally and quickly after planting.

In the first half of 2006, Svenska Skogsplantor received environmental certification according to ISO 14001 and the company also received certification according to the PEFC standard.

Development of machinery for the mechanical insecticides to combat the pine weevil, Conniflex and BetaQ, is under way, and a first prototype line is expected to be ready in 2008.

Henrik Svensson, Jörgen Franzén and Ove Ström work for Svenska Skogsplantor at the Lugnet nursery in Bålsta.



Svenska Skogsplantor sold 130 million seedlings in 2006 which corresponds to a market share of 35%.



# Setra Group AB

Setra Group is Sweden's largest wood products company. The company is also a significant player in the European market.

Setra Group offers high-quality wood products for interiors and construction based on eco-certified raw material. The company's customer base is in the building materials trade and manufacturing in Europe, and in prioritised markets in the rest of the world, such as Japan.

The Swedish sawmill industry is still fragmented. Long-term competitiveness will require efficient production units and distribution solutions. Consolidation among customers continues. Customers, in both the building materials trade and industry, are becoming fewer and larger. Major customers are developing into increasingly global players. This places demands on increased specialisation and customisation of products.

Setra Group has a clear strategy to increase the value-added of its wood products. Natural steps in line with this

policy were taken during the year with the acquisition of Rolfs Såg & Hyvleri AB, which complements Setra's competence and capacity within processing, and the sale of the board materials specialists Ceos Industriprodukter AB.

Setra Group has approximately 2,400 shareholders of which the largest are Sveaskog AB (50%), Skogsägarna Mellanskog ekonomisk förening (26%) and LRF, Lantbrukarnas Ekonomi AB (22%). Other shareholders together own about 2% of the shares. The company's principal owners are planning to broaden ownership of the company.

## Results

Setra Group's net sales for 2006 amounted to MSEK 5,844 (5,378). The increase of almost 9% is mainly an effect of higher prices.

Consolidated operating profit amounted to MSEK 257 (-105), an improvement of MSEK 362 compared with the previous year. The improved earnings are mainly an effect of an increased gross profit margin. The market was strong which provided scope for good price development. The improved earnings are also an effect of extensive work within Setra Group with a sharper business focus through efficiency enhancements and efforts on both the cost and revenue side.

Profit after financial items amounted to MSEK 212 (-154).

The positive earnings trend was accompanied by a strong cash flow. Cash flow from operating activities amounted to MSEK 430 (-39) for the full year.

In one year Setra's sawmills handle a total of approximately 5 million m<sup>3</sup> of timber. Lars Eng works at Setra's sawmill in Färila, Hälsingland.

## Operations

|  | 2006    | 2005    |
|--|---------|---------|
| Number of production units (sawmills and processing)     | 19      | 17      |
| Annual volume of sawn timber, million m <sup>3</sup>     | 2.3     | 2.3     |
| Annual volume of processed wood products, m <sup>3</sup> | 289,000 | 235,000 |
| Number of employees                                      | 1,411   | 1,470   |

## Key figures

|  | 2006  | 2005  |
|--|-------|-------|
| Net sales, MSEK                                | 5,844 | 5,378 |
| Operating profit, MSEK *                       | 257   | -105  |
| Profit after financial items, MSEK             | 212   | -154  |
| Profit after tax, MSEK                         | 222   | -87   |
| Equity ratio, %                                | 29    | 24    |
| Investments, MSEK                              | 89    | 90    |
| * Of which items affecting comparability, MSEK | -3    | -61   |



# Management and organisation

Sveaskog has 730 employees. The company introduced a new, process-oriented organisation during the year with coherent forestry operations consisting of three processes: Market, Production and Silviculture.

## ■ Increased customer orientation in new organisation

On 1 July 2006, Sveaskog established an enhanced organisation designed to create greater efficiency and increased profitability.

The changes will also facilitate internal co-operation with uniform routines and working methods and joint development.

The organisation is based on a coherent forestry operation with three main processes – Market, Production and Silviculture.

The forestry operations are divided into five market areas: Norrbotten, Västerbotten, Södra Norrland, Bergslagen and Götaland. The main towns in the five market areas are Kalix, Lycksele, Östersund, Örebro and Växjö. There are also a number of local offices around the country.

The three main processes are represen-

ted in each market area and work for an overall good result, which means that the company can make better use of local resources.

The introduction of a more process-oriented working method meant that the number of positions could be reduced by about 35. Many employees agreed to pension solutions while some chose to leave the company on their own initiative. A small number of people were made redundant.

## ■ Company management

Sveaskog is headed by the President and CEO according to instructions issued by the Board. The CEO is not a member of the Board, but presents reports and provides the Board with information as a basis for its work. The CEO's responsibilities include day-to-day operations and

contacts with the company's Chairman and external stakeholders.

The composition of the company's management changed in 2006. Management comprises, in addition to the CEO, an Executive Vice President who is also head of the forestry operations, and the heads of the staffs Human Resources, Communications, Finance and Treasury, Environment and Social Responsibility, Forest Capital and Legal Affairs. The gender breakdown is three women and five men.

Management meets once a month. Several times a year special theme days are held with a focus on strategic issues for the company.

The subsidiaries Svenska Skogsplanter AB and Sveaskog Naturupplevelser have their own management groups headed by each company's president.

Jimmy Pettersson is head of game management at Sveaskog's subsidiary, Sveaskog Naturupplevelser AB.

Annika Gustavsson is a timber purchaser at Sveaskog. Here she is visiting forest owner Torvald Aksén in Grythyttan.



Once a quarter the CEO has an operational follow-up with each staff head. Also once a quarter, the CEO has business follow-up meetings with the management of the forestry operations and the presidents of Svenska Skogsplantor and Sveaskog Naturupplevelser.

**■ Employees**

Sveaskog has 730 employees. The average age is 49. Employee turnover during the year was 3%. Absence due to illness was 3.9%.

**■ Manager and employee information**

Sveaskog works to keep the company's managers with responsibility for personnel informed about the company's development. This allows them to have a dialogue with their employees. All managers meet twice a year. In addition to the regular

workplace meetings Sveaskog's employees receive information about the company via the intranet. All employees also receive Sveaskog's company magazine Forum Sveaskog posted to them at home. In spring 2006, all employees met the CEO at vision meetings around the country.

An annual performance review is held between managers and employees. Every other year an employee survey, VIS, measures how Sveaskog functions and is perceived as an employer.

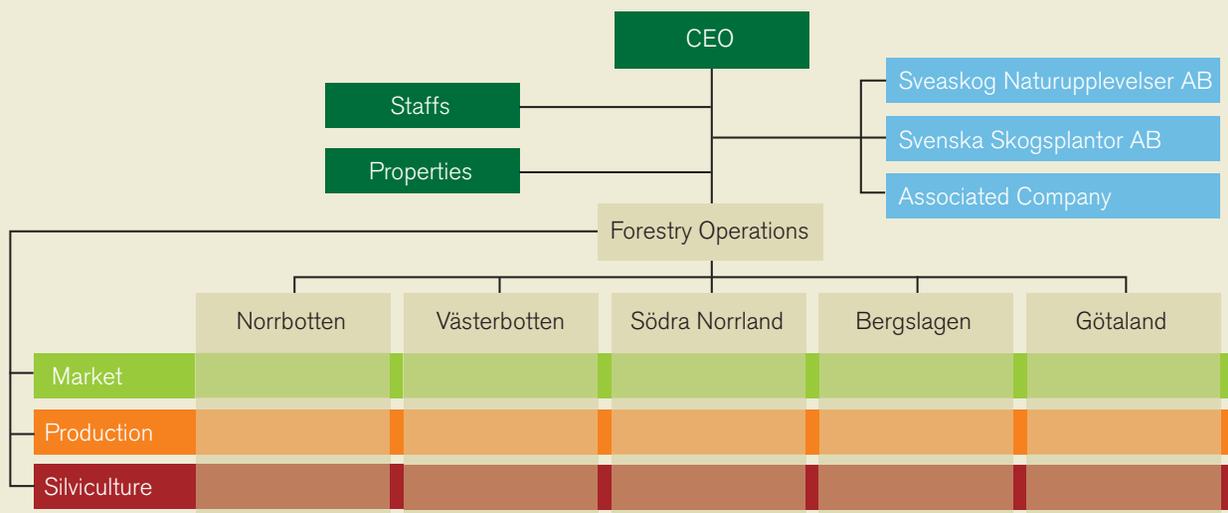
**■ Trade union co-operation**

Dialogue with the employee organisations is important. In order to facilitate information and consultation within the company between management and trade union representatives, there are cross-union information groups, called reference groups. In order to adapt to the agree-

ment between employer and employee organisations about consultation, a new reference group has been formed. The agreement applies from 1 January 2007.

As a complement to working environment legislation and central working environment agreements, parties within Sveaskog have also drawn up a local working environment agreement. All union organisations are affected and the agreement is mainly intended to clarify forms of co-operation.

**ORGANISATION**



## Board of Directors

### Board members elected by a general meeting

#### **Bo Dockered, Chairman of the Board**

Born 1941, elected 1999. Hon. Doctor of Agriculture and Chairman of AB Trav och Galopp, among others. Deputy Chairman of the Second Swedish National Pension Fund. Board member of the Royal Swedish Academy of Agriculture and Forestry. Chairman of the Property Committee (PC) and the Remuneration Committee (RC). Attendance at Board meetings in 2006: 10 of 10. PC 8 of 8 and RC 1 of 1.

#### **Lars Johan Cederlund**

Born 1941, elected 1999. MSc, Stockholm School of Economics. Head of Division at the Ministry of Industry. Previously different positions in the Swedish Government Offices. Chairman of OECD Working Group on Privatisation and Corporate Governance of State-Owned Assets and Förvaltningsbolaget Stattum. Board member of Civitas Holding AB/Vasakronan AB. Member of the Property Committee (PC). Attendance at Board meetings in 2006: 10 of 10 and PC 8 of 8.

#### **Birgitta Johansson-Hedberg**

Born 1947, elected 2001. BA., Psychology Degree at Lund University. Chairman of Umeå University and VINNOVA and Board member of the Swedish Financial Supervisory Authority, MISTRA and Fortum Oy. Board member of the Royal Swedish Academy of Agriculture and Forestry. Former President and CEO of Förenings-Sparbanken and Lantmännen. Member of the Remuneration Committee (RC). Attendance at Board meetings in 2006: 9 of 10 and RC 1 of 1.

#### **Åsa Domeij**

Born 1962, elected 1999. Agronomist at the Swedish University of Agricultural Sciences. Attendance at Board meetings in 2006: 10 of 10.

#### **Christina Liffner**

Born 1950, elected 1999. MSc, Stockholm School of Economics. Former Finance Director Asea Group, vice president and CFO AssiDomän AB. Chairman of Svensk Adressändring AB,

Swedish Endometriosis Association, vice chairman of AB Svenska Exportkredit, Board member of Länsförsäkringar Bergslagen, Vasakronan AB Prevas AB and SJR in Scandinavia AB. Chairman of the Audit Committee. Attendance at Board meetings in 2006: 10 of 10 and AC 9 of 9.

#### **Lena Johansson**

Born 1955, elected 1999. Agronomist at the Swedish University of Agricultural Sciences. Director General of the National Board of Trade. Previously Director General of the Swedish Institute for Food and Agricultural Economics, SLI. Board member of the Swedish Industrial Design Foundation. Member of the Property Committee (PC). Attendance at Board meetings in 2006: 10 of 10 and PC 8 of 8.

#### **Maria Norrfalk**

Born 1952, elected 2005. MSc Forestry from the Swedish College of Forestry. Director General of the Swedish International Development Cooperation Agency, Sida. Previously Director General of the Swedish Forest Agency, head of research at the Forestry Research Institute of Sweden and forestry policy administrator at the Federation of Forest Owners. Board member of the Royal Swedish Academy of Agriculture and Forestry. Previously Board member of the Swedish Association for Hunting and Wildlife Management, the Inland Delegation, the Swedish Environmental Objectives Council, the Swedish

Håkan Ahlqvist



Lars Johan Cederlund



Bo Dockered



Karl-Åke Kjellberg



Åsa Domeij



Maria Norrfalk



Birgitta Johansson-Hedberg



Ola Lassemo



Kurt Larsson



Sture Persson



Lena Johansson



Anna-Stina Nordmark-Nilsson



Agency for Government Employers and the Swedish University of Agricultural Sciences. Attendance at Board meetings in 2006: 10 of 10.

**Håkan Ahlqvist**

Born 1943, elected 2003. Degree in Agronomics and Economics. Former President and CEO of Cerealia and long experience as company manager from the food industry. Chairman of Svensk Returkartong AB and Svenska Metallkretsen AB. Board member of Coop Norden and Coop Sverige. Board member of the Royal Swedish Academy of Agriculture and Forestry. Member of the Audit Committee (AC). Attendance at Board meetings in 2006: 8 of 10 and AC 8 of 9.

**Anna-Stina Nordmark Nilsson**

Born 1956, elected 2006. B.Sc. Economics. Healthcare Director Stockholm County Council. Previously Assistant County Director Stockholm County Council. Previously Director of Roads, Swedish Roads Administration North Region, President of Piteå-Tidningen AB and an authorised public accountant and office manager at Öhrlings PricewaterhouseCoopers. Chairman of Novum Karolinska Institute, Deputy

Chairman of Svenska Kraftnät and Board member of Diös Fastigheter AB. Attendance at Board meetings in 2006: 5 of 6.

**Employee representatives**

**Sture Persson**

Born 1957, elected 2003. Board member, Swedish Forest and Wood Trade Union, Harvester Operator, Sveaskog. Member of the Audit Committee (AC). Attendance at Board meetings in 2006: 8 of 10 and AC 9 of 9.

**Karl-Åke Kjellberg**

Born 1949, elected 2003. Deputy, Association of Managerial and Professional Staff, Road Surveyor, Sveaskog. Attendance at Board meetings in 2006: 9 of 10.

**Kurt Larsson**

Born 1952, elected 2003. Deputy, Swedish Forest and Wood Trade Union. Harvester Operator, Sveaskog. Attendance at Board meetings in 2006: 10 of 10

**Ola Lassemo**

Born 1974, elected 2006. Deputy, Swedish Union of Graduate Engineers, CF. Head of Timber Administration, Sveaskog. Attendance at Board meetings in 2006: 4 of 5.

**Auditors**

**Torsten Lyth**

Born 1952, elected 1999. Authorised Public Accountant, Ernst & Young

**Torbjörn Köhler**

Born 1952, elected 1999. Authorised Public Accountant, Ernst & Young

**Filip Cassel**

Born 1947, appointed 2004. Authorised Public Accountant, State Audit Institution.

# Group Management



Gunnar Olofsson

Solveig Aspholm

Urban Eriksson



Peder Zetterberg

Karin Ericsson

## Gunnar Olofsson

President and CEO since 2004. Born 1955. Employed since 2001. MSc Forestry. Previous employment includes Head of Forestry, Sveaskog, President of Persson Invest Skog and Senior Administrative Officer at the Swedish Forest Agency. Chairman of wood products company Setra Group, Sveaskog's subsidiary Sveaskog Naturupplevelser AB and Board member of the Swedish Forest Industries Federation.

## Urban Eriksson

Vice President and Director of Forestry. Born 1959. Employed since 2003.

## Linda Andersson

Head of Communications. Born 1971. Employed since 2004.

## Karin Ericsson

Head of Human Resources. Born 1956. Employed since 2001.



Olof Johansson

Herman Sundqvist

Linda Andersson

## Olof Johansson

Head of Environment and Social Responsibility. Born 1958. Employed since 1988.

## Herman Sundqvist

Head of Forest Capital. Born 1963. Employed since 1994.

## Solveig Aspholm

Head of Legal Affairs. Born 1957. Employed since 2006

## Peder Zetterberg

Head of Finance and Treasury. Born 1951. Under contract since 2006.

# Glossary

## Ash restoration

Returning mineral-rich ash from wood burnt in biofuel boilers to the forest. This maintains the long-term cycle of certain nutrients.

## Biofuels

Renewable fuels originating from plants, such as from wood, including liquors, bark and tall oil.

## Biological diversity

Diversity of plant and animal life in all environments and ecological processes of which they are a part. Includes diversity within species, between species and ecosystems.

## Biotope

A region uniform in its environmental conditions and in its population of animals and plants for which it is the habitat.

## Chain of Custody, CoC

Traceability certificate that enables the origins of raw material to be guaranteed – from the forest via industry to the consumer.

## Chips

Wood which is cut into pieces of suitable size using a machine. Applications include pulp manufacture, chipboard production or combustion.

## COD

### (Chemical Oxygen Demand)

A measure of the amount of oxygen needed for complete breakdown of organic material in water.

## Code of conduct

Document that clarifies how the company should act as a business partner, employer and member of society.

## Ecological balance sheet

A systematic, documented, regular and objective examination of the results of environmental protection activities, in forestry for example.

## Ecological landscape plan

A forestry plan at landscape level where forestry is conducted in order to maintain the landscape's diversity of plants and animals.

## Ecoparks

A large, contiguous forest landscape with high natural values and nature conservation ambitions. Sveaskog has decided to set up 34 ecoparks around Sweden.

## FSC (Forest Stewardship Council)

International organisation that works to certify socially beneficial, environmentally appropriate and economically viable forest management.

## Felling assignment

The forest owner assigns the purchaser to carry out harvesting. The purchaser is responsible for harvesting and transport to a road while pricing and measurement of the timber is carried out in the same manner as for delivery stumpage purchases.

## Felling right (delivery stumpage purchase)

The forest owner allows an impartial person to mark out a forest area for harvesting. The purchaser is responsible for harvesting and transport from the site. Volumes are measured and settled on arrival at the industry.

## Fossil fuels

Fuels based on organic carbon and hydrogen compounds deposited in sediments or rock deposits – mainly coal, oil and fossil gas.

## FSC (Forest Stewardship Council)

International organisation that works to achieve socially beneficial, environmentally appropriate and economically viable forest management.

## Gross felling

Wood harvested from a forest stand with the addition of remaining felled trees and parts of trunks.

## Gross growth

Volume growth in a forest stand including natural thinning.

## Ha

Hectare, an area corresponding to 10,000 m<sup>2</sup>. One km<sup>2</sup> equals 100 ha.

## Hardwood pulpwood

Normally birch. Has shorter fibres than softwood pulpwood. Used particularly in production of newsprint and office paper.

## Humus layer

The top layer of soil mainly comprised of dead organic material.

## Impediment

An area of land which has an average growth of less than 1 m<sup>3</sup>fo/ha/year.

## Industrial wood

Stemwood that is used in industrial processes, primarily pulpwood and sawlogs.

## Key biotope

Forest area with high natural values where the presence of (biotope-dependent) red-listed species can be expected. These forests often have an ancient history and the character of a natural forest.

## Land consolidation

Relative positioning of forest properties.

## m<sup>3</sup>fo

Forest cubic metre. Volume of timber including tops and bark. 1 m<sup>3</sup>fo corresponds to approximately 0.82 m<sup>3</sup>sub. See also sub.

## m<sup>3</sup>sub

Volume unit for timber. Specifies cubic metres of actual wood volume without bark. See also sub.

## Market pulp

Dried pulp that is sold in bales in the market.

## Marking (for cross cutting)

Scaling of sawlogs into assortment. This measurement is made to ensure that the greatest possible financial return is obtained.

## Natural regeneration

New forest grows from seeds spread from seed trees.

## Natural thinning

Trees are driven out, dry and fall over.

## Natural value area

Forest with some natural values and major potential to restore high nature values in the near future.

## Nitrogen oxides (NO<sub>x</sub>)

A group of gases composed of nitrogen and oxygen that form during combustion. In humid air, nitrogen oxides are converted to nitric acid, which leads to acid rain.

# History

Most of the Swedish state's forest holdings were managed by the Swedish Forest Service until 1992. On 1 July 1992 the Swedish Forest Service's principal forest holdings, as well as the forestry operations and most of its other operations, were transferred to Domän AB, a company wholly owned by the Swedish state. Forest lands west of the so-called cultivation limit mostly remained under direct state management.

On 31 December 1993, Domän AB acquired the wholly state owned forest industry company ASSI AB. At the same time, the company's name was changed to AssiDomän AB. On 1 March 1994, AssiDomän made an offer to all shareholders in the listed company Ncb AB, in which the state owned approximately 51% of the shares. On 1 April 1994, AssiDomän was listed on the stock exchange after which the state's holding amounted to just over 50%.

In 1999 approximately 25% of AssiDomän's forest land was transferred to the subsidiary Sveaskog AB whose shares were acquired by the state. At the same time the state's holding in AssiDomän decreased to approximately 35%.

In 2001 the state acquired the remaining 65% of the shares in AssiDomän AB through Sveaskog AB.

In 2006, Sveaskog sold AssiDomän Cartonboard in Frövi to Kinnevik's wholly owned subsidiary Korsnäs. As a result of this sale, Sveaskog became a pure-play forest-owning company.



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Sveaskog co-operates with WWF to promote conservation and sustainable management of the world's forests.

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