

YOUR PULP COMPANY

**STRONG ANNUAL
PROFIT ONCE AGAIN**

**FOCUS ON SAFETY
AND SUSTAINABILITY**

**INVESTMENT IN
ROTTNEROS PACKAGING**



THE PLAN REMAINS

Our primary focus of increasing the Group's volumes by increasing capacity and productivity remains in place, and the investments in our long-term AGENDA 500 plan are progressing according to plan at both Vallvik Mill and Rottneros Mill. The investment programme is being carried out by an efficient organisation that shares values and has a strong team spirit. Consequently, the continued development of leadership with clear communication skills is crucial.

OBJECTIVE

THE GROUP WILL ACHIEVE SUSTAINED PROFITABILITY OVER A BUSINESS CYCLE.

We will achieve this objective by focusing on selected niche products, providing the best service and always putting safety first. In 2016 we also began to develop Rottneros Packaging.

→ SAFETY FIRST

Safety first is a slogan at Rottneros. The safety of our employees is paramount and we underscore safety in every situation. The objective is not to have no injuries caused by inadequate safety.

→ SELECTED NICHE PRODUCTS

We create profitable growth by focusing on selected niche products for our high-quality mechanical and chemical pulps, and also through increased production volume, via higher availability and expanded capacity.

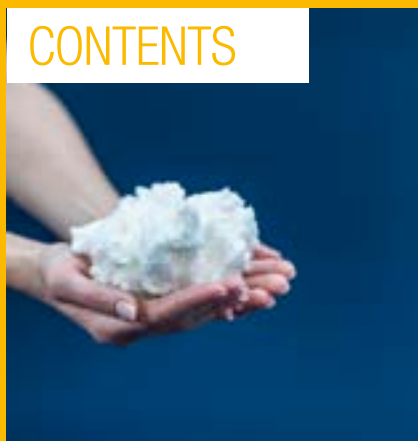
→ CUSTOMER FOCUS

We shall also provide the best service. We shall know more about our customers' customers than they do – that way we can work with our customers to develop the best type of pulp for their production.

→ ROTTNEROS PACKAGING

In 2016 we began to develop Rottneros Packaging, where we are designing the end product – trays used mainly for food.

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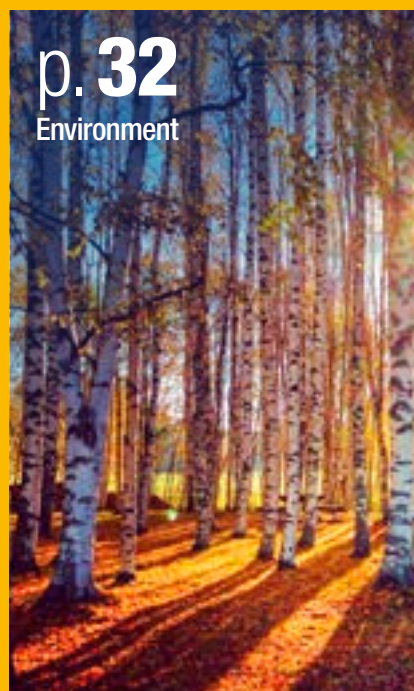
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THE YEAR IN SUMMARY

CONTINUED INTENSIVE INVESTMENT PROGRAMME

WITHIN THE AGENDA 500 FRAMEWORK. Of the investments of SEK 510 million approved to date, SEK 370 million have now been completed. The remaining SEK 140 million will be completed in 2017.

INVESTMENT IN ROTTNEROS PACKAGING

ROTTNEROS is transitioning from only selling market pulp, to also selling the end product, food trays, with the objective of being completely fossil-free.

CONTINUOUS PRODUCTION GROWTH

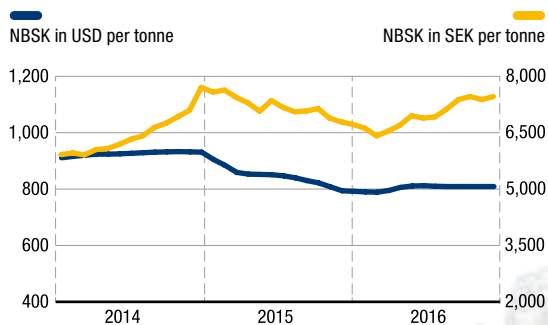
PULP PRODUCTION has increased by 12 per cent compared with 2013. Total production amounted to 374,100 tonnes in 2016.

15%

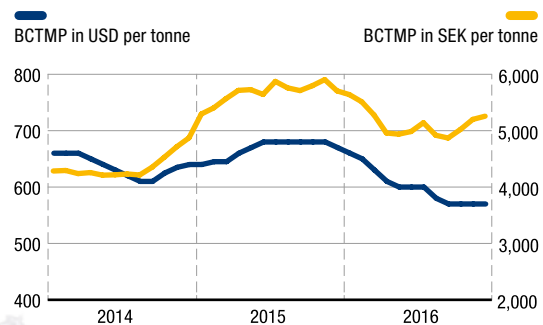
return on capital employed

ROTTNEROS AT THE TOP among comparable pulp-producing companies.

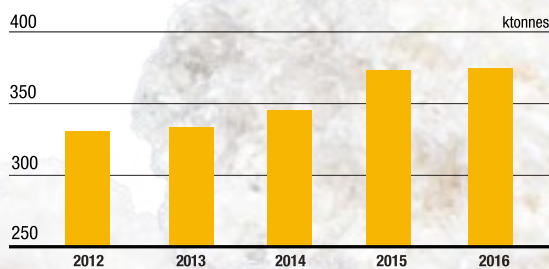
PULP PRICES NBSK IN USD AND SEK



PULP PRICES BCTMP IN USD AND SEK



PRODUCTION



PROFIT/LOSS

SEK million	2016	2015	Change
Net turnover	1,730	1,795	-65
Operating profit	170	263	-93
Profit after financial items	163	259	-96
Net income	128	223	-95
Earnings per share, SEK	0.84	1.46	-0.62

CUSTOMISED PULP FOR THE OPEN MARKET

1,730

SEK million turnover

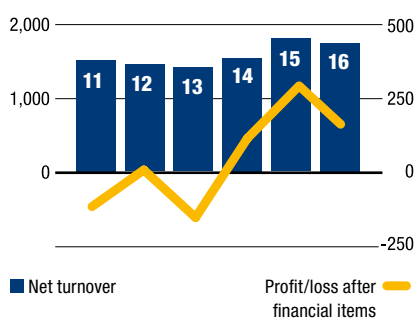
282

Employees

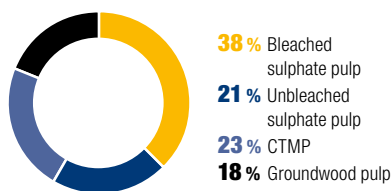
374,100

Tonnes pulp deliveries

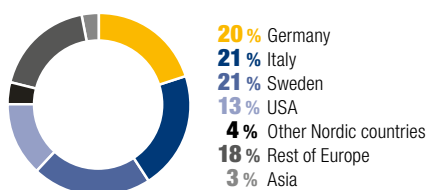
NET TURNOVER AND PROFIT/LOSS, SEK MILLION



THE GROUP'S PRODUCTS, DELIVERY VOLUME DISTRIBUTION



GEOGRAPHICAL DISTRIBUTION OF TURNOVER



ROTTNEROS IN FIGURES

SEK million	2016	2015	2014	2013	2012	2011
Net turnover	1,730	1,795	1,547	1,389	1,437	1,513
Profit/loss after financial items	163	259	114	-158	6	-120
Investments in non-current assets	278	103	59	37	51	157
Average no. of employees	282	264	251	256	275	298
Production per employee (Ktonnes)	1.3	1.4	1.4	1.3	1.2	1.1

RATIOS

Equity/assets ratio	77	76	77	71	77	75
Return on capital employed	15.2	25.5	12.4	Neg.	0.1	Neg.
Return on equity	11.6	21.9	13.6	Neg.	Neg.	Neg.
Operating margin	9.8	14.7	7.6	-11.1	0.4	-7.8

SEK/SHARE

Share price 31 Dec	8.05	8.15	3.74	1.99	2.00	2.11
Equity per share	7.54	6.93	6.39	5.41	6.51	6.65
Earnings per share	0.84	1.46	0.87	-1.04	-0.09	-0.95
Cash flow after investments/share	-0.60	1.52	0.29	0.16	-0.07	-0.80
Dividend ¹⁾						
Ordinary dividend	0.30	0.30	0.20	-	-	0.10
Extra dividend	0.10	0.20	0.60	-	-	-
Total	0.40	0.50	0.80	-	-	0.10

¹⁾ Proposed dividend for 2016.

MECHANICAL PULP

Chemi-Thermo-Mechanical Pulp (CTMP) and groundwood pulp, which are mechanical grades of pulp, are manufactured at Rottneros Mill.



Pulp bale in baling line.

CHEMICAL PULP

Vallvik Mill produces long-fibre sulphate pulp, fully bleached sulphate pulp (ECF – Elemental Chlorine Free) and unbleached sulphate pulp (UKP – Unbleached Kraft Pulp) are both manufactured on the same production line.



Analysis at the operational analysis laboratory.

PACKAGING

Rottneros Packaging is developing trays primarily intended for food. We will invest in Packaging in order to have a third leg for the Group in the future.

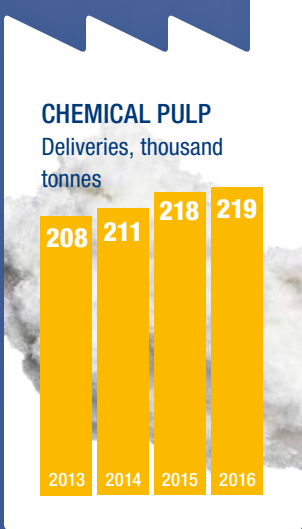


MECHANICAL PULP



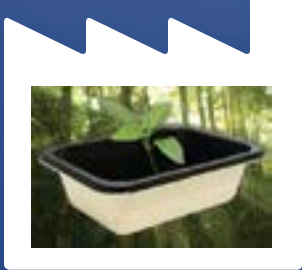
Category	Raw Material	Product Type	Production (tonnes)	Change
GROUND-WOOD PULP	Spruce	Bleached/unbleached Board, Printing and writing paper, Tissue paper	2016: 69,000	+0%
			2015: 68,900	
CTMP	Spruce/pine	Bleached/unbleached Board, Printing and writing paper, Tissue paper, Filters	2016: 87,600	+2%
			2015: 85,700	
CTMP	Aspen/birch	Bleached Board, Printing and writing paper, Fine paper	2016: 85,700	

CHEMICAL PULP



Category	Raw Material	Product Type	Production (tonnes)	Change
LONG-FIBRE SULPHATE	Spruce/pine	Bleached Board, Printing and writing paper, Tissue paper, Filters	2016: 138,400	-10%
			2015: 153,300	
LONG-FIBRE SULPHATE	Spruce/pine	Unbleached Kraft paper, Filters, Electrical insulating material	2016: 79,100	+21%
			2015: 65,300	

FIBRE TRAYS



Category	Product Type	Vision
MECHANICAL PULP	Bleached Food trays and protective packaging	Validation and development of a completely biobased tray

SUSTAINABILITY CREATES VALUE AT EVERY LEVEL



” It is important that our ambitious investment programme is carried out by an efficient organisation with shared values and a strong team spirit.

Rottneros' focus is to create value for our customers in a sustainable way. We continue to work on the Agenda 500 development plan. Through an efficient organisation with shared values and a strong team spirit, we are building the foundation for long-term success.

CLEAR GROWTH POTENTIAL

On 1 September I took over as President and CEO of Rottneros and now have the privilege of leading the Group on the path to achieving sustainable and profitable growth and becoming more efficient. Many good initiatives have been launched in recent years and we receive clear confirmation from both customers and employees that we are doing the right things. Sustainability is a core part of our business and is becoming increasingly important for creating value in a broad sense. Moving forward, we will continue to deliver on our long term development plan, Agenda 500, in combination with placing our employees' safety at the top of the agenda.

Increasing production volumes is a key factor over the next few years and we see a clear potential to increase our market share in our niches. However, the organisation also faces the clear challenge of optimising our complex processes so that volumes grow as intended. Total production volume was at the same level in 2016 as in 2015. The major investments to increase capacity in 2016 were commissioned at the end of the year and production volume is expected to increase in 2017.

FOCUS ON LEADERSHIP

The continued development of clear leadership with good communication skills, which inspires commitment and motivation and develops employee empowerment, is the second key. It is important that our ambitious investment programme is carried out by an efficient organisation with shared values and a strong team spirit. It is also fundamental to our success that all employees support the goal of building strong and leading positions in our chosen niches. In order to be well equipped to meet both improved and deteriorating external conditions, we will focus on factors that we can influence, including internal challenges and opportunities.

One important objective is to develop Rottneros to become a sustainable company. Our wood-based products are part of a natural and sustainable ecosystem that starts in the forest. But sustainability is more than just a natural raw material and recyclable products. For us, it involves building the entire Group sustainably and responsibly. That's why employee safety is a top priority, whether in production or logistics. By developing our employees and our bio-based products, at the same time

that we safeguard both the internal and external environments, we can continue to build a long-term financially viable company.

We are working intensively with both skills and leadership development so that we will be among the very best in these areas. Shared values and a clear corporate culture that are strongly embraced by our employees are crucial for delivering added value to our customers. By further developing the organisation, we get the greatest possible return on investment. Ambition and energy must be integral to everything we do – in our customer relationships, in the mills, and when attracting new employees.

A GROUP AIMING FOR THE FUTURE

We are building an integrated group with an organisation that will stand on three legs, in which our niche chemical and mechanical pulps are complemented by packaging. The latter will grow in importance over the next few years, in part because Rottneros is leading a new EU project, PULPACKTION. The aim is to develop completely bio-based packaging trays for the food industry at a competi-



tive price. Through this initiative, we can contribute to a more sustainable development in the packaging industry while meeting the growing demand for fossil-free products. In addition, Rottneros Packaging will become a significant business within the Group.

MARKET

The pulp market has been good during the year. We saw some price increases over the course of the year. A strong USD was also an important positive factor for us. Although electricity prices have risen, they are still relatively low, which benefits the power-intensive production of mechanical pulp.

I am pleased to note that full year 2016 was yet another strong year in terms of earnings. With a return on capital employed of 15 per cent, we remain at the top among comparable pulp producing companies.

STRONG BALANCE SHEET

Thanks to our strong financial position with low debt, where we largely financed our expansion with stable cash flow from operations, we are well positioned for the future. The loan facility that we secured in late 2016

will enable us to create additional value for our shareholders as we increase the return on their capital.

Our Agenda 500 investment programme is progressing according to plan, in terms of both cost and increased capacity. However, we are closely following external factors when assessing the future profitability of new projects. We need to adapt and be flexible if the external conditions change, through for example a weakening economy.

I would like to thank all of our employees, customers, shareholders and suppliers for an inspiring and productive collaboration since I took over on 1 September.

In conclusion, Rottneros is continuing on its journey towards becoming a sustainable company in a broad sense with respect to the environment, our employees and our financial strength.

While we can clearly see the effects of what we have accomplished, much remains to be done. I look forward to an exciting 2017!

Lennart Eberleh
President and CEO

- Safety first
- Sustainability creates value
- Packaging a new development area
- Continued capacity expansion

FOCUS ON SAFETY, SUSTAINABLE GROWTH AND SERVICE

Our employees' safety is a top priority. The Group has a "vision zero" approach to accidents. In order to provide sustained profitability, the Rottneros Group must offer products and services of the highest quality that will bring our customers clear added value. Capacity at the mills is also a key parameter in generating sustained profitability. The investment projects to increase capacity at the mills under the Agenda 500 plan continued during the year.

SAFETY

Rottneros is working diligently to prevent workplace accidents and injuries within the operation. The Group has a "vision zero" approach to injuries.

This vision permeates the entire business and is part of the Group's efforts to be a sustainable workplace. All investment projects have a project team that includes a safety officer to ensure that technical solutions meet safety requirements. In daily operations, regularly scheduled safety inspections are conducted in the workplaces to ensure that equipment and procedures meet safety requirements. Safety is also incorporated into all in-house training and skills development. At internal meetings, such as the daily production meeting each morning, safety is the first item on the agenda.

SUSTAINABLE AND PROFITABLE GROWTH

One important objective is to develop sustainability within Rottneros. Our wood-based products are part of a natural and sustainable ecosystem with their beginnings in the forest. But sustainability is more than just a natural raw material

and recyclable products. It means that the entire Group must be built sustainably and responsibly. Our ambition is for our investments to produce both financial and environmental benefits.

The Rottneros Group shall show sustained profitability over a business cycle. In order to do so, the Group must generate profitable growth.

This will be achieved by:

➤ **Focus on selected niches** where Rottneros belongs to the market leaders and thereby has the possibility to achieve competitive advantages. Sales will be concentrated to those market segments where conditions allow the Rottneros Group to offer customers clear added value, with its high quality and customized products.

Rottneros is primarily focusing its expansion on the following segments:

- Electrical applications, where customers require pulp that must meet extremely high specifications regarding purity. Vallvik Mill is one of the leaders in this market.

- Filters for the food and automotive industries, where the porous qualities (air and fluid permeability) of our pulp for filters are very important for the quality of the end product.
- Packaging and board, where our pulp provides the board with the desired characteristics, such as bending stiffness, strength and printability.
- Tissue paper products, where both our chemical and mechanical pulps contribute to absorption and strength.
- Thin printing paper, where our pulps can improve printability and opacity in the paper.
- Completely bio-based packaging trays for the food industry.

➤ **Increased productivity.** In order to maintain sustained profitability, productivity is crucial. Rottneros' objective is to increase productivity in the long term by continuously developing our processes and carrying out well-planned and efficient preventive maintenance work.

➤ **Increased production volume.** Rottneros plans to continue to pursue its capacity expansion strategy over the next few years. One component of this strategy will be to eliminate bottlenecks at the mills.

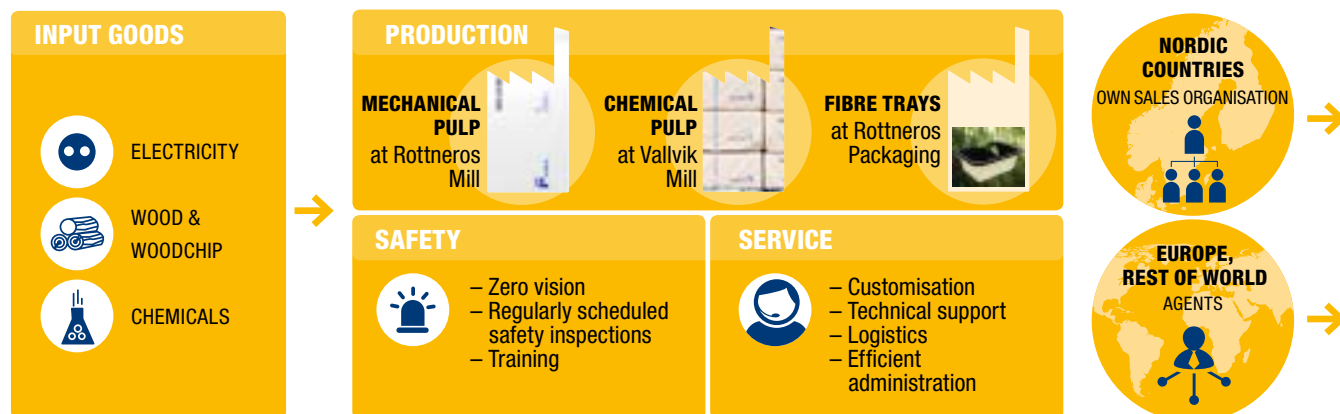
CUSTOMER FOCUS

Customers shall perceive Rottneros as a leader in service.

We will offer service of the highest quality, characterised by competence and customer focus. Rottneros will provide know-how on how the Group's products can be used to improve customers' end products. In cooperation with our customers, we will also offer the opportunity to customise our products so that they are optimised for our customers' needs.

Finally, Rottneros will consistently maintain high supply reliability as well as provide technical support of the highest quality.

BUSINESS MODEL



FINANCIAL OBJECTIVES

Rottneros' overall long-term financial objectives are to pay a competitive dividend to shareholders in the form of both value development and dividend yield.

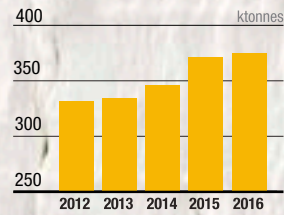
RETURN

➔ Profitability (measured as return on capital employed) shall exceed the profitability for comparable pulp producing companies.

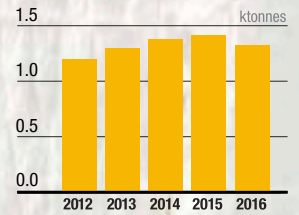
DIVIDEND POLICY

➔ Dividends shall be adapted to Rottneros' performance level, debt/equity ratio, financial status, future development opportunities and investment needs. Our capacity to pay dividends should be viewed over an entire business cycle rather than for an individual year. Dividends may consequently be restrained in good years so that it is possible to pay dividends in years where results are weaker.

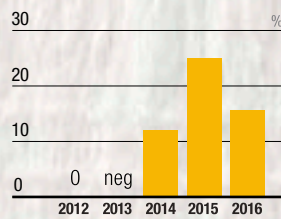
PRODUCTION



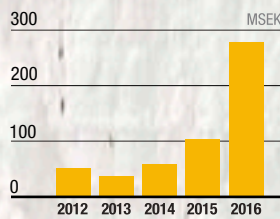
PRODUCTION PER EMPLOYEE



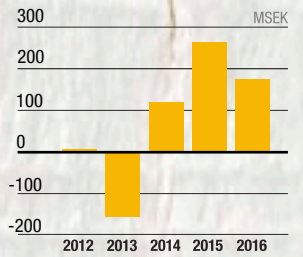
RETURN ON CAPITAL EMPLOYED



INVESTMENTS



OPERATING PROFIT/LOSS



” Sustainability is more than just a natural raw material and recyclable products. It means that the entire Group must be built sustainably and responsibly.



VISION

Rottneros shall be perceived as a market leader that is able to meet the needs and high expectations of pulp customers.

BUSINESS CONCEPT

Rottneros' business concept is to be an independent, flexible supplier of customised and high-quality market pulp. Rottneros shall meet the needs of its customers by actively developing its products and providing an attractive service offering.

OBJECTIVES & STRATEGIES

Rottneros' overall objective is to achieve sustained profitability and yield a good return for the Group's shareholders.

Profitable growth will be generated by:

- Focus on selected niches
- Increased productivity
- Increased volume
- The leader in service
- Improved safety

AGENDA 500 – ROTTNEROS’ GROWTH STRATEGY

” The investments aim to eliminate bottlenecks in the production line, as well as to increase availability at the plant. At the same time, the investments will help to meet the new environmental requirements.

Agenda 500 is a long-term industrial plan for the Rottneros Group with the overarching goal of achieving sustained profitability and providing a strong return for the Group’s shareholders.

By expanding capacity at the mills and offering products and services of the highest quality Rottneros will achieve robust and sustained profitability. In February 2015, the Board decided on a new long-term strategic action plan to strengthen and develop the Group.

The goal shall be achieved through:

- high safety
- focus on selected niches
- increased productivity
- increased production volume
- customer focus

As a result of the planned capacity expansion, the Rottneros Group will aim for production of up to 460,000-500,000 tonnes per year. The project will be carried out in two steps. The pace of the investments will be determined by Rottneros’ ability to sell the additional volumes on the market with good profitability, as well as the continued stability of the financial situation. When compared with levels of investment to expand capacity per tonne, as found in the international pulp and paper

industry, Rottneros’ investment of SEK 800 million is highly competitive.

In 2015-2016 the Board of Directors decided on total investments of SEK 510 million relating to the long-term industrial plan, Agenda 500, including SEK 370 million carried out during 2015-2016. The remaining investments of around SEK 140 million will be carried out in 2017. The majority of these investments are already procured and contracted.

VALLVIK MILL

Vallvik Mill has applied for and received a production permit that allows the mill to produce 255,000 tonnes per year, which is part of the Agenda 500 strategy. At the same time, the mill received a new environmental permit for the entire operation. The new permit entails more stringent environmental requirements, some of which have entered into force, while for others the mill is conducting studies and will submit proposals for final terms in 2017.

In 2016 the mill produced 217,500 tonnes, which is a decline of 1,200 tonnes compared with the previous year due to

unexpected disruptions. However, we can conclude that the investments are providing the intended increase in production after fine-tuning.

The investments at the mill aim to eliminate bottlenecks in the production line, as well as to increase availability at the plant by minimizing disruptions. At the same time, the investments will help to meet the new environmental requirements.

During the year a new white liquor filter was installed and put into operation, which enables the mill to produce enough cooking liquor to handle the increased production under the new production permit.

Vallvik also commissioned a new screening equipment, which gives the mill an even cleaner pulp with higher quality efficiency.

The mill also commissioned the pulp and water filtrate towers, for which construction had begun in 2015. As a result, the mill now has a much needed buffer capacity that both increases capacity and provides a more even pulp quality.

During the year, the mill carried out a pre-study for a new wash press that will both provide higher production and a necessary reduction in emissions to meet the new environmental requirements. The Rottneros Board of Directors approved this investment in 2016 to secure delivery by the maintenance shutdown in the autumn of 2017.



View of Rottneros Mill purification plant



Installation of bleaching tower, Rottneros Mill



Installation of drying cyclone, Rottneros Mill



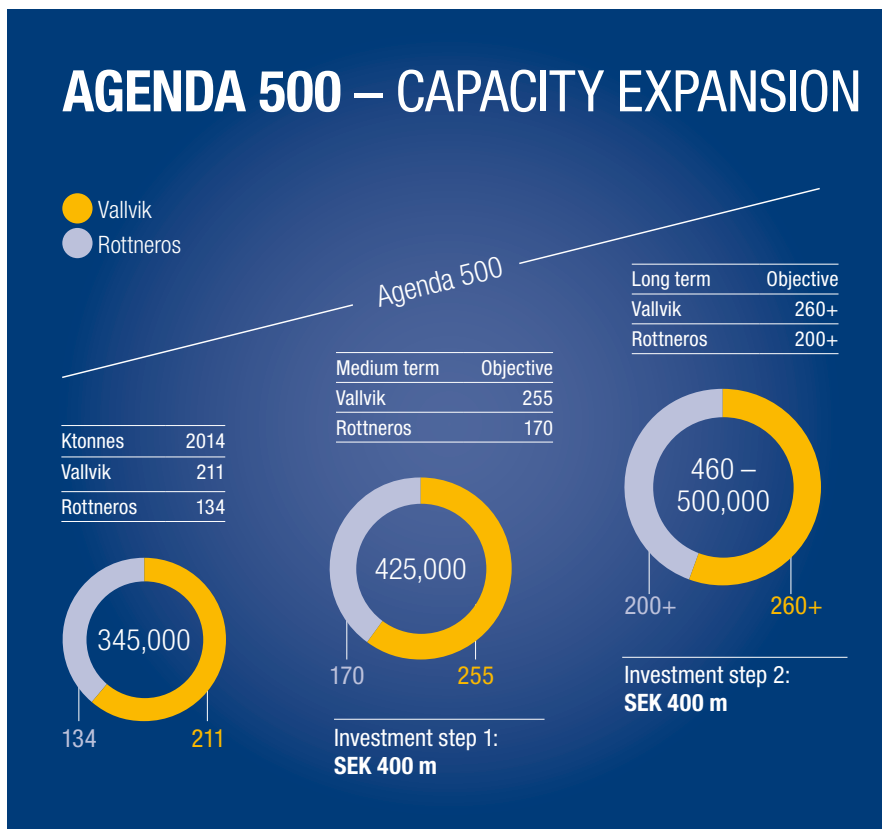
View of the harbour and pulp warehouse at Vallvik Mill

ROTTNEROS MILL

Rottneros Mill has two production lines to produce yield pulp: one for CTMP and one for groundwood pulp. Both lines produce unbleached and bleached pulp.

During the year the mill produced 156,600 tonnes, which is a new annual record and an increase of 2,000 tonnes compared with the record from the previous year. The CTMP line exceeded the 2015 record high by 1,900 tonnes and the new annual record is 87,600 tonnes.

In September 2016 the mill took the first step of Agenda 500 on the CTMP line into operation. The commissioning went well and production is well in line with the plan. The investment consists of an improved washing line, which produces a product with better properties, and a system for bleaching at high concentration, which reduces bleaching costs. The investment also includes a new drying step in the flash dryer, which improves efficiency and increases drying capacity. Minor improvement measures were implemented on the grinding line. A new pulp warehouse was built and commissioned. In the autumn of 2016 expanded feasibility studies and project planning began for the expansion of the treatment plant and the second step of the CTMP line.

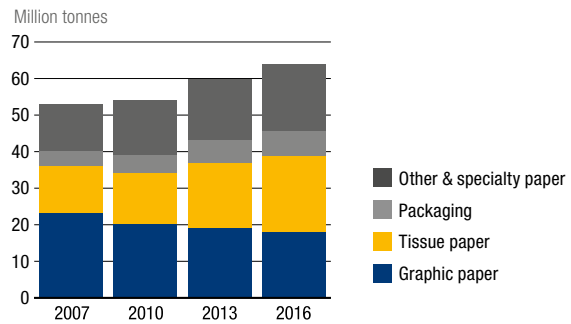


MARKET FACTS

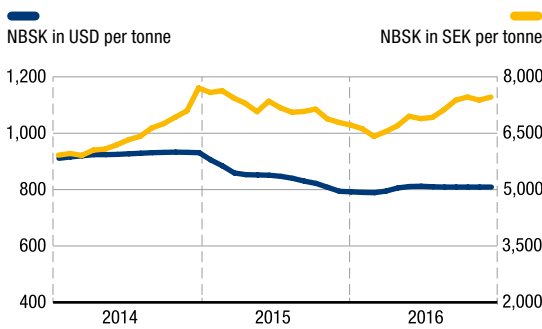
” The trend is shifting from pulp for graphic paper towards pulp for tissue paper, packaging and specialty paper.

” Both production and consumption are shifting away from the mature Western economies towards the emerging markets.

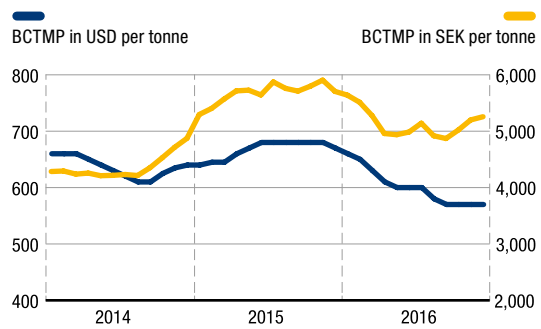
GLOBAL MARKET PULP CONSUMPTION PER APPLICATION



PULP PRICES NBSK IN USD AND SEK



PULP PRICES BCTMP IN USD AND SEK



ROTTNEROS AND THE MARKET

The Rottneros Group is an independent and flexible producer of chemical and mechanical pulp. The Group operates in the open pulp market, where the pulp produced is sold to customers throughout the world. Europe and the United States, along with some Asian markets, represent the main focus of Rottneros' sales.

ROTTNEROS AND THE MARKET

Almost 170 million tonnes of pulp are produced worldwide every year. About two thirds of this volume are manufactured at integrated paper and board mills. The remaining portion (more than 60 million tonnes per year) comprises market pulp, one third of which is long-fibre pulp from softwood.

Market pulp is used for the production of graphic paper, tissue and other hygiene products, board, packaging paper and for various types of specialty paper.

Rottneros aims to be the market leader for pulp production in niche areas such as pulp for the manufacture of different types of filters and also 'e-pulp', where the end product is used for electrical

insulation in, for example, transformers and high-voltage submersible cables. The Rottneros Group produces extremely pure pulps that meet customers' high standards for pulp for their niche areas.

Rottneros also leads the field within a third and larger market segment: pulp for board manufacture, where customers have high requirements on stiffness and surfaces for printing.

Groundwood pulp from Rottneros Mill represents a competitive alternative within the 'fine printing paper' market segment, particularly where there are high requirements for opacity (i.e. paper that is not transparent), as well as for tissue paper and board.

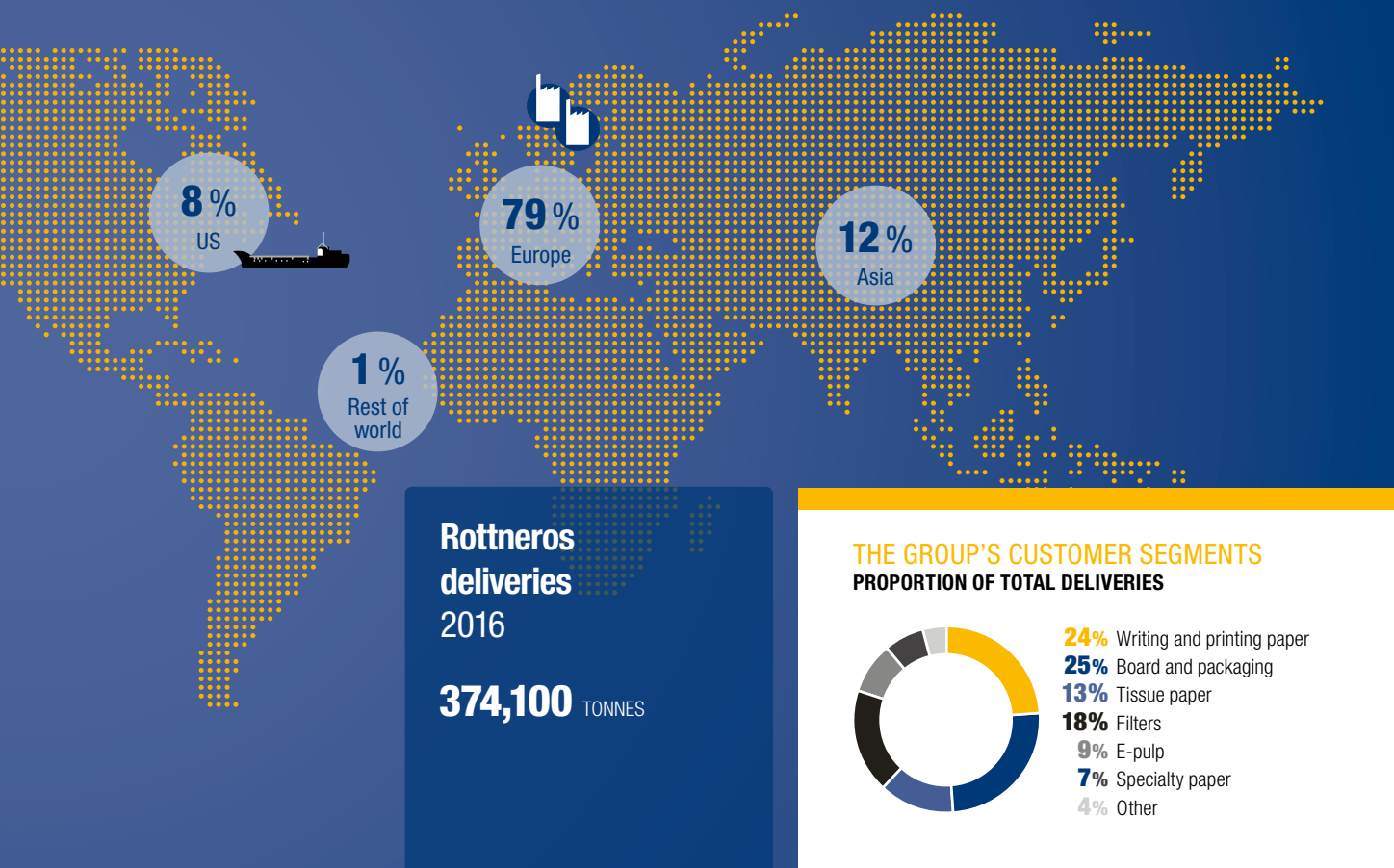
Combined market pulp production for the Rottneros Group amounted to 374,100 tonnes in 2016.

MARKET REVIEW

The global market

The global economy slowly improved in 2016 with the US and China as the main engines, but growth in Europe remained weak. During the year more than 63 million tonnes of market pulp were delivered, an

ROTTNEROS ON THE MARKET



increase of about four per cent over 2015.

As a result of the structural changes in which digital media are capturing market share from printed products, consumption of pulp for graphic paper continued to decline during the year. However, the decline of graphic paper has been offset by increased demand from the hygiene and packaging segments.

In terms of products, the pulp market is dominated by chemical pulp, mainly bleached sulphate pulp made from softwood or hardwood. Mechanical pulp accounts for a small portion of the market (less than ten per cent).

Europe

The Group is highly dependent on trends in the European market, which accounts for 80 per cent of all sales. The main focus of our sales organisation is consequently on meeting the demands of this market.

At 19 million tonnes, Europe accounts for just under one third of global consumption of market pulp. Demand was stagnant in 2016, with deliveries to the region at the same level as in 2015.

Asia and the US

The non-European markets account for just one fifth of sales for the Rottneros Group, comprising mechanical pulp for India and Indonesia, and chemical pulp for the north-eastern US and China.

More than half of all market pulp in the world, around 33 million tonnes, is consumed in Asia. Deliveries to the region increased in 2016 by eight per cent, with strong growth in volume to China, while deliveries to the rest of Asia increased at a more moderate pace.

The North American market amounts to nearly 8 million tonnes. Demand on this mature market, which is dominated by hygiene products and specialty paper, remained at the same level as the previous year. Despite the large domestic production, there is demand for the special pulp that Rottneros delivers.

LONG-TERM IMPETUS AND TRENDS

The markets for global pulp producers are currently shifting, both in terms of products and geographically. The trend is shifting from pulp for graphic paper

towards pulp for tissue paper, packaging and specialty paper. At the same time there is a shift in both production and consumption from the mature Western economies towards emerging markets, where rapid industrial expansion and improved living standards are accompanied by increased consumption of pulp.

Global demand for market pulp has increased over the past five years by about 2.5 per cent annually, though this growth has been unevenly distributed across markets and regions. Demand in the mature industrialised countries is stagnant or slightly declining. The emerging markets, excluding China, show a moderate increase in demand. In China, however, consumption has increased dramatically and over the last ten years the increase in China roughly equals the total worldwide net increase in pulp consumption. China has increased its share of the global market from 22 to 34 per cent since 2010 and the Chinese market is now larger in terms of volume, at about 22 million tonnes, than the European market. Graphic paper was by far the dominant



PRODUCT ON THE MARKET:
Tissue paper

” The global market delivered more than 63 million tonnes of market pulp, an increase of about four per cent over 2015.

33%
In 2016 tissue paper increased to 33 per cent of market pulp consumption.

application for market pulp for a long time. Less than ten years ago, nearly 45 per cent of the world’s market pulp was used for production of this type of paper. The ongoing structural changes in media have forced the paper industry to implement restructuring measures and adapt production. While graphic paper is still a significant application for market pulp, its share of world consumption is now estimated to have declined to less than 30 per cent. For pulp producers, this trend will lead to continued readjustments and a search for new customer segments and product niches in the coming years.

One area of use that does show good growth is tissue paper. As the standard of living improves in emerging markets, the scope for private consumption also increases, including for hygiene products. Demand for tissue paper is strong and stable in the mature markets and sharply increasing in the emerging markets. Tissue paper is primarily made in non-integrated mills and expansion in tissue paper has largely been based on market pulp. In 2007, tissue paper accounted for 24 per cent of market pulp consumption; in 2016, the proportion increased to 33 per cent.

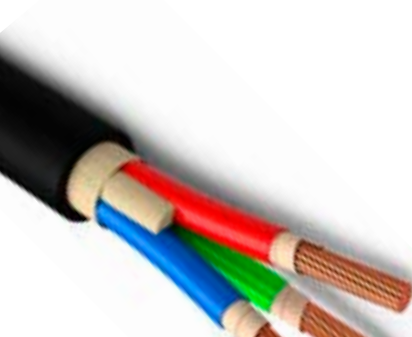
DEVELOPMENT OF DEMAND

The demand for graphic paper will continue to decrease in the years to come, while the demand for tissue paper

is expected to be stable in the developed countries and increasing in the emerging markets. The Group estimates that board manufacture will increase, primarily in the rapidly developing Asian markets.

For the Rottneros Group this implies continuing to adapt to the decreased demand for graphic paper and focusing on board and tissue paper, as well as on those particular niches where the Group’s high quality pulps meet the high standards of customers. The Group aims to take a strong position within selected niches by making use of its competence and know-how, in terms of both technology and production. This requires a close relationship with customers and great knowledge of the customers’ operation and needs, both of which make the technical sale additionally important. By following this strategy price competition can be avoided.

One important niche area is pulp for manufacturing different kinds of filters, for both the automotive industry and consumer products. Another niche area is pulp used to manufacture paper for electrical insulation. Rottneros can currently offer extremely pure types of pulp that are well-suited for these areas. As regards pulp for electrical applications, the continued industrialisation of Latin America and Asia is contributing to growing demand, as is the expansion and modernisation of power grids in Europe and the US.



PRODUCT ON THE MARKET:
Insulating paper for cables



PRODUCT ON THE MARKET:
Liquid packaging board

Photo: ICA



PRODUCT ON THE MARKET:
Coffee filters

PRICE TRENDS

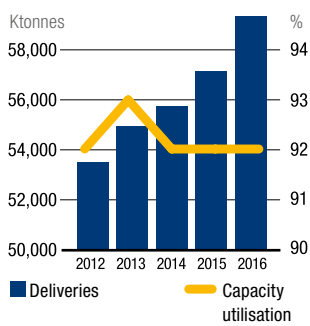
Capacity utilisation for chemical pulp was an average of 92 per cent in 2016, but with significant variations from month to month, with large differences among different grades of pulp. In general, the market balance was better for long fibre than short fibre, which is also reflected in the price trend for the two types of pulp.

The price of long fibre, NBSK, which at the beginning of 2016 was around USD 790, slowly improved during the spring and stabilised during the summer at around USD 810, a level which then held steady for the rest of the year.

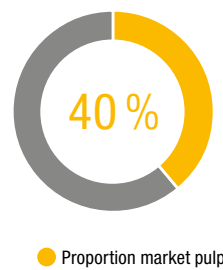
The price of short-fibre pulp was only USD 10 below the level of long-fibre at the beginning of the year, but gradually fell during 2016 and stabilised towards the end of the year at about USD 660. The price gap between long and short fibre, which has historically hovered at about USD 90 per tonne, went from one extreme to another, just as it did in 2015, though now in the opposite direction from USD 10 at the beginning of the year to USD 155 at year-end.

CHEMICAL PULP

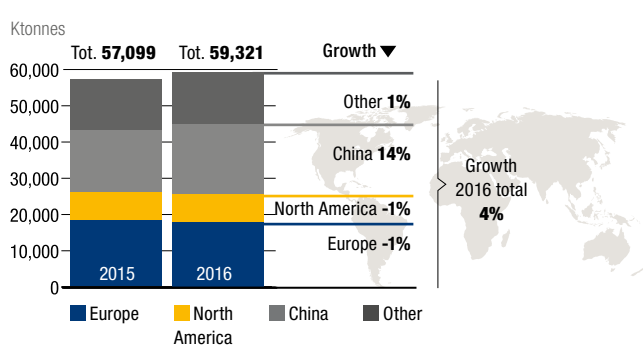
GLOBAL DEMAND AND CAPACITY UTILISATION 2012-2016, MARKET PULP



PULP CAPACITY WORLDWIDE

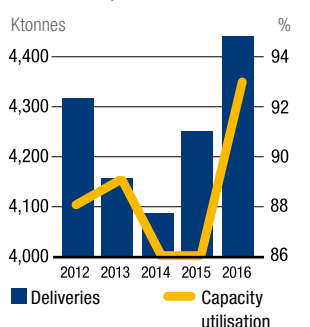


DELIVERIES OF CHEMICAL MARKET PULP, WORLDWIDE

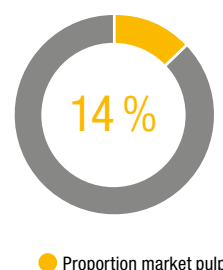


MECHANICAL PULP

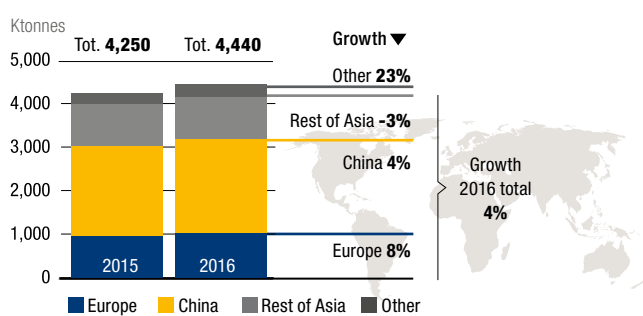
GLOBAL DEMAND AND CAPACITY UTILISATION 2012-2016, MARKET PULP



PULP CAPACITY WORLDWIDE



DELIVERIES OF MECHANICAL MARKET PULP, WORLDWIDE





ROTTNEROS – A NICHE LEADER

” Rottneros continually develops its grades of pulp and tailors products to suit the end product of specific customers.

More than

50%

of Rottneros Mill's production goes to board production.

The Rottneros Group is a leading manufacturer in the world in a number of selected niches. The Company intends to expand in these niches, as well as in areas where the Group's pulp has a competitive advantage that represents a potential to become a market leader. The Rottneros Group's production takes place at Vallvik Mill and Rottneros Mill.

In 2016 both production and deliveries amounted to 374,100 tonnes.

The Rottneros Group's overarching goal is to increase the proportion of sales that goes to end products that show clear market growth. This objective will be accomplished by developing both existing and completely new niches.

The Group will leverage its technical

expertise to establish a strong market position within selected niches. The Company is currently one of the leading producers in the world in areas such as pulp used for filter production, and e-pulp for insulation in electrical applications. Currently only a limited number of manufacturers are competing in the global market for these types of pulps, which gives Rottneros a prominent position.

Yet another example of a product where Rottneros can deliver value to its customers is mechanical pulp suitable for board manufacturing. Demand continues to increase and is primarily driven by the Asian market. Pulp for board production accounted for over 50 per cent of Rottneros Mill's production in 2016.

An important part of Rottneros very broad product offering is the technical expertise of its employees and their specialised knowledge regarding the end-uses of their customers. Equipped with this knowledge, Rottneros can continually develop its grades of pulp and tailor products to suit the end product of specific customers. This development and the high level of service are key components in the Group's strategy to position the two mills to capture a higher proportion of the specialised paper pulp market.

From forest to end product

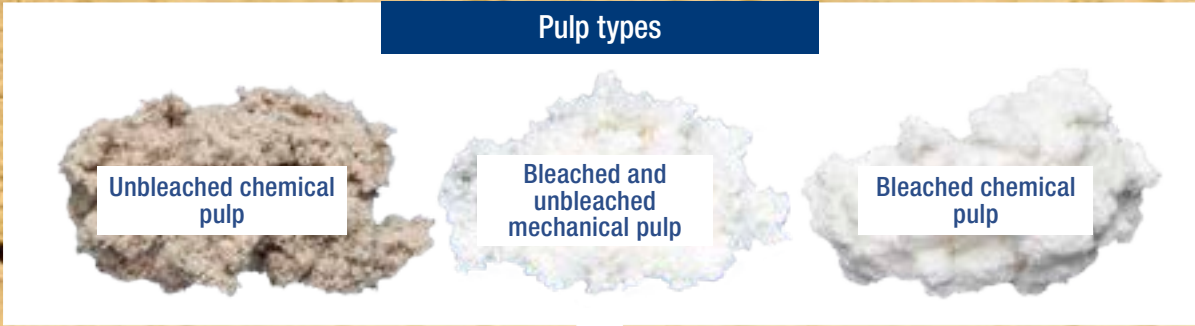


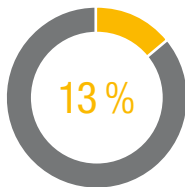
Photo: by Wirth

Tissue paper

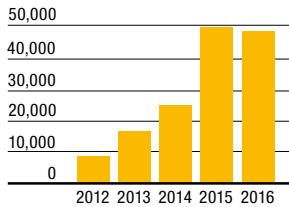
ABSORPTION AND FEEL THAT KEEPS



PROPORTION OF ROTTNEROS' TOTAL DELIVERIES



ROTTNEROS' DELIVERIES OF PULP FOR TISSUE PAPER, TONNES



Growing demand for necessary product

Tissue paper is the name of the grade of paper used to manufacture paper napkins, paper towels and toilet paper. The market for these products is not only large, but also relatively insensitive to economic fluctuations. For example, the higher standard of living in much of Asia is resulting in steadily growing demand.

Products that help customers tailor their paper

Both Rottneros Mill and Vallvik Mill manufacture grades of pulp that are used for production of tissue paper. Groundwood pulp, CTMP (Chemi-Thermo-Mechanical Pulp) and long-fibre sulphate pulp can all be used to manufacture tissue paper. By mixing our pulp types, we can help customers tailor a tissue paper that suits their needs.

High demands for end product properties

The requirements for tissue paper are often numerous and stringent. Properties that must be considered include bulk, absorption, how the paper feels, how well it holds together when wet, appearance and brightness. Our technical specialists consult with customers about the types of pulp to be mixed in order to produce the right properties. One of the Group's most recent innovations in the area is Absorption Express which, as the name suggests, offers superior absorption capacity, as well as high bulk.

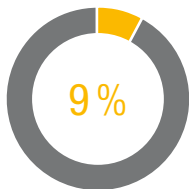
E-pulp

HOLDS ELECTRONS IN PLACE IN EXTREME ENVIRONMENTS

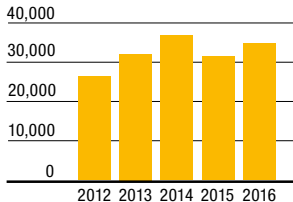


” E-pulp has unique insulating properties that have been continuously developed since the mid-1990s.

PROPORTION OF ROTTNEROS' TOTAL DELIVERIES



ROTTNEROS DELIVERIES OF E-PULP, TONNES



World-leading niche product

Rottneros is a world leader in e-pulp, which was developed for use in electrical insulation materials, transformer boards and condenser paper. Several types of e-pulp are available, where the cleanest pulp type is marketed under the name Robur Flash UKP-E and is used for applications such as insulation in high voltage marine cables. The pulp clearly holds a unique position in its niche.

Market with less volatility

E-pulp is manufactured at Vallvik Mill. Production of e-pulp is based on customer orders and annual contracts are signed. Consequently this niche is less exposed to bulk market fluctuations.

Insulating properties that stand up to harsh environments

E-pulp has unique insulating properties that have been continuously developed since the mid-1990s. The advanced production process and extensive washing have successfully achieved a purity that allows the pulp to be used as an electrical insulation material. End products are often used in applications that place high demands on consistency and favourable properties. Consequently Robur Flash UKP-E offers major advantages because of both the properties and the purity of the fibres.

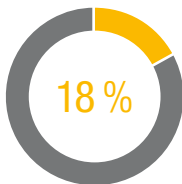


Filters

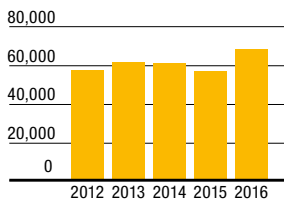
FILTER FOR A SUSTAINABLE FUTURE

“ The Group works continuously to develop and improve its pulp for filters in order to meet increasing demands on filtration capacity.

PROPORTION OF ROTTNEROS' TOTAL DELIVERIES



ROTTNEROS' DELIVERIES OF PULP FOR FILTERS, TONNES



Wide range of applications

One important niche for Rottneros is pulp for manufacturing of filters. With two mills that produce specially developed grades of pulp for filter products, the Group has a comprehensive range of products for manufacturers of both air and liquid filters.

World leader in automotive filters

The Rottneros Group is a world-leading supplier of filter products for the automotive industry, facilitated by the high quality for the special pulp, as well as access to cost-effective maritime transport from the deep harbour at Vallvik Mill to ports in, for example, the US. The advantages of the Group's grades of pulp for filter products include high porosity, strength and cost efficiency. The Group works continuously to develop and improve its products in order to meet increasing demands on filtration capacity. When we improve our filter pulp, we are also contributing to the reduction of emissions for our customers in the automotive industry.

Close and long-term customer relationships

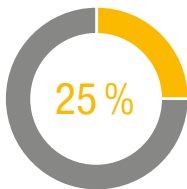
Several of the purchasers of pulp for filters have long-term customer relationships with the Rottneros Group. The consistently high quality of the pulp combined with the assurance that Rottneros can offer in the form of service, technical customer service, stock and logistics solutions have paved the way for long-term customer relationships. In addition, the Group has high credibility through its constant market presence, independent of the state of the business cycle.

Board and packaging

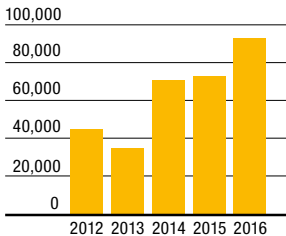
CUSTOMISED PULP FOR OPTIMAL PACKAGING



PROPORTION OF ROTTNEROS' TOTAL DELIVERIES



ROTTNEROS' DELIVERIES OF PULP FOR BOARD, TONNES



Stable packaging protects your goods

Board is a generic name for thicker grades of paper used in the manufacture of packaging for food or other products, and in graphic contexts. The pulp is produced at both Rottneros Mill and Vallvik Mill and is a sustainable choice for board and packaging manufacturing.

Pulp to meet future demands on board and packaging

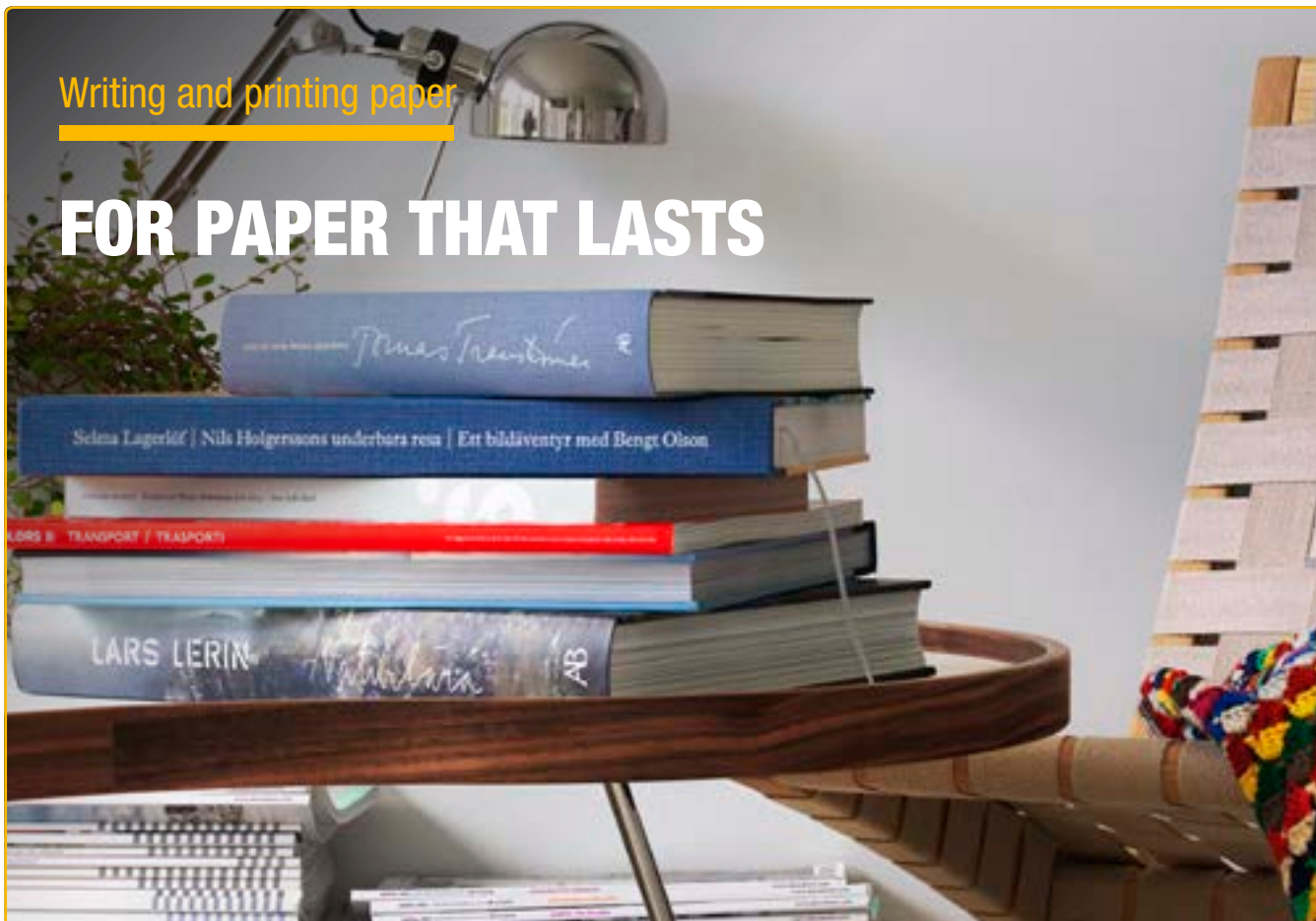
Pulp for board is considered to be a segment with long-term market growth and thus constitutes one of the areas Rottneros is focusing on. At Rottneros Mill, pulp for board accounted for over 50 per cent of total production and demand continues to grow. A global market with packaged goods sent all over the world and growing e-commerce are some of the growth factors. The growing middle class around the world and urbanisation are other causes.

Our specialists optimise your end products

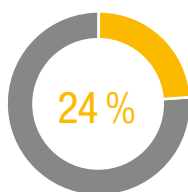
Rottneros manufactures several types of pulp suitable for board production. For example, Bulk Booster is a mechanical pulp that makes it possible to produce a thicker, and thus stiffer, board using the same amount of raw material. The Robur Flash Kraft sulphate pulp is also an excellent choice to increase strength and thus convertibility. Rottneros' employees have extensive knowledge of the customers' end products and often work closely with the customers to achieve pulp that is optimised for their particular product. One example is at Rottneros Mill, where the customer's laboratory staff has been in place, working side by side with Rottneros' own experts to analyse the pulp in trial runs.

Writing and printing paper

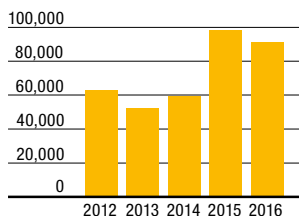
FOR PAPER THAT LASTS



PROPORTION OF ROTTNEROS' TOTAL DELIVERIES



ROTTNEROS' DELIVERIES OF PULP FOR WRITING AND PRINTING PAPER, TONNES



Retained competitiveness

In mature industrial countries, the rise of digital media has resulted in the decline of graphic paper, a trend that has impacted many industries. The Rottneros Group's broad product portfolio creates opportunities to adapt the pulp mix and produce exactly the properties that customers want, which is an important component of our offering and a way to continue to be niche players on a historically large market.

Paper that does the picture justice

When it comes to pulp for writing and printing paper, fibre distribution is important in order for the paper to have a smooth surface and provide good print quality. Strength is also important so the paper does not tear. Rottneros combines high-yield pulp and sulphate pulp to provide customers with the advantages of both simultaneously, and thus the best possible conditions to produce good paper.

Purity and opacity important for thin paper

For thin packaging and printing paper, as well as a number of special applications, opacity is important when low light transmission is required, such as when the print should not be visible through the sheet of paper. Similarly, the purity of the pulp (low "shives content") is important when manufacturing thin paper. Rottneros has a clear competitive advantage with its pure and high-quality pulps. A type of pulp that is perfect in this area is Opacity Extreme.

MECHANICAL PULP

Chemi-Thermo-Mechanical Pulp (CTMP) and groundwood pulp, which are mechanical grades of pulp, are manufactured at Rottneros Mill.



CHEMICAL PULP

Long-fibre sulphate pulp, fully bleached sulphate pulp ECF (Elemental Chlorine Free) and unbleached sulphate pulp UKP (Unbleached Kraft Pulp) are manufactured at Vallvik Mill.



ROTTNEROS PACKAGING

Rottneros Packaging is developing trays primarily intended for food. We will invest in Packaging in order to have a third leg for the Group in the future.



ROTTNEROS DEVELOPS ITS BUSINESS

In 2016 Rottneros launched a new development area, in addition to the two previous areas (Mechanical and Chemical Pulp): Rottneros Packaging.

” The products can withstand high heat and are ideal for convenience foods – both hot and cold dishes.

Rottneros Packaging is a subsidiary of Rottneros and produces trays mainly intended for high-quality food packaging. The trays are made of pulp and therefore offer a highly eco-friendly packaging option. In addition to the environmental benefits, the potential for adapting patterns, colours, and printing on the packaging is much greater than if plastic or board were used. The products can withstand high heat and are ideal for convenience foods – both hot and cold dishes.

WE DEVELOP SUSTAINABLE AND COMPETITIVE PACKAGING

Rottneros Packaging and the Group's parent company are the only Swedish industrial partners participating in the EU's PULPACKTION innovation project. The aim is to develop a 100 per cent fossil-free packaging solution at a competitive price,

and thus contribute to more sustainable development in the packaging industry. In addition to project coordination, we are leading the development areas of moulding and pulp development.

The trays that the Company currently produces are 90-95 per cent free of fossil fuels. The goal of PULPACKTION is to be 100 per cent fossil-free. The bio-based packaging solutions currently available on the market are usually too expensive for commercial use and therefore an important part of the project is to find a solution at a competitive price.

The initiative is one way to meet the increased demand for fossil-free products and an important component of the Group's strategic decision to grow within the field of sustainable packaging.

MECHANICAL PULP



Two categories of mechanical pulps are manufactured at Rottneros Mill: CTMP and groundwood pulp. These pulps, of which there are 25 or so product variants with varying qualities, account for approximately 40 per cent of the Group's production.

Pulp Type	Raw Material	Bleached/unbleached	Production (tonnes)		Change
			2016	2015	
GROUNDWOOD PULP	Spruce	Bleached/unbleached	69,000	68,900	+0%
			Products: Board, Printing and writing paper, Tissue paper		
CTMP	Spruce/pine	Bleached/unbleached	87,600	85,700	+2%
			Products: Board, Printing and writing paper, Tissue paper, Filters		
CTMP	Aspen/birch	Bleached			
			Products: Board, Printing and writing paper, Fine paper		

PRODUCTS

The Group produces two types of mechanical pulp, CTMP (Chemi-Thermo-Mechanical Pulp) and groundwood pulp. These pulps, which are manufactured in two separate lines at Rottneros Mill, are available in about 25 different varieties of products with varying properties. With this large number of product variants, Rottneros has the most complete product portfolio in mechanical pulp in the global market and can adapt the offering to customer needs.

PROCESSES

In the production of CTMP, the wood is chipped and then pretreated with chemicals at an elevated temperature before mechanical processing begins; the chips are ground and the fibres are exposed between rotating metal plates to become the finished pulp.

In contrast, groundwood pulp is produced by processing the log directly by forcing it against special stone rollers, or 'grindstones'.

APPLICATIONS

Historically, most of Rottneros Mill's groundwood pulp grades were mainly customised for writing and printing paper, but they are now increasingly being shifted over to manufacture board and tissue paper, where the pulp offers clear benefits in terms of products and quality.

Examples of grades in which Rottneros has established a niche position in groundwood pulp in recent years are Bulk Booster and Opacity Extreme.

Bulk Booster is a special quality of board manufacture that increases the bulk or thickness to increase the rigidity of the board, or a lighter package can be achieved with unchanged rigidity.

Opacity Extreme is mainly intended for thin packaging and printing paper. With its combination of excellent strength properties, high purity and superior opacity, Opacity Extreme is highly competitive in the market for thin paper.

The mill's CTMP pulp is also appropriate for several applications, including production of board, tissue paper, and writing and printing paper.

Since mechanical pulp for board is a segment with long-term market growth, it is one of the areas in which the mill is investing for the future. Besides board, Rottneros Mill also has grades of pulp for manufacturing high-quality writing and printing paper, tissue paper and filter paper, as well as pulp for special applications.

The three products launched over the past two years, Absorption Express for tissue paper, Bulk Booster for board and Opacity Extreme for thin paper, have generally been very well received in the market. Rottneros' broad product base will be expanded with additional niche products moving forward.

PRODUCTION

A common feature of both product categories in mechanical pulp is the high wood utilisation rate. CTMP utilises 90 to 95 per cent of the pulp wood provided and ground-

wood pulp an impressive 95 to 98 per cent. Most of the pulp wood is sourced locally from the area surrounding the mill, within a radius of approximately one hundred kilometres of Rottneros Mill, which entails both environmental and financial advantages.

Annual production capacity is about 173,000 tonnes after the investments in 2016, making the mill and the Group one of the largest producers of mechanical market pulp in Europe. In 2016 the mill produced 156,600 tonnes, an increase of just over 1 per cent compared with 2015, and a new annual record.

Thanks to the high wood utilisation rate and low use of chemicals the production processes are environmentally friendly. However, because production is also highly energy intensive, Rottneros Mill is exposed to variations in the price of electricity.

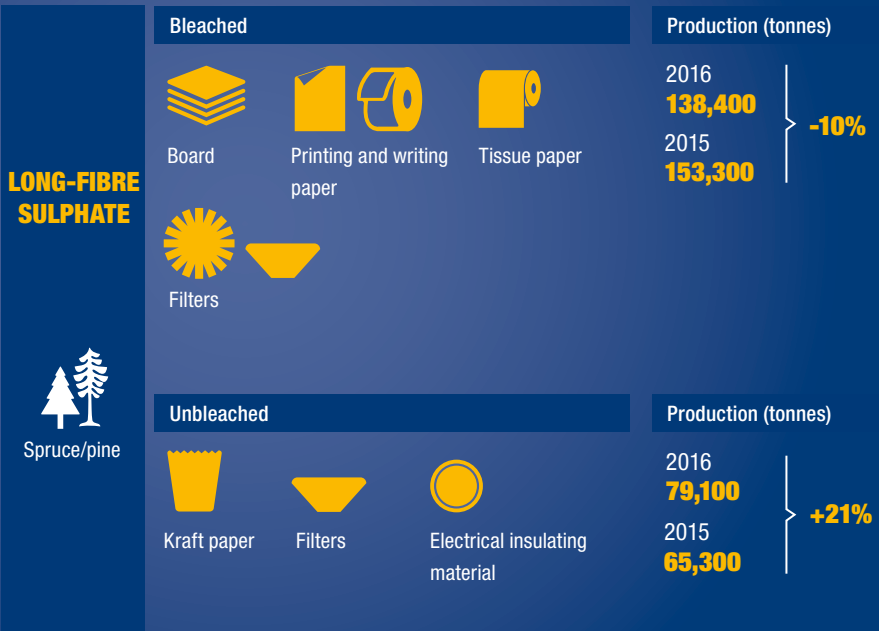
INVESTMENTS

During the third quarter of 2016 the expansion of the CTMP line was installed at Rottneros Mill, which increases capacity for the line by 20 per cent or about 4 per cent for the entire Group. The investment is the first step of two in the planned capacity increases under Agenda 500 at Rottneros Mill. The first stage of the expansion consists of an improved wash press, a system for bleaching at high concentration, and extended dryer capacity.

CHEMICAL PULP



Chemical pulp is produced by boiling woodchips in a special cooking liquor. Chemicals in the cooking liquor dissolve the wood to release the fibres. Both bleached and unbleached chemical pulp are produced on the same production line.



PRODUCTS

Long-fibre chemical sulphate pulp is produced at Vallvik Mill and accounts for approximately 60 per cent of the Group's production. The sulphate process used is the most common process for production of chemical pulp and produces a stronger end product.

The pulp is produced by cooking wood chips in white liquor, a chemical solvent that dissolves the adhesive substance lignin, which holds the fibres together in the wood. The freed fibres, dissolved wood substances – mainly lignin – and a black liquor containing chemicals are left after boiling. The cooking chemicals can be reused in the production process, while the wood matter is generally used as fuel to produce the mill's own steam and electricity.

Most of the production at Vallvik comprises Northern Bleached Softwood Kraft (NBSK) pulp. NBSK is the designation for bleached, long-fibre sulphate pulp, which is also the pulp generally referred to in official price indications. Elemental Chlorine Free (ECF) bleached pulp is used for production of white or light-coloured paper and board products, writing and printing paper, tissue paper and specialty paper.

Vallvik Mill also produces unbleached sulphate pulp, Unbleached Kraft Pulp (UKP). The qualities of this long-fibre pulp add strength to various grades of paper, reaping the full potential of the slow-growing north Scandinavian pine fibre used by Rottneros.

Vallvik Mill manufactures a type of unbleached sulphate pulp that has been extremely well cleansed and is therefore very pure. The high quality of this pulp (referred to as 'e-pulp') has made Vallvik Mill the global leading supplier of pulp that can be used to manufacture electrical insulation material, transformer boards and condenser paper. Vallvik Mill's pulps are flash-dried, which provides the fibres with an open structure that makes the pulps particularly appropriate for manufacturing filters and other absorbent products.

Vallvik's bleached and unbleached grades are sold under the name Robur Flash.

PRODUCTION

As part of the effort to expand expertise and resources within Agenda 500, in 2016 we hired 30 new employees, including new employees to replace those who are retiring. The mill has 169 employees and a manufacturing capacity with the current product mix of approximately 235,000 tonnes per year.

In 2016 Vallvik Mill produced 217,500 tonnes, a decrease of 1,200 tonnes compared with the previous year. This decline was due to unexpected disruptions in production.

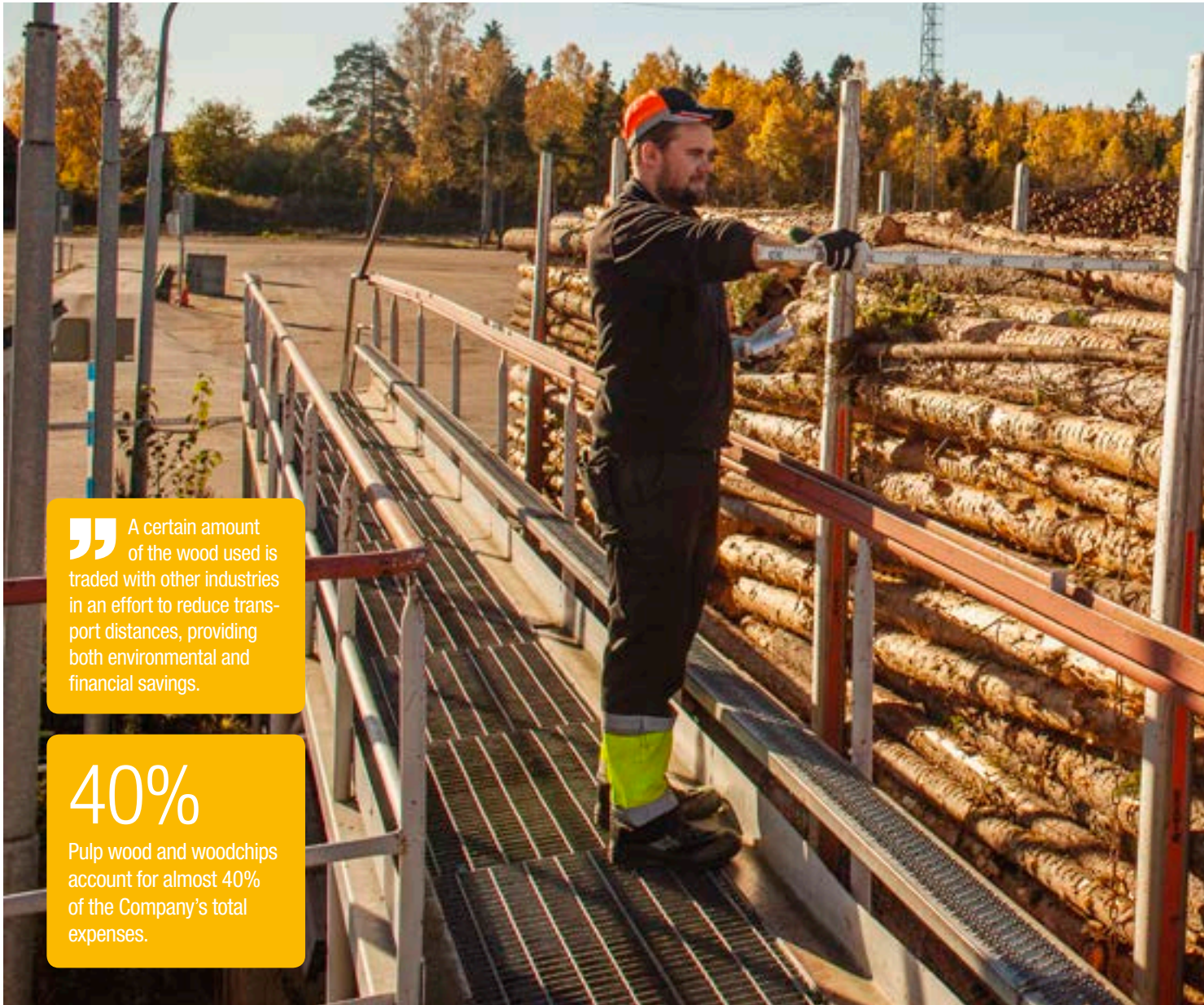
In January 2016, Vallvik Mill was granted a new environmental permit by the Land and Environment Court. At the same time the mill received a permit to produce 255,000 tonnes of sulphate pulp annually.

Because of the sophisticated recycling approach to production, the environmental impact of the mill is extremely

low. The washing liquid with chemicals from the digester is converted into white liquor during recovery and the remains of the pulp wood are used as fuel. An impressive 99 per cent of fuel used at the mill today is fossil-free and 97 per cent of all chemicals are recycled. When the liquor is incinerated in the recovery boiler, energy is produced in the form of steam that Vallvik Mill uses in various aspects of production, as well as in a steam turbine that produces electricity. Consequently the mill is essentially self-sufficient with respect to electricity, and therefore less exposed to electricity prices than Rottneros Mill, where production mainly requires electrical energy.

INVESTMENTS

During the year several investments were made in Vallvik Mill within the Agenda 500 framework. A new white liquor filter was installed, which produces the fluid that is used for boiling. This was previously a bottleneck that restricted production. A new screening plant for the unbleached pulp was built, which improved the purity of the pulp – an important property. The drivability of the line was also improved. A new wash press will be installed in 2017, which together with the new screening plant will further improve drivability. This investment of around SEK 45 million will also reduce the mill's COD emissions so that the production capacity can be expanded under the new environmental permit.



” A certain amount of the wood used is traded with other industries in an effort to reduce transport distances, providing both environmental and financial savings.

40%

Pulp wood and woodchips account for almost 40% of the Company's total expenses.

GOOD ACCESS TO WOOD IS IMPORTANT

Pulp wood and woodchips are the strategic raw materials that are important for the Rottneros Group's pulp production. These raw materials account for nearly 40 per cent of the Company's total costs. Traceability certification guarantees that there is nothing controversial about the origin of the wood and ensures that all wood comes from reliable and sustainable sources.

SUPPLY OF PULP WOOD

Rottneros' two mills consumed a total of just over 1.4 million cubic metres of pulp wood and woodchips in 2016. Availability of wood for the Group's business has been good during the year.

Rottneros has its own organisation to acquire wood in Sweden as well as a wood procurement company in Latvia: SIA Rottneros Baltic. Wood is purchased in the form of pulp wood or as woodchips from different sawmills. During the year, the organisation at Vallvik Mill was strengthened.

The Group's strategy is to have a lean and efficient organisation for its wood supply. Rottneros does not own any forests, nor does it have a large field organisation that buys trees or timber directly from forest owners. The Company sources the wood it uses in production in the local timber market surrounding each of the mills. The largest suppliers are state-owned Sveaskog and the forestry owners'



SIA ROTTNEROS BALTIC



Rottneros imports some of its pulp wood from Latvia by ship through its own subsidiary, SIA Rottneros Baltic, which represents a strategic component of the Rottneros Group's pulp wood supply. These imports, which are mainly for Vallvik Mill, corresponded to approximately 12 per cent of the mill's pulp wood requirements in 2016. SIA Rottneros Baltic is certified for traceability and has control of the origin of the wood.

PULP WOOD SUPPLY



WOOD

- Purchased as pulp wood or woodchips.
- The state-owned Sveaskog and the forestry owners' association Mellanskog are the largest suppliers.



ELECTRICITY

- The Group's electricity consumption: **419 GWh**.
- Vallvik Mill produced 70 per cent of its electric energy consumption, which was a total of 178 GWh in 2016.



CHEMICALS

- Weakly declining market prices for chemicals.
- Rottneros has contacts with a wide selection of suppliers.

association Mellanskog. In addition, a certain volume is also imported.

Importing a certain quantity of wood provides greater flexibility in the pulp wood supply. SIA Rottneros Baltic is a strategic component in the raw material organisation. Woodchips imported from Latvian sawmills, which comprise most of the Group's imports, primarily go to Vallvik Mill, which has its own harbour. Imports to Rottneros Mill come from Norway. The decline of the forest industry in Norway has led to an increase in local deliveries.

The goal is to maintain a supply of pulp wood at the industries that is sufficient for 2-3 weeks of production. Some special materials or grades of pulp at Rottneros Mill require a slightly larger stock.

A certain amount of the wood used is traded with other industries in an effort to reduce transport distances, providing both environmental and financial savings.

Seasonal variations, pricing and weather conditions are factors that affect the flow

of wood supplies. Good communication and good, long-term relationships with suppliers are required to maintain a stock level to secure production, while reducing the amount of capital tied up. Fresh wood yields better use of raw materials, including reduced use of bleaching chemicals.

The Rottneros Group is traceability-certified according to two systems: Forest Stewardship Council® (FSC) and Programme for the Endorsement of Forest Certification (PEFC). Traceability certification guarantees that there is nothing controversial about the origin of the wood used (e.g. illegal logging, wood from key habitats, etc.), which can be traced back in the supply chain.

THE PULP WOOD MARKET

The average cost of Rottneros' wood supplies continued to fall in 2016. The total cost amounted to SEK 580 million (2015: SEK 591 million), corresponding to 37 per cent (2015: 38 per cent) of the Group's

expenses. The stock of pulp wood at the end of 2016 was somewhat above the normal level.

The pulp wood balance is primarily affected by the forest owners' interest in harvesting and selling their wood, the price of pulp wood and market structures. Expansions in the forest industry that have been announced in Sweden and Finland will increase demand for wood.

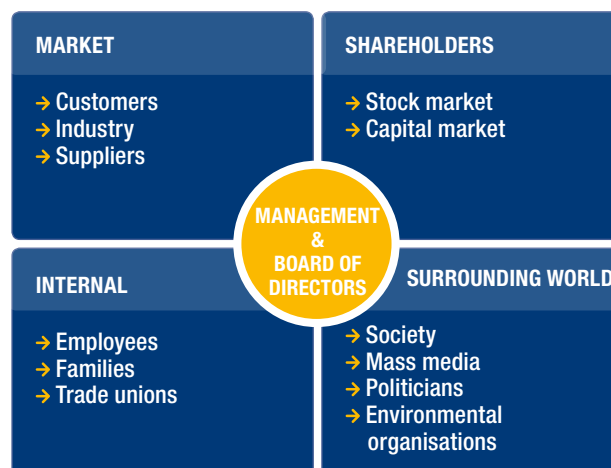
Since woodchips from sawmills represent a significant portion of the wood, the economy and production at the sawmills is important.

The inflow of wood from Norway to Sweden helps to strengthen the Swedish timber balance.

CHEMICALS

The market prices of the chemicals that the Group uses for production fell during the year. Rottneros endeavours to contact a wide selection of suppliers to secure both its own production and competitive prices.

ROTTNEROS TAKES RESPONSIBILITY FOR SUSTAINABLE DEVELOPMENT



For Rottneros, sustainability entails responsibly building and developing the Group for the long term. Employee safety, environmentally friendly products and responsibility for both the internal and external environment are just a few of the most important components of our sustainability management programme. Our aim is to continuously reduce the Group's environmental impact and to ensure that our employees can develop and grow in a safe workplace.

SUSTAINABILITY REPORTING

Rottneros' sustainability work is reported annually as an integral part of our Annual Report and is also presented on Rottneros' website.

CODE OF CONDUCT

The Group has a Code of Conduct describing how Rottneros and the Company's employees act in relation to the surrounding world and towards each other. The purpose is to define Rottneros' social responsibility, ethical commitment and position in respect of equality issues and also the approach that Rottneros' employees should adopt on issues of principle importance.

STAKEHOLDERS

It is important for us to maintain good communication with the parties affected by our operations. Customers, pulp wood suppliers, employees and shareholders hold a special position in this respect. These are the stakeholders that Rottneros primarily communicates with to maintain an open and positive relationship.

MARKET

Customers

Rottneros' business concept is to provide customers with pulp products that strengthen their market position and profitability. We take responsibility here by always striving to offer customised products

SUSTAINABILITY INFORMATION

Location of information (page in Annual Report)

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with a superior level of quality. By providing new knowledge and developing our products, we create added value for our customers. We engage in continual dialogue with our customers at regularly scheduled meetings to discuss issues relating to products and quality.

Information about Rottneros and the Company's products is provided in Pulp Focus, a customer magazine that we produce and distribute to all of our customers. In 2016, the Group conducted a customer survey to gain a better understanding of how our customers perceive us and how we can develop our collaboration.

Suppliers

We also have a responsibility towards our suppliers and partners. This means that Rottneros' representatives are never allowed to use improper means to derive any undue competitive advantage for the Company or for their own personal gain. Rottneros must never enter into business relationships with companies that violate laws, regulations or international human rights conventions.

According to the management process at Rottneros, new suppliers are chosen according to set criteria. Meetings are held with suppliers in conjunction with the procurement of annual contracts for input goods at which supply commitments are discussed. Each company then has an opportunity to update the others about the market situation, organisational changes and other issues related to our relationship. In addition to these meetings, Rottneros maintains regular contact with its suppliers.

SHAREHOLDERS

Stock and capital market

For us, acting responsibly towards our shareholders entails working to maximise value within the framework of laws, rules and standards. Rottneros' capital market activities are characterised by transparency and honesty. We comply with the laws, regulations and ethical guidelines that apply to the capital markets. We aim to reduce the Group's risk exposure and pay steady dividends to our shareholders. Press releases, quarterly financial statements, meetings with analysts and attendance at Capital Market Days are the primary ways in which we contact existing and potential shareholders.

INTERNAL

Employees

Employee well-being and safety are a central component of Rottneros' success. We show our responsibility towards our employees by promoting good health, environment and safety at our workplaces. We offer desirable employment terms as well as good opportunities for development. We are working intensively with both skills and leadership development. Rottneros protects the rights of its employees, fights against discrimination and harassment, and promotes diversity in the workplace.

Trade unions

All Rottneros Group employees are covered by collective union agreements. Collective agreements have been concluded with Pappers (Swedish Paper Workers' Union), Unionen, Ledarna (Swedish Organisation

for Managers) and Sveriges Ingenjörer (Swedish Association of Graduate Engineers).

SURROUNDING WORLD

Society

Rottneros' mills have strong ties to the local communities, which are usually based on traditional industrial culture, where we are a major employer in the area. We believe it is important to take responsibility in the local communities and we collaborate with the municipal authorities where we operate, among other things by offering apprenticeships and study visits.

Environment

We assume our environmental responsibility by ensuring that all production units within the Group comply with the environmental requirements laid down in acts and ordinances. Environmental objectives are followed up in conjunction with our financial reporting, and we engage in dialogue with stakeholders on the environmental impact of our activities and products. Our production units work to continuously improve the production process and our goal is that all investments in the mills will also benefit the environment.

PRIORITIES

The Rottneros Group always endeavours to make our products better, both from a quality and efficiency perspective, by understanding the customers' processes and product strategy. Environmental, social and economic factors are crucial to this success.

CONSOLIDATED INCOME STATEMENT BROKEN DOWN BY STAKEHOLDER

Stakeholder group	Type of activity	SEK MILLION	Percentage of total cost
Customers	Sale of paper pulp and other income	1,730	
Suppliers	Raw materials & consumables	-881	53%
	Other purchases of goods and services including depreciation, amortisation and impairment	-509	31%
	Pay, social security contributions and other employee benefit expenses	-223	14%
Lenders	Interest	-7	0%
State	Tax	-35	2%
Shareholders	Net income	128	

Steam

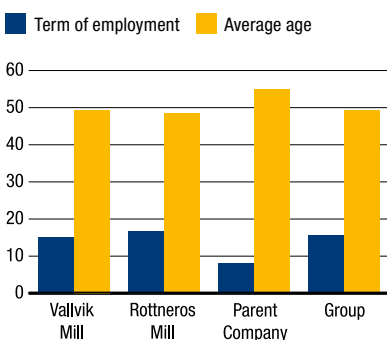
Stack emissions from Vallvik Mill are essentially pure steam.



WHEN OUR EMPLOYEES GROW, WE GROW TOO

In order to be a sustainable and successful business, our employees must experience job satisfaction and personal growth at work. We have therefore continued our work with skills development within the Group during the year. Just as in previous years, employee safety is at the top of the agenda.

TERM OF EMPLOYMENT AND AVERAGE AGE, 2016



SAFETY FIRST AT OUR WORKPLACES

Rottneros has a ‘vision zero’ approach to occupational injuries leading to sick leave. We train our employees and have clear and precise instructions for conducting work, as well as how to move around within the area of the mills. Accident and incident statistics are reported to management and the Board on a monthly basis. Six accidents occurred at Vallvik Mill in 2016 that resulted in a total of 23 sick days. The corresponding figures at Rottneros Mill were three accidents with a total of 39 days of sick leave.

EMPLOYEES WHO GROW HELP THE COMPANY TO GROW

Rottneros Academy is the Group’s internal education concept that was developed in 2015 and launched during the year. We strongly believe that training our own personnel is one of the keys to success since it attracts new employees, causes existing employees to stay within the Group and ensures continuity of skills with generational changes.

During the year Rottneros Academy held a process training programme for all employees at Vallvik Mill. Another high-priority training programme at Vallvik Mill was a leadership programme

based on our catchwords professionalism, commitment and respect. We believe that value-based leadership is the best way to encourage growth among employees and help the Company reach its goals.

At Rottneros Mill, training activities during the year focused on a process training programme and commissioning of new equipment within the Agenda 500 investment program, such as washing/ dewatering, bleaching and drying. Thanks to these training initiatives the commissioning of the new investments was highly successful.

Regarding occupational health and safety, managers and safety officers completed a “Better Work Environment” training programme.

COLLABORATION TO PREPARE FOR FUTURE EMPLOYEES

Along with various educational institutions, we also started a collaborative initiative to design better preparatory courses for operator positions. A job training programme at Vallvik Mill was prepared and began in January 2017. We are also trying to establish a vocational college programme for process operators.

HIGH MARKS IN EMPLOYEE SURVEY

During the fall we conducted a Group-wide employee survey. Compared with the industry, Rottneros ranked better in every index included in the study: commitment, leadership, efficiency and NPS (Net Promoter Score, a value indicating how likely it is that employees would recommend the company as an employer to a friend).

FACTS**Jennie Holmström Kring****Age:** 33**From:** Ljusne**Job:** Intern at Rottneros, will become an employee in June 2017.

I really enjoy my co-workers and the workplace, so I want to stay on after my internship is over.



The internship convinced Jennie that Rottneros was the place for her.

Jennie Holmström Kring is enrolled in a two-year course at the vocational college to become a technician with a focus on processes. The traditional education programme is interspersed with 'Learning at Work', an internship during which Jennie worked at Rottneros, including at the bleach plant at Vallvik Mill.

"My first internship at Rottneros was only four weeks long. I could only get a glimpse of the operation then because

it's all so complex. Now during the spring, I have another 14-week internship so I'll get to be involved in the daily work in a different way. The first internship also gave me a foot in the door and I've worked extra at the Vallvik Mill laboratory," says Jennie.

What happens after the internship?

"I thought it was so interesting at Rottneros and enjoyed my co-workers and the job so much that I'm staying after the internship. After graduation in June I'll start my introduction

programme to become a process operator at Vallvik Mill," says Jennie.

"It starts with training before you can manage everything yourself. So I'll try to learn what people who have been working here know and take in as much information as possible. Some things happen maybe once every ten years at the mill, and when you're new it's hard to know what to do then. So it's good to have time to learn from previous generations," says Jennie.



FOCUS ON THE ENVIRONMENT FROM FOREST TO END PRODUCT

Our wood-based products are part of a natural and sustainable ecosystem with their beginnings in the forest. That is why responsibility for the environment permeates the entire Rottneros business. We place great value on reducing our environmental impact and our ambition is to conduct our business sustainably.

Our business begins in the forest, where we get our wood. Having the pulp wood supply as close to the mills as possible reduces both our environmental footprint and our transport costs. The systematic review of the Group's transports shows that we can be pleased that the majority of our pulp wood comes from within a radius of 100 kilometres from the mills. This policy both reduces need for transports and contributes to the local economy.

The main raw material in our mills is wood, which is a natural and renewable input. In general we are committed to reducing consumption of input goods and optimally using our resources. At Rottneros Mill CTMP and groundwood pulp are produced in two separate lines. Both processes are environmentally friendly because of their high use of raw materials at a rate of 90-95 and 95-98 per cent, respectively, and their low chemical consumption.

FOCUS ON REDUCED ELECTRICITY CONSUMPTION AT ROTTNEROS MILL

Our second largest input is electricity. At

Vallvik Mill we produce our own electricity, which currently covers 70-80% of the mill's needs. At Rottneros Mill, however, the process is extremely power-intensive but the mill is unable to produce its own electricity. We are therefore continually working to reduce energy consumption per tonne of pulp at Rottneros Mill through improved processes and our choice of products. As a result Rottneros Mill has been able to reduce its electricity consumption by 14 per cent per produced tonne since 2010.

RECOVERED CHEMICALS AND FOSSIL-FREE MILL AT VALLVIK

Vallvik Mill produces chemical pulp where the majority of the chemicals used are recovered through an integrated recovery process. About half of the wood becomes pulp, which is sold on the world market. The other half of the wood becomes energy that is used partly in the form of steam in the production process, and partly to produce electricity.

Because of the production process at the mill, 99 per cent of the energy used is fossil-free. The remainder consists of fossil



Rottneros environmental and energy policy

- All production units within the Group must comply with the environmental requirements laid down in acts and ordinances.
- One environmental target within the Group is to reduce emissions to levels that are financially viable and ecologically justified. The equivalent applies for energy consumption when choosing energy sources. With its renewable raw material, the operation is part of the natural cycle.
- All employees must have the necessary expertise regarding the environment and energy, be aware of the environmental and energy policy and actively contribute to its fulfilment.
- Environmental protection and energy targets are regularly monitored together with financial reporting.
- An active dialogue is pursued with stakeholders on the impact of the Group's activities and products on both energy consumption and the environment.
- One goal for product and process development is to limit their environmental impact and to reduce energy consumption, in both production and the use of the Group's products.

fuel that is required when the plant starts running after the annual maintenance and repair shutdown. The forest industry today is society's biggest producer and user of biofuel and one of Sweden's largest producers of green electricity (electricity produced from biofuel).

INVESTMENTS HELP US ACHIEVE ENVIRONMENTAL OBJECTIVES

Sustainability is an integral part of our business model and an important component of the Group's development. That is why the investments we made, and will make, within the framework of Agenda 500 also reduce our emissions and our environmental impact. We are committed to implementing measures to both increase production and quality, while meeting the environmental requirements that the authorities have set for the Company. For example, a new biomass boiler was purchased for Rottneros Mill that will provide both production and environmental benefits. When the boiler is installed in 2017 the mill's energy consumption will essentially be fossil-free.

Facts Environment

99%

of fuel used at Vallvik Mill is biofuel

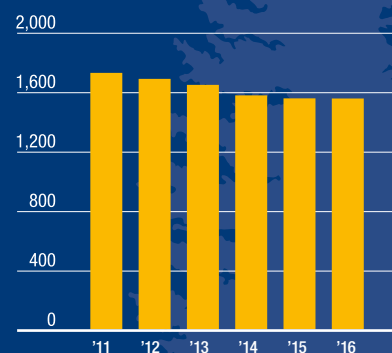
97%

of all chemicals used in the production process at Vallvik Mill are recycled

70%

of the electricity at Vallvik Mill is produced in the mill

ELECTRICITY CONSUMPTION ROTTNEROS MILL, KWH/TONNE





View of the wood yard at Rottneros Mill

ENVIRONMENTAL EVENTS AT THE MILLS IN 2016

” A new biomass boiler will be commissioned in 2017. After the boiler is installed only a minimal amount of oil will be used for drying pulp in the future.

ROTTNEROS MILL

At Rottneros Mill we initiated a project in 2016 to install a more energy-efficient system, including a new biomass boiler. The new boiler will be commissioned in 2017. After the boiler is installed only a minimal amount of oil will be used for drying pulp in the future. The bleaching

step on the CTMP line has also been converted from MC bleaching to HC bleaching. As a result we reduced consumption of bleaching chemicals on the CTMP line by 20 per cent. At the same time we are continuing to work on electricity saving measures.

” During the year, efforts continued to further reduce emissions to air and water.

VALLVIK MILL

In early 2016 Vallvik Mill was granted a new environmental permit by the Land and Environment Court, which became effective on 1 May 2016. The permit is subject to more stringent conditions, some of which are already in force.

The court requires Vallvik to conduct a number of investigations, which Vallvik Mill has worked on during the year. This work will continue in 2017 in order for the mill to be able to propose final conditions to the Land and Environment

Court in mid-2017. Vallvik also received a permit to produce 255,000 tonnes per year. During the year, efforts continued to further reduce emissions to air and water. Initiatives include improvements to the biological treatment plant to increase the reduction of oxygen demand (COD). In addition, a muffler was installed on the steam release mechanism so that the mill can meet the new noise limits applicable from mid-2017.

BREAKDOWN OF TRANSPORT WORK (TONNES KM) WITHIN THE ROTTNEROS GROUP

	Road	Rail	Sea	Proportion of total transport work, %
2016				
Pulp wood, %	56	4	40	18
Chemicals, %	100	0	0	1
Pulp, %	15	15	70	81
Proportion of total transport work, %	23	13	64	100
2015				
Pulp wood, %	55	5	40	19
Chemicals, %	100	0	0	1
Pulp, %	20	19	61	80
Proportion of total transport work, %	29	16	55	100

ENERGY CONSUMPTION

	GWh	Rottneros	Vallvik	Total Group
2016				
Biofuels, incl. black liquor		54	1,573	1,628
Fossil fuels		58	23	80
Total energy consumption excl. electricity		112	1,596	1,708
– Proportion of biofuels (%)		49	99	95
Electricity generated at mills		–	125	125
– of which green electricity		–	123	123
Electricity purchased		241	53	294
Total electricity consumption		241	178	419
– Proportion produced at mills (%)		–	70	30
2015				
Biofuels, incl. black liquor		54	1,595	1,649
Fossil fuels		56	19	75
Total energy consumption excl. electricity		110	1,614	1,724
– Proportion of biofuels (%)		49	99	96
Electricity generated at mills		–	140	140
– of which green electricity		–	139	139
Electricity purchased		241	37	278
Total electricity consumption		241	177	418
– Proportion produced at mills (%)		–	79	33

EMISSION ALLOWANCES FOR CARBON DIOXIDE

	Allocation/year 2013–2020	Emissions 2016	Emissions 2015
2016			
Rottneros	19,668*	15,748	15,432
Vallvik	11,355*	6,276	5,291
Total	31,023*	22,024	20,723

* The allocation will gradually be reduced during the period so that it is 12% lower in 2020.

EMISSIONS TO WATER AND AIR

	Rottneros	Vallvik	
2016			
Production (tonnes)	156,600	217,500	
S (tonnes per year)	12	149	
Permit	–	80 tonnes + 0.3 kg/tonne	
NOx	43 tonnes/year	1.5 kg/tonne	324 tonnes/year
Permit	–	1.5 kg/tonne	420 tonnes/year
Suspended substances	314 tonnes/year	2.49 tonnes/day	
Permit	325 tonnes/year	2.5 tonnes/day	
		ECF	UKP
COD	3,112 tonnes/year	13.2 tonnes/day	5.9 tonnes/day
Permit	4,000 tonnes/year	35 tonnes/day	18 tonnes/day
BOD7, tonnes/day	2.1	2.5	
Permit	–	–	
AOX, kg/tonne	–	0.10	
Permit	–	0.25	
Phosphorus	1.4 tonnes/year	18.9 kg/day	
Permit	1.5 tonnes/year	25 kg/day	
Chlorate (tonnes per day) ECF	–	0.45	
Permit, kg/tonne	–	0.6	
2015			
Production (tonnes)	154,704	218,682	
S (tonnes per year)	12	78	
Permit	–	135	
NOx	32 tonnes/year	1.5 kg/tonne	328 tonnes/year
Permit	–	1.5 kg/tonne	
Suspended substances	220 tonnes/year	0.6 tonnes/day	
Permit	325 tonnes/year	2.0 tonnes/day	
		ECF	UKP
COD	3,095 tonnes/year	12 tonnes/day	5.2 tonnes/day
Permit	4,000 tonnes/year	35 tonnes/day	18 tonnes/day
BOD7, tonnes/day	1.7	2.3	1.4
Permit	–	–	
AOX, kg/tonne	–	0.12	
Permit	–	0.8	
Phosphorus	0.7 tonnes/year	25 kg/day	
Permit	1.5 tonnes/year	–	
Chlorate (tonnes per day) ECF	–	0.27	
Permit	–	1.5	

CARBON DIOXIDE EMISSIONS (TONNES PER YEAR)

	Rottneros	Vallvik	Total
2016			
Fossil fuels	15,748	6,276	22,024
Biofuels	37,492	603,689	641,181
% biofuels	70%	99%	97%
2015			
Fossil fuels	15,432	5,291	20,723
Biofuels	33,001	613,278	646,279
% biofuels	68%	99%	97%

FINANCIAL REPORTS 2016

DIRECTORS' REPORT

The Board of Directors and CEO of Rottneros AB (publ), corporate identity number 556013-5872, based in Sunne, hereby present the annual accounts and consolidated accounts for the financial year 2016.

Rottneros reports yet another strong financial performance for 2016. However, because of lower pulp prices, profit was lower than the previous year. Rottneros Mill and the Group in its current structure both set a new annual production record. The Company's investments in the Agenda 500 development programme continue to increase capacity.

The Rottneros Group is an independent and flexible producer of high-quality chemical and mechanical pulp. The Group operates in the open pulp market, where the pulp produced is sold to customers throughout the world. Europe and the United States, along with certain Asian markets, represent the main focus of Rottneros' sales.

The Rottneros Group's principal activity takes place at two pulp mills: Vallvik Mill and Rottneros Mill. The company focuses on expanding in selected niches where the Group is among the leading manufacturers in the world, or areas where Rottneros Group's pulp has a competitive advantage that represents a potential to become a market leader. As part of its strategic decision to grow in the area of sustainable packaging, the Group will also develop Rottneros Packaging in order to have a third leg for the Group in the future.

SALES, EARNINGS, INVESTMENTS AND FINANCIAL POSITION

STRONG ANNUAL PROFIT ONCE AGAIN

SUMMARY CONSOLIDATED INCOME STATEMENT

SEK MILLION	2016	2015
Net turnover	1,730	1,795
Operating profit	170	263
Profit after financial items	163	259
Net income	128	223

DEVIATION ANALYSIS

SEK MILLION	2016	2015
NBSK PIX, USD	802	857
SEK/USD	8.56	8.44
NBSK, SEK	6,867	7,228
Operating profit	170	263
Price and currency	-69	
Delivery volume and other	4	
Total difference in turnover		-65
Raw materials and consumables	4	
Other expenses	-35	
Other operating income	3	
Total difference in operating profit		-93

SALES AND RESULTS

Sales

Turnover for the Group amounted to SEK 1,730 (1,795) million for 2016. Deliveries for the year amounted to 374,100 (372,200) tonnes. Rottneros Mill set a new volume record for both production and deliveries, as did the Group in its current structure.

The average price of long-fibre sulphate pulp (NBSK) in USD decreased by 6 per cent compared with the previous year. In SEK, the average price for the year was 5 per cent lower than in 2015.

Operating profit

The Group's operating profit amounted to SEK 170 (263) million for 2016. Profit was lower primarily due to lower market prices.

Expenses

The cost of raw materials and consumables decreased by 2 per cent compared with the previous year, mainly related to the slightly lower prices of wood and woodchips. Electricity costs, which are also included in raw materials and consumables, were 5 per cent higher than in the previous year. The average price of electricity on the Nord Pool electricity exchange (area SE3) amounted to SEK 0.28 (0.21) per kWh for the full year 2016, which is 33 per cent higher than

the previous year. Profit was negatively affected by the higher price of electricity for the portion of electricity consumption that had not been hedged.

Other expenses were 5 per cent higher than in the previous year. Shipping costs were 2 per cent higher due to changes in customer mix. As part of the Group's industrial Agenda 500 plan, the cost of maintenance of production facilities was 10 per cent higher than the previous year. An ongoing focus on personnel also resulted in slightly higher personnel costs than the previous year.

Other

The outcome of hedging activities realised in 2016 amounted to SEK -5 (-17) million. SEK -4 (6) million of the hedging profit/loss is linked to currency hedging and SEK -1 (-23) million to electricity hedging. In 2016 and 2015 the Group had no realised pulp hedges.

In 2016, the Group carried out a revaluation of its 16% stake in Söderhamns Stuveri & Hamn AB, resulting in an upward revaluation of SEK 8 million. The revaluation is included in other operating income for 2016.

A previous impairment loss recognised in 2011 relating to the grinding line at Rottneros Mill was partially reversed in 2016. The reversal had a positive impact of SEK 23 million on the results.

SALES, EARNINGS, INVESTMENTS AND FINANCIAL POSITION

Impairment losses for the Group relating to certain property, plant and equipment and intangible assets totalled SEK 9 million in 2016.

Profit after financial items

Group profit after financial items amounted to SEK 163 (259) million and includes net financial items of SEK -7 (-4) million.

Net income

Consolidated net income amounted to SEK 128 (223) million and earnings per share were SEK 0.84 (1.46).

The tax expense for the year amounted to SEK 35 (36) million. Taxes recognised for the year primarily relate to utilisation of previously capitalised loss carryforwards. The Group has now utilised all historical tax losses and therefore no deferred tax assets remain at year-end (deferred tax assets relating to tax losses per 31 December 2015 amounted to SEK 31 million).

INVESTMENTS

Group investments in fixed assets amounted to SEK 278 (103) million in 2016. In both 2016 and 2015, these investments primarily related to equipment to increase capacity and efficiency under Agenda 500, the long-term strategic action plan to strengthen and develop Rottneros.

The largest investments taken into operation in 2016 at Rottneros Mill include the expansion of the CTMP line and a new pulp warehouse. At Vallvik Mill a new white liquor filter, a new screening plant and a new pulp and liquor tower were commissioned during the year.

As part of Agenda 500, the Board of Directors decided in 2016 that a new energy and emission-efficient biomass boiler would be installed at Rottneros Mill. The investment, totalling SEK 108 million, is expected to be commissioned around mid-2017. Following the investment, energy consumption at both mills will for all practical purposes be fossil-free.

In 2016 the Board of Directors also decided as part of Agenda 500 that a new wash press would be installed at Vallvik Mill. This investment of around SEK 45 million will significantly reduce the mill's

COD emissions so that the production capacity can be expanded under the new environmental permit. The wash press will be installed during the maintenance shutdown in 2017.

In 2015-2016 the Board of Directors decided on total investments of SEK 510 million relating to Agenda 500, including SEK 370 million carried out in 2015 and 2016. The remaining investments of around SEK 140 million will be carried out in 2017. The majority of these investments are already procured and contracted.

In February 2017 the Board of Directors decided to expand the purification plant at Rottneros Mill, within the scope of Agenda 500. The environmental investment of SEK 84 million is planned to be commissioned in 2018.

FINANCIAL POSITION

Fixed assets amounted to SEK 905 (706) million on 31 December 2016, a 28 per cent increase compared with the previous year. Property, plant and equipment comprise 97 (93) per cent of the Group's non-current assets.

Current assets, excluding cash and cash equivalents, amounted to SEK 568 (511) million on 31 December 2016 and comprise 49 per cent inventories and 51 per cent accounts receivable. Current assets increased by 11 per cent compared with the end of the previous year.

Group cash and cash equivalents amounted to SEK 16 (169) million at the end of the year.

The Group had used SEK 14 (0) million of its credit facilities at year-end. The Group's net cash thereby amounted to SEK 2 (169) million at the end of the year.

In December 2016 Rottneros signed a debt financing agreement totalling SEK 120 million that will be used for investments in the Group's two mills within the Agenda 500 investment programme. The loans will be repaid within five years and have a variable interest rate. The loan terms include customary covenants such as net debt in relation to EBITDA, as well as the equity ratio and certain restrictions on dividend payments. These approved loans had not been used at year-end.

Total approved but unutilised credit

facilities amounted to SEK 281 (175) million on 31 December 2016.

The equity/assets ratio at year-end was 77 (76) per cent. Equity per share amounted to SEK 7.54 (SEK 6.93).

CASH FLOW

Cash flow from operating activities before investments for 2016 amounted to SEK 187 (335) million. Cash flow was lower than in 2015, mainly due to the lower operating income.

Cash used in investing activities amounted to SEK -278 (-103) million. The strong cash flow from operating activities in 2015-2016 funded the Group's investments during 2015-2016. Cash flow after investments for 2016 was SEK -91 (232) million.

Cash used in financing activities amounted to SEK -62 (-152) million. In 2016 shareholders were paid dividends totalling SEK 76 (122) million.

Net cash flow for the year was SEK -153 (80) million.

PARENT COMPANY

The parent company's turnover for 2016 amounted to SEK 6 (6) million. The parent company's sales comprise revenues from administrative and operational management services. The parent company's profit after net financial items amounted to SEK 138 (226) million for 2016. This figure includes group contributions received/paid of SEK 166 (189) million.

FUTURE TRENDS

The Rottneros Group continues to carry out its strategic action plan, Agenda 500, to strengthen and develop Rottneros. The focus on selected niches will continue under the plan. Bottlenecks at the mills will continue to be eliminated through a planned capacity expansion over the next few years.

As part of its strategic decision to grow in the area of sustainable packaging, the Group will also develop Rottneros Packaging in order to have a third leg for the Group in the future.

SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

In February 2017 the Board of Directors decided to expand the purification plant at Rottneros Mill, within the scope of Agenda 500. The environmental investment of SEK 84 million is planned to be commissioned in 2018.

No other significant events occurred after the end of the financial year that affected the Group's financial position and results of operations.

NUMBER OF EMPLOYEES

The average number of employees was 282 (264) in 2016. The increase was mainly attributable to production personnel.

The average term of employment is about 16 years, and the average age of employees is approximately 49 years.

SUMMARY CONSOLIDATED BALANCE SHEET

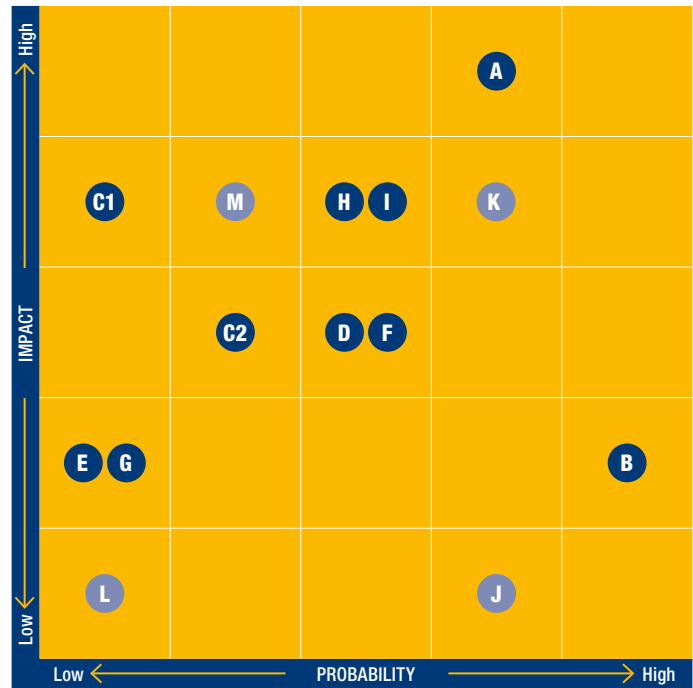
SEK MILLION	2016	2015
Non-current assets	905	706
Current assets	584	511
Cash and cash equivalents	16	169
TOTAL ASSETS	1,489	1,386
Shareholders' equity	1,151	1,058
Interest-bearing liabilities	14	-
Non-interest-bearing liabilities	324	328
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	1,489	1,386

SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS

SEK MILLION	2016	2015
Cash flow from operating activities	187	335
Cash flow from investing activities	-278	-103
Change in interest-bearing liabilities	14	-30
Dividend paid	-76	-122
NET CASH FLOW FOR THE YEAR	-153	80

BALANCE IN MANAGEMENT OF FINANCIAL AND OPERATIONAL RISKS

Rottneros is affected by the general business cycle, currency fluctuations and other company-specific environmental factors. The most important risks that affect the Group's capacity to achieve the objectives set are described in this section, as is the management of each risk. Rottneros is working to minimise risk through preventive work or, where this is not possible, by working with different kinds of hedging and insurance. Many of the risks shown below may have both a positive and negative impact on Rottneros. Work relating to risk is managed by the Board of Directors at an overall level and by the CEO and Group management at an operational level. The risk management process includes, among other things, strategic business planning, conducting an ongoing risk inventory, preventive maintenance work and investments, and financial hedging activities.



Operational risk areas

- A** Variations in pulp price
- B** Structural change
- C1** Access to raw material
- C2** Raw material prices
- D** Electricity prices
- E** Customer structure and customer credit
- F** Facilities
- G** Political decisions
- H** Sustainability and responsibility
- I** Environment

Financial risk areas

- J** Currency – balance exposure
- K** Currency – transaction exposure
- L** Interest rates
- M** Liquidity and refinancing

SENSITIVITY ANALYSIS, 2016

Type of risk	Change	Effect on annual profit after net financial items (SEK m)		
		2016	2015	Sensitivity
Pulp prices	USD 50/tonne	110	100	High
USD	SEK 0.50/USD	40	50	High
Electricity prices	SEK 0.10/kWh	25	25	High
Pulp wood prices	SEK 10/m ³	15	15	Medium
Interest rate risk	1 percentage point	0	0	Low
Refinancing				Low
Credit risk				Low

Sensitivity calculations for each type of risk do not take into account the fact that actual changes will also affect other items. The effects of any hedging have not been taken into account, either.

OPPORTUNITIES AND RISKS – OPERATIONAL

RISK AREA	RISK MANAGEMENT	
A VARIATIONS IN PULP PRICE		PROBABILITY: 4 IMPACT: 5

'Pulp price risk' means the risk of changes in pulp prices having a negative impact on the consolidated income statement and balance sheet.

The pulp price is set in a global market and the price of Rottneros' products is dependent on how global demand for pulp products can be matched with the industry's production volume.

Variations in pulp price are seldom related to changes in Rottneros' costs and may thus generate major fluctuations in the result.

A high pulp price is positive for the result but may have a negative impact on potential sales volumes.

The setting of prices in the pulp market is governed by international price levels that depend on demand and the global economy.

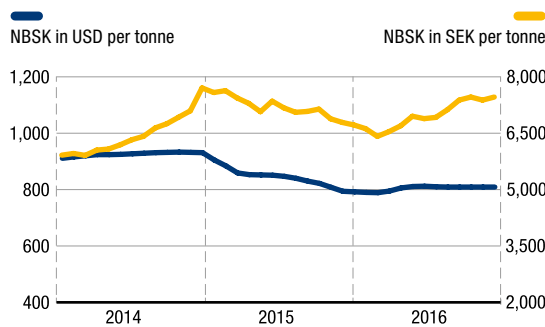
Pulp hedging is used when the price levels in long-term contracts are economically advantageous or when the market price is so low that further reductions may threaten the survival of the company. As a main rule, pulp prices are hedged in Swedish kronor.

Rottneros develops product segments that involve more added value and that can substitute mass products in the long term. The objective is to reduce dependency on the list price for market pulp and thereby mitigate fluctuations in profitability over a business cycle.

COMMENTS ON OUTCOME FOR 2016:

The Group had pulp hedging of 24,000 tonnes as of 31 December 2016, with a due date between January 2017 up to and including December 2017 at a price of SEK 7,150 per tonne.

PULP PRICES NBSK IN USD AND SEK

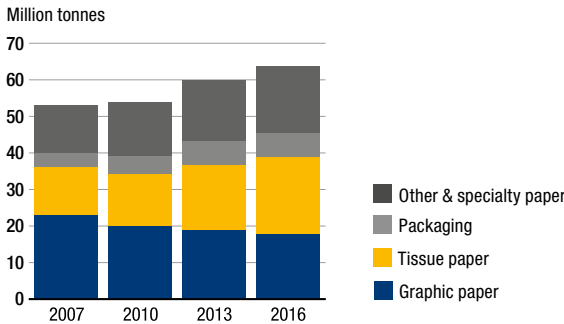


B STRUCTURAL CHANGE		PROBABILITY: 5 IMPACT: 2
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Digitisation, globalisation and increased trade reduce demand for certain types of pulp and effect structural changes in the industry. Demand for newsprint and printing paper is weakening while demand for tissue paper, board and specialty paper is strengthening.

Rottneros has focussed on growth in product segments in which the company can add value through its knowledge and high-quality pulp, in order to manage structural change in the industry. The objective is to reduce dependency on the list price for market pulp and thereby mitigate fluctuations in profitability over a business cycle.

GLOBAL MARKET PULP CONSUMPTION PER APPLICATION



C1 ACCESS TO RAW MATERIAL		PROBABILITY: 1 IMPACT: 4
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Pulp wood supplies are crucial for a pulp producer. Rottneros does not have any forests of its own and is therefore dependent on an optimal flow of pulp wood to its pulp mills. Deliveries and customer relations would be in jeopardy if Rottneros were to experience disruptions in the supply of pulp wood.

The Group ensures that it has a good, long-term relationship with the suppliers in the vicinity of each mill to safeguard access to pulp wood. Rottneros normally concludes agreements with major pulp wood suppliers for a period of between six and twenty-four months. Over the past year Rottneros has signed three-year contracts with the Group's largest suppliers of pulp wood. The Group has its own company in Latvia for supplies of pulp wood and chips in order to increase flexibility.

RISK AREA	RISK MANAGEMENT
C2 RAW MATERIAL PRICES	PROBABILITY: 2 IMPACT: 3

Price and price changes for pulp wood affect pulp producers. Higher prices for pulp wood have a negative impact on profit and Rottneros is unable to compensate for price increases on input goods.

The Group does not hedge against market price fluctuations, but long-term supply agreements provide some stability to prices. A price change of SEK 10 per m³ will affect the Group's result by approximately SEK 15 million.

COMMENTS ON OUTCOME FOR 2016:

Rottneros raw material cost for the year amounted to SEK 580 (591) million, equivalent to 34 (33) per cent of net turnover.

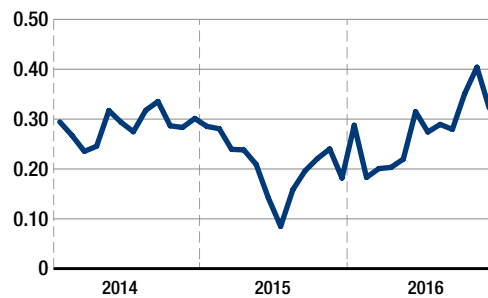
D ELECTRICITY PRICES	PROBABILITY: 3 IMPACT: 3
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Energy costs represent a substantial part of Rottneros' manufacturing costs. Increased energy prices may lead to increased production costs and have a negative impact on the Group's operating profit.

All electricity for the mills is purchased directly via the Nord Pool electricity exchange. Electricity prices are quoted in EUR. Future electricity prices are hedged in advance in SEK according to a set strategy to protect Rottneros' future electricity costs against major fluctuations and achieve a predictable electricity price.

The Board of Directors approves hedging levels based on proposals from senior management. The Board also approves new financial counterparties.

NORD POOL ELECTRICITY PRICE (AREA SE3) IN SEK PER KWH



COMMENTS ON OUTCOME FOR 2016:

The average price level for electricity on the Nord Pool exchange (area SE3) amounted to SEK 0.28 (0.21) per kWh for 2016.

At the end of December 2016, electricity was hedged corresponding to the percentage of forecast consumption specified in the table. The table shows the average price in SEK/kWh for all electricity hedging.

Year	Proportion hedged	SEK/kWh
2017	71%	0.234
2018	75%	0.226
2019	75%	0.228
2020	60%	0.221
2021	45%	0.237

E CUSTOMER STRUCTURE AND CUSTOMER CREDIT	PROBABILITY: 1 IMPACT: 2
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A high dependency on a small number of major customers, industries or geographical markets may have a significant impact on revenue if a major customer or industry were to have problems.

Rottneros considers that the Group has a good diversification of commercial risk with over 100 customers, of which the ten largest together represent approximately 50 per cent of turnover. Printing paper customers account for approximately 25 per cent of revenue, which in the long term may constitute too high a proportion considering the long-term structural changes occurring in the market.

Geographically, the Rottneros Group is not dependent on the market in any particular country. Most of the Group's turnover is generated in Europe, where Germany, Italy and Sweden represent the largest markets.

Credit risk is managed at a Group level. Credit risk arises through cash and cash equivalents, derivative instruments and deposits at banks and financial institutions, and through credit exposures to customers.

With few exceptions, business risk relating to accounts receivable is insured through credit insurance with a ten per cent excess.

COMMENTS ON OUTCOME FOR 2016:

The Group has just over 100 customers and the maximum credit risk on outstanding accounts receivable amounted to SEK 33 million at the end of 2016 (10-15 per cent excess + any uninsured receivables).

93 (97) per cent of total outstanding accounts receivable were insured on 31 December 2016. Historically, the Group has only incurred small credit losses.

In 2016 the Group's largest customer accounted for 12 (11) per cent of turnover. No other customer accounts for more than 10 per cent of turnover.

OPPORTUNITIES AND RISKS – OPERATIONAL

RISK AREA	RISK MANAGEMENT
<p>F FACILITIES</p> <p>Rottneros has two production facilities that conduct continuous production. Industrial injuries, machinery breakdowns, fires and other accidents may result in extended production shutdowns, damage to the facility and delivery problems.</p>	<p style="text-align: right;">PROBABILITY: 3 IMPACT: 3</p> <p>The management team conducts an annual review of the mills' maintenance needs for the coming years. This work includes identifying ongoing annual investments, investments in expansion and investments that aim to improve quality and safety.</p> <p>The Rottneros Group holds annual maintenance shutdowns to ensure a high and even rate of production. Maintenance shutdowns are carefully planned to minimise downtime. In addition, preventive maintenance is carried out regularly.</p> <p>Rottneros insures all of its facilities against property damage and business interruption and also has relevant liability insurance. The insurance companies conduct annual audits of the Group's facilities and make recommendations for improvements and reduction of risks.</p> <p>Rottneros also has a relatively low level of capital in fixed assets compared with the rest of the industry, which results in low depreciation and a low capital cost. Rottneros had machinery with a total book value of SEK 640 (515) million at the end of 2016. The replacement cost is much higher.</p> <p>Under Agenda 500, the Group's long-term industrial plan, Rottneros is making significant investments in facilities to increase capacity and strengthen competitiveness.</p> <p>COMMENTS ON OUTCOME FOR 2016: In 2016, maintenance shutdowns were carried out during the third quarter at Rottneros Mill and during the fourth quarter at Vallvik Mill. Investments under Agenda 500 are progressing according to plan. Insurance is reviewed and procured annually.</p>
<p>G POLITICAL DECISIONS</p> <p>Political decisions may have a negative impact on production at the Group's pulp mills through changes in environmental legislation.</p>	<p style="text-align: right;">PROBABILITY: 1 IMPACT: 2</p> <p>Rottneros' exposure to political risks is considered to be limited.</p> <p>Rottneros runs its production in Sweden and sells most of its products to Sweden, the rest of Europe and the United States. These markets are stable democracies and the political risk of rapid changes to legislation, rules and regulations is relatively slight.</p> <p>Rottneros considers that there is always a risk of political decisions that raise the price or limit Rottneros' opportunities to produce pulp in some way or another. However, the Company considers this risk to be limited. Rottneros works to continuously improve the production process and the goal is that all investments in the mills will also benefit the environment.</p>
<p>H SUSTAINABILITY AND RESPONSIBILITY</p> <p>Inadequate responsibility relating to sustainability issues could harm trust in the Company and the brand, thereby having a negative impact on the Company's profitability.</p> <p>To achieve sustainable profitability and value creation Rottneros must simultaneously create value for those stakeholders who are affected by the Group's operations.</p> <p>See also the sustainability section on pages 28-35.</p>	<p style="text-align: right;">PROBABILITY: 3 IMPACT: 4</p> <p>Rottneros shall run its business responsibly with respect to the external and internal environment, society, our customers and suppliers, our shareholders and our employees. Trust in Rottneros as a responsible participant, supplier and employer strengthens our position in society and in the market, and promotes employee commitment. Rottneros communicates regularly with its stakeholders to maintain an open and positive relationship.</p> <p>Rottneros endeavours to make our products better, both from a quality and efficiency perspective, by understanding the customers' processes and product strategy. Environmental, social and economic factors are crucial to this success.</p> <p>The Group has a Code of Conduct describing how Rottneros and the Company's employees act in relation to the surrounding world and towards each other. The Code of Conduct defines Rottneros' social responsibility, ethical commitment and position in respect of gender equality and diversity issues, as well as the approach that Rottneros' employees should adopt on issues of principle importance.</p> <p>Employee well-being is an important part of Rottneros' success. The Group takes responsibility towards employees by promoting good health, environment and safety in the workplaces. Rottneros has a 'vision zero' approach to occupational injuries leading to sick leave.</p> <p>COMMENTS ON OUTCOME FOR 2016: In 2016 9 (5) accidents occurred that resulted in a total of 62 (16) sick days.</p> <p>A new EU project, PULPACKTION, was launched in October 2016. The project will develop completely bio-based trays that use pulp and bio-based polymers instead of plastic or similar fossil-based solutions. In addition to project coordination, Rottneros is leading development areas within tray moulding and pulp development. The project, which will continue for four years, aims to contribute to more sustainable development in the packaging industry.</p>
<p>I ENVIRONMENT</p> <p>Rottneros' activities have an impact on the environment, which may entail environmental restoration costs.</p> <p>Extensive environmental legislation governs Rottneros' operational area, and its activities require permits that need to be renewed periodically.</p> <p>There is a risk of permits granted being exceeded, which may not only entail production restrictions or the need for investments, but also criminal penalties or the revocation of permits.</p> <p>There is also a risk of environmental legislation being amended, which may affect Rottneros' activities. No such changes are known at the current time. See also the environment section on pages 32-35.</p>	<p style="text-align: right;">PROBABILITY: 3 IMPACT: 4</p> <p>Good management of environmental issues represents a fundamental and important issue for the Board of Directors and corporate management, for which reason ongoing debriefing takes place monthly, half-yearly and annually.</p> <p>Both of the Group's mills have environmental management systems and are certified according to ISO 14001. The environmental management system includes well-established routines for follow-up, taking samples and dealing with deviations.</p> <p>The Group has a continuous sampling system with alarm functions linked to the mills' control systems to detect and prevent any infringements of applicable provisions and requirements. Random manual samples are taken in addition to this.</p> <p>All employees shall undergo environmental training in accordance with the Group's policy. Senior environmental staff within the Group undertake continuous professional training.</p> <p>Ongoing communications take place with county administrative boards and municipal authorities. Compliance consultation meetings are held with the county administrative board four times a year, to which the municipal authority is also invited to attend.</p> <p>COMMENTS ON OUTCOME FOR 2016: In January 2016, Vallvik Mill was granted a new environmental permit, authorising the mill to produce 255,000 tonnes of sulphate pulp. The new permit ensures that Rottneros can continue to expand capacity in accordance with the provisions of the Group's long-term industrial plan Agenda 500. It is a comprehensive permit under the Environmental Code, which is associated with a number of conditions that are largely in line with the Company's view of the situation.</p> <p>As part of Agenda 500, the Board of Directors decided in 2016 that a new energy and emission-efficient biomass boiler would be installed at Rottneros Mill. The investment, totalling SEK 108 million, is expected to be commissioned around mid-2017. Following the investment, energy consumption at both mills will for all practical purposes be fossil-free.</p> <p>In 2016 the Board of Directors also decided as part of Agenda 500 that a new wash press would be installed at Vallvik Mill. This environmental investment of around SEK 45 million will significantly reduce the mill's COD emissions so that the production capacity can be expanded under the new environmental permit. The wash press will be installed during the maintenance shutdown in 2017.</p> <p>In February 2017 the Board of Directors decided to expand the purification plant at Rottneros Mill, within the scope of Agenda 500. The environmental investment of SEK 84 million is planned to be commissioned in 2018.</p>

FINANCIAL RISK AREAS

The following describes the Rottneros Group's policies for managing financial risks.

Financial risks and other arrangements are described in Note 4.

The factors that have the greatest impact on the Group's result are associated with the price of pulp in USD, exchange rates, and pulp wood and electricity prices.

Financial risk is managed at Group level in accordance with guidelines defined in the Group's Financial Policy and approved annually by the Board of Directors.

The Board of Directors makes decisions on overall mandates and limits for restricting the Group's financial risk exposures and also makes decisions on all long-term financing.

The Board of Directors approves hedging levels based on proposals from senior management. The management continually assesses whether factors such as the USD rate, pulp price or electricity present attractive opportunities for strategic hedging. Financial hedging instruments are not used speculatively, but solely to hedge transactions and costings in accordance with the approved Financial Policy.

RISK AREA	RISK MANAGEMENT
J CURRENCY – BALANCE EXPOSURE	PROBABILITY: 4 IMPACT: 1

'Currency risk' means that currency rate changes may have a negative impact on the Group's future results, cash flows and values of assets and liabilities.

Rottneros' pulp mills and assets are 99 per cent in Sweden and other than the currency risk related to current account transactions, balance exposure is very low.

K CURRENCY – TRANSACTION EXPOSURE	PROBABILITY: 4 IMPACT: 4
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'Transaction exposure' is the risk of exchange rate fluctuations in export revenue and import costs having a negative impact on operating profit.

Most invoices are issued in USD, EUR and SEK. The Rottneros Group's assets and liabilities are valued in SEK. The fundamental principle is that the currency risk exposure that arises on outstanding accounts receivable shall be hedged, preferably by currency hedging or borrowing in currencies that correspond over time to the average accounts receivable for each currency. The purpose of hedging exchange rate risk is to reduce undesired and unanticipated effects of exchange rate fluctuations and minimise the negative impact on the Group's result. Our central finance function is responsible for proactively monitoring and managing the Group's exchange rate exposure and ensuring that actual risk exposure is identified and managed.

The Group applies a netting procedure so that all purchases and sales in each currency are netted and the net flow is hedged.

COMMENTS ON OUTCOME FOR 2016:

The underlying exposure to USD is high, while the direct inflow of USD (the real flow) corresponds to approximately 40 per cent and in EUR approximately 45 per cent. However, the impact of exchange rate fluctuations on indirect exposure is delayed, as the normal duration of a contract is between one and three months. As of 31 December 2016 Rottneros held currency hedges of USD 4.0 million and EUR 1.0 million.

L INTEREST RATES	PROBABILITY: 1 IMPACT: 1
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'Interest rate risk' comprises the exposure of the Group's financial assets and financial liabilities with a floating interest rate.

Rottneros' level of borrowing has remained low since 2009, when the Group was refinanced. The Group's borrowing is shown in Note 13 on page 69. The Group's low level of borrowing means that interest rate risk has primarily been limited to the return on cash and cash equivalents. In order to have an optimal capital structure, however, the Group's level of borrowing may be increased, which impacts interest rate risk relating to financial liabilities.

COMMENTS ON OUTCOME FOR 2016:

As of 31 December 2016 the Group had utilised SEK 14 million of its credit facilities. Cash and cash equivalents amounted to SEK 16 (169) million as of 31 December 2016.

In December 2016 Rottneros signed a debt financing agreement totalling SEK 120 million that will be used for investments in the Group's two mills within the Agenda 500 investment programme. The loans will be repaid within five years and have a variable interest rate. The loan terms include customary covenants such as net debt in relation to EBITDA, as well as the equity ratio and certain restrictions on dividend payments. These approved loans had not been used at year-end.

M LIQUIDITY AND REFINANCING	PROBABILITY: 2 IMPACT: 4
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There is a risk that Rottneros may not have sufficient liquidity to pay for running costs, or the Group not being granted credit.

The financing risk shall be minimised as far as possible by the due dates for loans and other credit facilities being well-diversified and evenly spread over time. Outstanding credit facilities shall be refinanced no later than three months before they fall due.

The Group's objective is for liquidity reserves to amount to at least ten per cent of the Group's 12-month rolling turnover and be available within 30 days. The Group continuously produces liquidity forecasts.

Rottneros' credit agreements are considered to be sufficient for normal operating and investment cash flow for the next few years. Both the liquidity and refinancing risks are therefore considered to be low at this time.

The Group shall maintain an optimal capital structure to keep capital costs down while ensuring that it is able to continue its activities.

The Group may take on new debt, change the dividend paid to shareholders, repay capital to shareholders, issue new shares or sell assets to reduce its debts in order to maintain or adjust its capital structure.

The Group assesses its capital on the basis of its debt/equity ratio. This key ratio is defined as net debt/cash as a percentage of shareholders' equity.

COMMENTS ON OUTCOME FOR 2016:

The Group's liquidity reserve at the end of 2016 amounted to 16% (19%) of turnover and the target is 'at least 10 per cent'.

The Group's debt/equity ratio amounted to 0% (-16%) at the end of 2016.

Group net cash at the end of 2016 amounted to SEK 2 (169) million.

CORPORATE GOVERNANCE AT ROTTNEROS

Rottneros is a Swedish public limited company based in Sunne, Sweden and is listed in the Small Cap segment on Nasdaq Stockholm ('the Stock Exchange'). Rottneros' corporate governance is based on the Swedish Companies Act, the Annual Accounts Act, the Rules of the Stock Exchange and the Swedish Code of Corporate Governance ('the Code'). This Corporate Governance Report refers to both Rottneros AB, which is the parent company, and the Group.

PRINCIPLES FOR CORPORATE GOVERNANCE

Rottneros applies the rules prescribed by law or other enactment, and also the Code. Rottneros applied the Code without deviations in 2016.

STRUCTURE FOR CORPORATE GOVERNANCE

The shareholders at the AGM/general meeting make the appointments by election and lay down the guidelines which will form the basis for the corporate governance of Rottneros. The following organisation chart summarises how corporate governance is organised at Rottneros.

CONTROL INSTRUMENTS

The external control instruments that form the frameworks for corporate governance within Rottneros include the Swedish Companies Act, the Annual Accounts Act, the rules of the Stock Exchange, the Code and other relevant laws. Foreign subsidiaries apply the laws and ordinances in force in the country in question, but also ensure that the Group's guidelines for governance and control are observed.

The Board of Directors is ultimately responsible for the organisation and administration of the company's affairs. The authorities and bodies appointed by the authorities exercise supervision through receiving reports from the company and through regular checks conducted by the authorities.

The internal control instruments include the Articles of Association as adopted by the AGM and similarly the Rules of Procedure for the Board and the Terms of Reference for the CEO, the Board's committees and

the financial reporting. In addition, there are, for example, financial and quantitative targets, budgets, reports, policies, valuations and codes of conduct.

The policies resolved by the Board include the Code of Conduct, the Financial Policy, the Communication Policy, and the Environmental and Energy Policy. The CEO decides on the Customer Credit Policy, Crisis Management Policy, IT Security Policy and Work Environment Policy, which are communicated to the Board. There are also five other important steering documents decided by the CEO or the person appointed by the CEO.

ANNUAL GENERAL MEETING

Rottneros' shareholders exercise their right to make decisions on the company's affairs at the AGM or, where applicable, an extraordinary general meeting. The AGM is Rottneros' highest decision-making body. The AGM makes decisions on the Articles of Association, appoints the Board of Directors and the Chairman of the Board, elects the auditors, adopts the income statement and balance sheet, makes decisions on the appropriation of profits and discharge from liability, and also makes decisions on nomination procedures, guidelines for the remuneration of senior executives, etc.

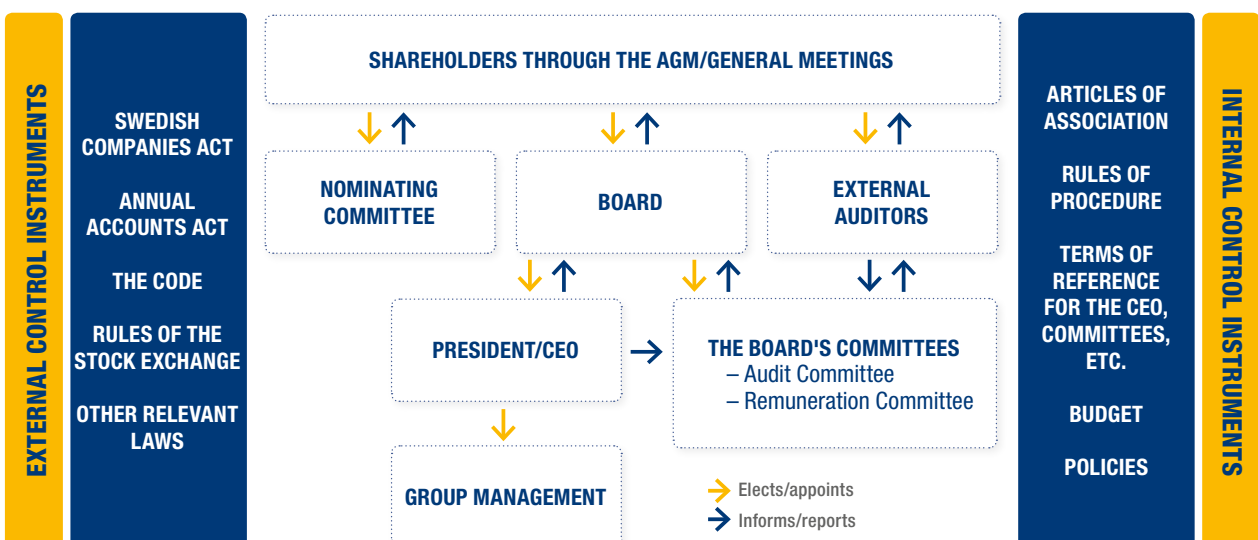
Each shareholder has the right to participate in the AGM, either in person or through an authorised proxy. Each shareholder has the right to raise issues to be addressed at the AGM.

Notices of meetings and other information prior to AGMs/general meetings are available on Rottneros' home page www.rottneros.com. Minutes, the CEO's statements, etc. from the latest meetings are also available on the home page.

SHAREHOLDERS

Rottneros' ordinary shares have been listed on Nasdaq Stockholm since 1987. According to the share register kept by Euroclear Sweden, Rottneros had 10,092 shareholders on 31 December 2016. The share capital amounted to SEK 153,393,890, divided

STRUCTURE FOR CORPORATE GOVERNANCE



among 153,393,890 ordinary shares, each carrying equal voting rights and equal rights to the company's profit and capital. The Articles of Association contain no restrictions on the number of votes each shareholder can cast at a general meeting.

Arctic Paper S.A. had a participating interest amounting to 51.0 per cent of the total number of shares and votes on 31 December 2016. Otherwise, none of the shareholders had a direct or indirect shareholding representing at least one tenth of votes attached to all shares in Rottneros.

Rottneros' holding of treasury shares amounts to 821,965, corresponding to around 0.54 per cent of the total number of shares. See pages 76-77 for additional information about the share, shareholders, etc. Information is also available on the company's home page.

2016 ANNUAL GENERAL MEETING

Rottneros' 2016 AGM was held on 30 May 2016 in Stockholm. Forty-two of the company's shareholders attended the meeting, representing 57.2 per cent of the company's votes and capital (excluding Rottneros' buyback shares). A majority of the Board members, including Chairman Rune Ingvarsson, as well as the CEO, were present. The company's auditor also attended the meeting.

Among other things, the AGM passed the following resolutions:

- The AGM resolved to discharge the Board of Directors and Chief Executive Officer from liability for the 2015 financial year.
- The AGM resolved in accordance with the Board of Directors' proposal to pay shareholders a dividend of SEK 0.30 per share as a regular dividend and SEK 0.20 per share as an extra dividend (total of SEK 0.50 per share).
- The Board should comprise six ordinary members.
- Marie S. Arwidson, Rune Ingvarsson and Per Skoglund were re-elected and Ulf Carlson, Per Lundeen and Roger Mattsson were newly elected as directors.
- Rune Ingvarsson was re-elected as Chairman of the Board.

- A fee of SEK 550,000 should be paid to the Chairman of the Board and SEK 275,000 to each of the other directors. Members of Board committees should not be paid a fee. Each employee representative will be paid a fee of SEK 27,500 for the time required to read materials prior to Board meetings. Auditors' fees are paid based on invoices approved by the CEO.
- Following a separate agreement with the company, a Board member may invoice the fees for the Board, together with statutory social security contributions and value added tax, through a company owned by the Board member, subject to the precondition that such payment is cost-neutral for the company.
- Re-election of the accounting firm Ernst & Young AB (EY) as auditors for the period up to and including the 2017 AGM, with Erik Sandström as auditor in charge.
- The AGM resolved in accordance with the Board's proposal to lay down guidelines for remuneration for the CEO and other senior executives. These entail, for example, that remuneration shall comprise fixed salary, possibly a variable remuneration component, other benefits and pension. The total remuneration package must be in line with market rates and competitive in the market in which the executives work. The variable component of remuneration, which is cash, is to be based on outcomes in relation to defined and measurable targets and is capped in relation to fixed salary. Matters relating to the remuneration of the executive management are dealt with by the Compensation Committee, except in respect of the CEO, whose remuneration is decided by the Board.

NOMINATING COMMITTEE

Rottneros' AGM makes decisions on the principles for the appointment of the Nominating Committee. The 2016 AGM resolved that the Nominating Committee shall comprise the Chairman of the Board and two additional members. The Chairman of the Board may not be Chairman of the Committee. One of these two members,

in addition to the Chairman of the Board, must be appointed by the company's major shareholder and the other shall be appointed by one of the company's other four largest shareholders. Neither of these two members may be a Board member at the same time. The Nominating Committee appoints a Chairman from within its ranks. It is the responsibility of the Chairman of the Board to ensure that members are appointed as stated above. The principles also include a procedure for replacing members who leave the Nominating Committee before the end of their mandate or when a member represents a shareholder that is no longer one of the five largest shareholders.

The names of members of the Nominating Committee shall be presented at least six months prior to the 2017 AGM. The composition of the Nominating Committee at any given time will be published on Rottneros' home page. A press release with information about the composition of the Nominating Committee and how shareholders may submit suggestions to the Nominating Committee was published on 11 November 2016 and held available on Rottneros' home page. Olle Grundberg (Arctic Paper S.A.) was appointed Chairman of the Nominating Committee. Other members appointed were Stefan Sundh, PROAD AB, and Per Lundeen, Chairman of the Board of Rottneros AB. Altogether, the Nominating Committee represented just over 56 per cent of the votes attached to all shares in Rottneros.

The Nominating Committee shall submit proposals for decisions to the 2017 AGM as regards election of the Chairman for meetings, number of Board members and deputies, election of Board members and deputies, election of Chairman of the Board, fees for the Board, fees for the auditors, proposals concerning the election of auditors where appropriate and criteria for how a new nominating committee should be appointed.

AUDITORS

Rottneros' auditors are elected at the AGM. At the 2016 AGM, Ernst & Young AB (EY) was elected as the company's auditor for

COMPOSITION OF THE BOARD AND ATTENDANCE 2016

Amounts in SEK thousand		Dependence	Total fees, 2016/17	Total fees, 2015/16	Board meetings	Committee meetings
Per Lundeen ^{2,3}	(Chairman of the Board as of 9 Sept. 2016)	X	481	–	100%	100%
Marie S. Arwidson			275	275	100%	100%
Ulf Carlson			275	–	100%	0%
Rune Ingvarsson	(Chairman of the Board until 9 Sept. 2016)		344	550	100%	100%
Roger Mattsson ³		X	275	–	100%	100%
Per Skoglund ³		X	275	275	86%	100%
Roger Asserståhl			–	275	83%	100%
Dan Karlsson	(employee representative)		28	–	100%	–
Tomas Wasberg	(employee representative)		28	28	71%	–
Gun-Marie Nilsson	(employee representative/deputy)		28	28	100%	–
Mika Palmu	(employee representative/deputy)		28	–	50%	–
Bengt-Åke Andersson	(employee representative)		–	28	67%	–
Mikael Lilja	(employee representative)		–	28	50%	–

¹ For members who were newly elected at the 2016 AGM, attendance relates to the meetings held since the AGM. For members who served on the Board until the AGM in 2016, but who were not reelected, attendance relates to meetings before the AGM.

² Per Lundeen is dependent in relation to the company and its management since 30 May 2016 when he was elected to the Board, since he served as CEO of the company from 6 November 2014 until 1 September 2016.

³ Dependent in relation to the company's largest shareholder, Arctic Paper S.A.

CORPORATE GOVERNANCE REPORT

the period up until the 2017 AGM, with authorised public accountant Erik Sandström as auditor in charge. Rottneros' Articles of Association do not set down any term for the auditor. This means that auditors for Rottneros are elected annually at the AGM in accordance with the Swedish Companies Act.

AUDIT WORK

The auditors examine the parent company's and the Group's annual accounts and accounting records and the administration of the company by the Board of Directors and the CEO. The company's auditor attends at least one Board meeting each year. The auditors attended all meetings of the Audit Committee and the 2016 AGM. The auditor attends the AGM to present the auditor's report.

Fees for the public accounting firm for 2016 (including fees for advisory services) are presented in Note 7 of the 2016 Annual Report.

BOARD OF DIRECTORS

Composition of the Board and fees

According to the Articles of Association, the Board of Directors of Rottneros shall comprise a minimum of three and a maximum of ten members elected by the AGM. In addition, the employees elect two representatives with two deputies. The Board of Rottneros comprises six members without deputies elected at the AGM, and two members and two deputies appointed by the employees. The CEO is not a member of the Board but is called in to all Board meetings, except when the agenda includes an evaluation of the work of the Board and the CEO. At the AGM on 30 May 2016 CEO Per Lundeen was elected to serve as a director, after the board had appointed a new CEO. Board member Per Lundeen remained as CEO until 1 September 2016 when Lennart Eberleh took over as CEO. On 9 September 2016 the Board of Directors appointed Board member Per Lundeen to serve as the new Chairman of the Board until the 2017 AGM, when Rune Ingvarsson decided to step down from the post of Chairman for personal reasons. Other officials of the company are also called in when necessary to present matters. The company's CFO serves as secretary of the Board. The table on page 45 shows the composition of the Board in 2016 as well as remuneration paid to Board members for 2016 and 2015 respectively. Additional information about the Board members is presented on page 74.

EVALUATION OF THE BOARD'S WORK

The Board of Directors conducts systematic evaluation work once a year where members are afforded an opportunity to present their views on work arrangements, Board material, their own and other members' contributions to the Board's work with a view to improving the work of the Board and also furnishing the Nominating Committee with relevant decision guidance documentation prior to the AGM.

INDEPENDENCE

According to the Code, a majority of the members elected at the AGM must be independent in relation to the company and its management; also, at least two of these members must be independent in relation to the company's major shareholders. Rule 4.4 of the Code includes criteria to help assess the level of independence.

Rottneros' Board of Directors is considered to have met the requirements of the Code regarding independence, since two of the Board members elected at the AGM are considered independent of both the company and its management and of the company's major shareholders. All directors elected by the AGM have been independent of the Company and its management in 2016, with the exception of Board member Per Lundeen, who is not independent of the company and its management, since he served as CEO of the company from 6 November 2014 until 1 September 2016.

BOARD WORK AND RESPONSIBILITIES

The Board of Directors oversees the work of the CEO and is responsible for ensuring that the organisation, management and guidelines for managing the company's funds are appropriate. The Board is also responsible for ensuring that the company is organised in such a way that its internal control is appropriate, that appropriate systems are monitoring the business and its risks, and that the company is in compliance with laws, rules and internal guidelines. The Board is also responsible for developing and monitoring the company's strategies through plans and objectives, decisions on acquisitions and divestments of activities, major investments, appointments of and remuneration for the management team as well as day-to-day monitoring during the year. The Board approves the budget and annual accounts.

Rules of Procedure for the Board

The work of the Board of Directors follows specific Rules of Procedure prescribing the distribution of responsibilities between the Board and the CEO, between the Board's various committees and within the Board as well as instructions for financial reporting. The Board's Rules of Procedure contain special Terms of Reference for the CEO.

A statutory Board meeting is held immediately after the AGM or immediately after extraordinary general meetings where a new Board has been elected. Rottneros held a statutory Board meeting on 30 May 2016 where among other things members of the Board committees were appointed and the above-mentioned Rules of Procedure were adopted.

In addition to the statutory meeting, the Board convenes five scheduled meetings each year and additional meetings when the Chairman sees fit or within 14 days following a request for a meeting from a member of the Board or the CEO. In 2016 14 Board meetings were held. The work of the Board follows a schedule established in advance, which includes specific fixed items

that require decisions during the financial year:

- The year-end report, the Board's recommendations with respect to dividends and any necessary additions to the budget and business plan are dealt with in January/February. The Board also evaluates its work arrangements and procedures for making decisions and considers improvements to these.
 - The official annual report is dealt with in March. The company's auditors report any observations made when conducting their audit. Remuneration issues are also dealt with.
 - Quarterly results are addressed in April/May, July/August and October/November.
 - Investment plans for the coming financial year and a review of the Group's strategies are dealt with in June.
 - Preparations for the annual accounts and approval of the business plan for the coming year are dealt with in December.
- The Board also receives a monthly report on the company's performance and liquidity trends. Other business is dealt with as determined by the nature of each individual matter.

Financial Policy issues

The Board of Directors has ultimate responsibility for the Group's financial activities. The Board is responsible for approving the Group's Financial Policy, which is to be updated annually. The Board makes decisions on comprehensive mandates and limits for restricting financial risk-taking by the Group in accordance with the Financial Policy, and also makes decisions about long-term financing. The Board approves hedging levels based on proposals from the executive management. The Board has delegated the operational responsibility in line with the allocation of responsibility indicated by the Financial Policy laid down.

THE BOARD'S CONTROL OF FINANCIAL REPORTING

The Board of Directors monitors the quality of financial reporting by providing instructions for its execution and through the Terms of Reference for the CEO. One of the tasks of the CEO is to work with the CFO to review and ensure the quality of all external financial reporting, including year-end releases, interim reports, annual reports, press releases with economic content and presentation materials produced for meetings with the media, shareholders and financial institutions.

The Board's Audit Committee works to ensure that financial reporting is accurate and maintains a high quality, and also that it is given final approval by the Board and communicated. The Board receives monthly financial reports, and the financial position of the company and the Group is addressed at each Board meeting. The Board also reviews interim reports and the annual report.

In order to ensure that the Board receives the information it needs, the company's

auditors report to the Board every year on observations made during the audit and express an opinion on the company's internal control, in addition to reporting to the Audit Committee. The company's auditors report to the Board at least once a year on whether the company has succeeded in ensuring that bookkeeping, administration and financial control are effective, after which the Board discusses this with the auditors without the presence of the CEO or other members of management.

THE BOARD'S COMMITTEES

The Board of Directors has full knowledge of and responsibility for all matters on which it must make decisions. However, work was conducted by two of the committees appointed by the Board during the year: the Audit Committee and the Compensation Committee.

AUDIT COMMITTEE

This Committee comprises at least three representatives of the Board of Directors. Its tasks include preparatory work for decisions to be made by the Board to assure the quality of the company's financial reporting, monitoring the efficiency of the company's internal controls and risk management, assisting the Nominating Committee when procuring audit services and arranging for the election and payment of the auditors, reviewing the scope and focus of audit assignments, addressing audit issues, evaluating audit work, establishing guidelines for the purchasing of permitted services other than auditing from the company's auditors, and if appropriate approve such services according to guidelines, following up and assessing the application of current accounting principles and adopting new accounting principles, and other accounting requirements as stipulated in legislation, generally accepted accounting principles, applicable Stock Exchange rules, etc. In 2016 the Audit Committee's rules of procedure were revised to comply with new regulations, such as the EU audit reform and amendments to the Swedish Companies Act, which entered into force in 2016.

The company's auditor in charge and representatives of the accounting firm are co-opted for most of the meetings. Senior executives are also co-opted for meetings when appropriate. Since the 2016 Annual General Meeting the Committee has consisted of Board members Marie S. Arwidson, Rune Ingvarsson, Roger Mattsson and Per Skoglund, and since 9 September 2016 of Board members Marie S. Arwidson, Ulf Carlson, Per Lundeen and Roger Mattsson. Marie S. Arwidson is Chairman of the Committee.

The Audit Committee held four meetings in 2016 and minutes are forwarded to the Board on an ongoing basis. The auditors attended all of the meetings of the Audit Committee.

REMUNERATION COMMITTEE

This Committee shall comprise at least two representatives of the Board of Directors.

The main tasks of the Committee are to prepare the Board's decisions on issues concerning principles for remuneration, remuneration and other terms of employment for the executive management; monitor and evaluate programmes for variable remuneration for the executive management, both ongoing and those that have ended during the year; and monitor and evaluate the application of the guidelines for remuneration for senior executives that the AGM is legally obliged to establish, as well as current remuneration structures and levels at the company.

The CEO's remuneration package and the principles for remunerating the executive management are determined by the Board. Remuneration for other senior executives is determined by the Compensation Committee within frameworks established by the Board and AGM.

Since the 2016 Annual General Meeting the Committee has consisted of Board members Marie S. Arwidson, Rune Ingvarsson and Per Skoglund, and since 9 September 2016 of Board members Ulf Carlson, Per Lundeen and Per Skoglund. Rune Ingvarsson was Chairman of the Committee until 9 September 2016 and Per Lundeen commencing on 9 September 2016.

The Committee held two meetings in 2016 and the Board received minutes from the Compensation Committee.

PRESIDENT/CEO

The CEO's responsibility as stipulated by the rules of the Swedish Companies Act and other legislation is to manage the company's day-to-day business according to the Board's guidelines and instructions and to take the measures necessary to ensure that the company's bookkeeping is managed in a satisfactory manner. The CEO also ensures that the Board receives the information it needs on an ongoing basis to monitor the company's and the Group's financial situation, position and development in a satisfactory way and to otherwise fulfil its reporting obligations with respect to the company's finances.

The company's CEO manages the business within the frameworks established by the Board in the special Terms of Reference for the CEO. These Terms of Reference include the CEO's responsibility for day-to-day business and matters that always require Board decisions or that must be reported to the Board, as well as the CEO's responsibility for presenting financial reports to the Board.

The CEO works with the Chairman to produce the materials required for information and decisions prior to Board meetings, presents matters and justifies proposed decisions.

The Board evaluates the work of the CEO on an ongoing basis.

In March 2016, the Board of Directors appointed Lennart Eberleh as new President and CEO of Rottneros AB. He assumed his position on 1 September 2016. He joins the company from BillerudKorsnäs, where he

served as Business Area Manager at Corrugated Solutions. Lennart Eberleh has more than 20 years of experience in a variety of management positions in the paper industry, at Stora, Billerud and BillerudKorsnäs, among other companies.

GROUP MANAGEMENT

The CEO leads the work of Group management and makes decisions in consultation with other members of the management team. In 2016 this team comprised the CEO and four additional individuals: one head of a subsidiary, the CFO and two heads of Group staff. Beginning on 1 February 2017, Group Management consists of the CEO and six other people: the heads of two subsidiaries, the CFO and three heads of Group staff. Information about the CEO and Group management is shown on page 75 of the 2016 Annual Report. Group management has regular operational reviews led by the CEO, often in conjunction with visits to the various units belonging to the Group.

In October 2016, the company appointed Monica Pasanen to serve as the new CFO of the Rottneros Group. She succeeds Krister Lindgren, who has served as interim CFO since 2013. Monica Pasanen most recently worked at Stora Enso, where she was responsible for Supply Chain in the Consumer Board division. She has more than 20 years of experience in a variety of management positions in both finance and marketing. She began working in the new position in January 2017.

GUIDELINES FOR REMUNERATION FOR SENIOR EXECUTIVES

The AGM decides on guidelines to determine remuneration for the CEO and other senior executives. The Board's proposed guidelines for the 2017 AGM are stated below. 'Other senior executives' currently refers to the six people who make up Group management together with the CEO and are presented on the company's home page and on page 75 of the 2016 annual report.

The remuneration paid to the CEO and other senior executives comprises fixed salary, possible variable component of pay, other benefits and pension. The total remuneration package must be in line with market rates and competitive in the market in which the executives work. Fixed salary and variable remuneration are related to the responsibilities and powers held by each executive. The variable component of remuneration, which is cash, is to be based on outcomes in relation to defined and measurable targets and is capped in relation to fixed salary. The variable component of pay for the CEO is capped at 50 per cent of fixed salary and the variable component of pay for other senior executives is capped at 30 per cent of fixed salary. The programme for the variable components of pay should be designed so that the Board can impose conditions, restrict or decline to make payments of variable component of pay in exceptional financial circumstances if such a measure is considered to be reasonable and

CORPORATE GOVERNANCE REPORT

compatible with the duties of the company in relation to shareholders, employees and other interested parties.

The period of notice is between six months and one year should notice be given by the executive, and between one and two years should notice be given by the company. The CEO is entitled to severance pay and a salary during the period of notice of in total up to an amount corresponding to the fixed salary for one year.

Pension benefits are either defined benefit or defined contribution plans or a combination thereof, and entitle the officer to receive a pension from no earlier than the age of 65.

Issues relating to remuneration for the executive management shall be dealt with by the Compensation Committee. Remuneration principles and other employment conditions for the executive management as well as remuneration for the CEO shall be decided by the Board of Directors. If the company in a particular case assigns an individual Board member tasks on behalf of the company over and above their regular board and committee duties, the Board shall determine the level of remuneration, which must be reasonable and in line with market rates.

The Board will conduct an annual evaluation of whether or not to propose a long-term incentive programme at the AGM.

The Board shall be entitled to deviate from the guidelines if there are special reasons to do so in an individual case.

Pay and remuneration for the CEO and other senior executives in 2016 can be found in Note 6 of the annual report.

Variable remuneration

The variable remuneration for the company's senior executives (i.e. CEO and other people in the Rottneros Group management) is compatible with the guidelines for the remuneration for senior executives determined at the 2016 AGM, which were reported above.

Variable remuneration is dependent on the achievement of targets, which are set annually. These targets are broken down into specified quantitative objectives, mainly directed at financial objectives, results and cash flow of the Group, but also – in relation to Heads of Units – the respective business unit, and also qualitative personal objectives, which means that the variable remuneration is related to the individual's efforts and performance.

Variable remuneration for the CEO is capped at 50 per cent of fixed salary. Variable remuneration for other senior executives is capped at 30 per cent of fixed salary.

As a benchmark, variable remuneration is not pensionable, nor does it qualify for holiday pay. The Board can impose conditions, restrict or decline to make payments of variable remuneration in exceptional financial circumstances if the Board considers such measures to be reasonable and compatible with the responsibilities of the company in relation to shareholders, employees and other interested parties.

FURTHER INFORMATION IS AVAILABLE AT WWW.ROTTNEROS.COM

- Articles of Association
- Information from past AGMs (notices, minutes, resolutions, CEO statements)
- Information about the Nominating Committee
- Corporate governance reports from 2008 to 2016 (included in the Annual Report for the respective year)

ROTTNEROS' SYSTEM FOR INTERNAL CONTROL AND RISK MANAGEMENT IN CONJUNCTION WITH THE FINANCIAL REPORTING

The Board of Directors is responsible for internal control in accordance with the Swedish Companies Act and the Code. According to the Swedish Annual Reports Act, the Corporate Governance Report shall include information about the most important elements of the company's system for internal control and risk management in conjunction with financial reporting.

Rottneros' internal control structure is predominantly based on the COSO model, according to which reviews and assessments are made in the following areas: control environment, risk assessment, control activities, information, communication and follow-up.

CONTROL ENVIRONMENT

The Board of Directors has drawn up a number of steering documents for the company's internal control and governance, including Rules of Procedure for the Board and Terms of Reference for the CEO and the Board's committees, reporting instructions and a Financial Policy. Financial information is reported through a Group-wide reporting system.

The CEO and Group management, who report to the Board in accordance with established procedures, are responsible for maintaining an effective control environment and day-to-day internal control and risk management. Managers at various levels within the company have the same responsibility within their respective areas of responsibility and in turn report to Group management.

INFORMATION AND COMMUNICATION

The information contained in Rottneros' important control documents, in the form of policies, guidelines and manuals, is primarily communicated through a Group-wide intranet.

RISK ASSESSMENT

Rottneros continuously updates its risk analysis with respect to assessing the risks that may result in errors in the financial reporting. This is done mainly through contacts between Group management and the subsidiaries' management teams. At risk reviews, Rottneros identifies areas where there is an increased risk of errors occurring.

CONTROL ACTIVITIES

Monthly financial reports are prepared for all of the companies within the Group together with consolidated financial reports. These form the basis of the monthly meetings at each mill, where the President, CFO and Group Controller review the respective company's management group. A specific analysis is conducted of production, order status, cost follow-up, investments and cash flow. A conference call is held every quarter where the quarterly accounts and the subsidiary's updated forecasts are analysed. The CFO also visits the subsidiaries several times a year. These meetings are regularly supplemented with Heads of Finance meetings at which the CFO, financial manager of each subsidiary and the Group Controller meet. At these meetings, particular emphasis is placed on following up any problems and ensuring the accuracy of financial reporting. Forecasts are updated every four months for all Group companies and there are finance functions, including controllers, both locally and centrally, that compare these forecasts with outcomes and ensure that the financial information is true and accurate.

Through the Audit Committee, the Board of Directors monitors the reliability of the financial reporting, evaluates recommendations for improvement and discusses issues relating to the identified risks. The Audit Committee presents regular oral reports to the Board and makes recommendations on matters that require a decision from the Board. The control environment has been created through shared values, corporate culture, rules and policies, communication and follow-up, as well as the way in which the business is organised. The main tasks of Group staff are to implement, further develop and maintain the Group's control routines and also to introduce internal control routines aimed at business-critical issues.

Rottneros' auditors examine both the financial information for the half year and the annual accounts. Every year the auditors also examine a sample of controls and processes and report any areas for improvement to both Group management and also the management team for each subsidiary. The auditor in charge also attends most meetings of the Audit Committee.

The finance functions for Rottneros are found locally at each company and report via a Group-wide reporting system. The Group Controller also works closely with subsidiary representatives in matters concerning the annual accounts and reporting.

INTERNAL AUDIT FUNCTION

Rottneros has not had any reason to establish an internal audit function to date. The Board of Directors was of the opinion that the business did not need such a function.

Instructions are available and an ongoing evaluation is conducted to ensure that officers at the organisation have the competence and support resources required to perform their work concerning the production of financial reports.

PROPOSED APPROPRIATION OF PROFITS

The consolidated income statement and balance sheet will be submitted to the AGM on 16 May 2017 for adoption.

Consolidated accounts have been prepared in accordance with international financial reporting standards (IFRS) as adopted by the EU and give a true and fair view of the Group's financial position and results of operations. The Annual Report has been prepared in accordance with generally accepted accounting principles and gives a true and fair view of the parent company's financial position and results of operations.

The Directors' Report for the Group and parent company gives a true and fair summary of the development of the Group's and parent company's operations, financial position and results of operations and describes significant risks and uncertainties faced by the parent company and companies included in the Group.

The Board has considered the Company's financial position, cash flows and future prospects in its proposed dividend. A detailed account regarding the Board's proposed dividend is available on the Company's website, www.rottneros.com.

AT THE DISPOSAL OF THE ANNUAL GENERAL MEETING:

Retained earnings	340,868,822
Net profit for the year	107,935,603
SEK	448,804,425

THE BOARD OF DIRECTORS PROPOSES:

To be distributed to shareholders ^{1,2}	61,028,770
To be carried forward	387,775,655
SEK	448,804,425

¹ After adjustment for repurchased shares in treasury.

² Ordinary dividend SEK 0.30 per share and extra dividend SEK 0.10 per share.

STOCKHOLM 9 MARCH 2017

ROTTNEROS AB (PUBL), CORPORATE ID NO. 556013-5872

Per Lundeen
Chairman of the Board

Marie S. Arwidson
Board Member

Ulf Carlson
Board Member

Rune Ingvarsson
Board Member

Roger Mattsson
Board Member

Per Skoglund
Board member

Dan Karlsson
Board Member,
employee representative

Tomas Wasberg
Board Member,
employee representative

Lennart Eberleh
President and CEO

Our audit report was submitted on 16 March 2017

Ernst & Young AB

Erik Sandström
Authorised Public Accountant

INCOME STATEMENTS GROUP

CONSOLIDATED INCOME STATEMENT 1 JANUARY-31 DECEMBER

Amounts in SEK m	Note	2016	2015
Net turnover	1, 8	1,730	1,795
Change in inventories of finished goods		-4	10
Other income	2	57	54
		1,783	1,859
Operating expenses			
Raw materials and consumables	3	-881	-899
Other expenses	7, 8	-458	-420
Employee benefit expenses	5, 6	-223	-219
Depreciation/amortisation and impairment of property, plant and equipment and intangible assets	11, 12	-51	-58
Operating profit		170	263
Financial items			
Financial income	9	2	1
Financial expenses	9	-9	-5
Total financial items		-7	-4
Income after financial items		163	259
Tax on profit for the year	10	-35	-36
NET INCOME		128	223
Earnings per share, SEK ¹		0.84	1.46
Average number of shares		152,572	152,572

¹ No share-based programmes exist that result in dilution.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 1 JANUARY-31 DECEMBER

Amounts in SEK m	Note	2016	2015
NET INCOME		128	223
Other comprehensive income			
Items that have been or may be transferred to profit or loss for the period			
Change in fair value on cash flow hedges		69	-32
Cash flow hedges transferred to profit or loss		-17	9
Cash-flow hedging, tax effect		-11	5
Translation differences		0	0
Total other comprehensive income		41	-18
COMPREHENSIVE INCOME²		169	205

² The entire comprehensive income is attributable to the parent company's shareholders.

BALANCE SHEET GROUP

CONSOLIDATED BALANCE SHEET, 31 DECEMBER

Amounts in SEK m	Note	2016	2015
ASSETS			
Non-current assets			
Intangible assets	11	10	7
Property, plant and equipment	12	882	659
Deferred tax assets	10	–	38
Other financial assets	15	13	2
Total non-current assets		905	706
Current assets			
Inventories, etc.	16	278	267
Accounts receivable	17	207	190
Other current receivables	18	60	49
Current tax assets		5	5
Derivative instruments	4	18	–
Cash and cash equivalents	19	16	169
Total current assets		584	680
TOTAL ASSETS		1,489	1,386

CONSOLIDATED BALANCE SHEET, 31 DECEMBER

Amounts in SEK m	Note	2016	2015
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
	20		
Share capital		153	153
Other injected capital		730	730
Treasury shares		-69	-69
Other reserves		7	-34
Retained earnings, incl. profit/loss for the year		330	278
Total shareholders' equity		1,151	1,058
Non-current liabilities			
Derivative instruments	4	–	15
Deferred tax liability	10	8	–
Other non-interest-bearing liabilities	6	6	3
Total non-current liabilities		14	18
Current liabilities			
Interest-bearing liabilities	22	14	–
Accounts payable		152	129
Derivative instruments	4	2	19
Other non-interest-bearing liabilities	23	156	162
Total current liabilities		324	310
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		1,489	1,386

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY – GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 2015

Amounts in SEK m	Share capital	Other injected capital	Treasury shares	Other reserves		Retained earnings, incl. profit for the year	Total shareholders' equity
				Hedging reserve	Translation difference		
Opening balance, 1 January 2015	153	730	-69	-8	-8	177	975
Comprehensive income							
Profit/loss for the year	-	-	-	-	-	223	223
Other comprehensive income							
Cash flow hedging, profit/loss after tax	-	-	-	-18	-	-	-18
Exchange rate differences	-	-	-	-	0	-	0
Total other comprehensive income	-	-	-	-18	0	-	-18
Total comprehensive income	-	-	-	-18	0	-	-18
Transactions with shareholders							
Dividends to shareholders	-	-	-	-	-	-122	-122
CLOSING BALANCE, 31 DECEMBER 2015	153	730	-69	-26	-8	278	1,058

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 2016

Amounts in SEK m	Share capital	Other injected capital	Treasury shares	Other reserves		Retained earnings, incl. profit for the year	Total shareholders' equity
				Hedging reserve	Translation difference		
Opening balance, 1 January 2016	153	730	-69	-26	-8	278	1,058
Comprehensive income							
Net income	-	-	-	-	-	128	128
Other comprehensive income							
Cash flow hedging, profit/loss after tax	-	-	-	41	-	-	41
Exchange rate differences	-	-	-	-	0	-	0
Total other comprehensive income	-	-	-	41	0	-	41
Total comprehensive income	-	-	-	41	0	-	41
Transactions with shareholders							
Dividends to shareholders	-	-	-	-	-	-76	-76
CLOSING BALANCE, 31 DECEMBER 2016	153	730	-69	15	-8	330	1,151

CASH FLOW STATEMENT GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS 1 JANUARY-31 DECEMBER

Amounts in SEK m	Note	2016	2015
OPERATING ACTIVITIES			
Operating profit		170	263
Adjustment for non-cash flow items			
Depreciation/amortisation/impairment losses		51	58
Other items not affecting cash flow		-13	–
		208	321
Received/paid financial items		-4	-3
Income tax received/paid		0	-1
Cash flow from operating activities before changes in working capital		204	317
Working capital changes			
Change in inventories		-11	-11
Change in current receivables		-46	-26
Change in current liabilities (non-interest-bearing)		40	55
Total changes in working capital		-17	18
CASH FLOW FROM OPERATING ACTIVITIES		187	335
Investing activities			
Purchase of intangible assets		-9	-2
Purchase of property, plant and equipment		-269	-101
CASH USED IN INVESTING ACTIVITIES		-278	-103
Financing activities			
Change in used bank overdraft facilities		14	–
Repayment of long-term loans		–	-30
Dividends paid		-76	-122
CASH USED IN FINANCING ACTIVITIES		-62	-152
Net cash flow for the year		-153	80
Cash and cash equivalents at the beginning of the year	19	169	89
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		16	169
Granted and unused credit facilities		281	175

INCOME STATEMENTS

PARENT COMPANY

INCOME STATEMENT – PARENT COMPANY 1 JANUARY-31 DECEMBER

Amounts in SEK m	Note	2016	2015
Net turnover	1, 8	6	6
Other income	2	5	11
		11	17
Operating expenses			
Other expenses	7, 8	-18	-10
Employee benefit expenses	5, 6	-15	-13
Depreciation/amortisation and impairment of property, plant and equipment and intangible assets	11, 12	-6	0
Operating loss		-28	-6
Financial items			
Profit from participations in Group companies	9	166	234
Financial expenses	9	0	-2
Total financial items		166	232
Profit after financial items		138	226
Tax on profit for the year	10	-30	-10
PROFIT FOR THE YEAR		108	216

STATEMENT OF COMPREHENSIVE INCOME – PARENT COMPANY 1 JANUARY-31 DECEMBER

Amounts in SEK m	Note	2016	2015
PROFIT FOR THE YEAR		108	216
Other comprehensive income		-	-
Total other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		108	216

BALANCE SHEET PARENT COMPANY

BALANCE SHEET – PARENT COMPANY, 31 DECEMBER

Amounts in SEK m	Note	2016	2015
ASSETS			
Non-current assets			
Intangible assets	11	9	6
Property, plant and equipment	12	0	1
Financial assets	15	281	278
Deferred tax assets	10	1	31
Total non-current assets		291	316
Current assets			
Other current receivables	18	887	655
Cash and cash equivalents	19	1	166
Total current assets		888	821
TOTAL ASSETS		1,179	1,137

BALANCE SHEET – PARENT COMPANY, 31 DECEMBER

Amounts in SEK m	Note	2016	2015
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
	20		
Share capital		153	153
Statutory reserve		440	440
Share premium reserve		268	268
Retained earnings, incl. profit for the year		181	148
Total shareholders' equity		1,042	1,010
Non-current liabilities			
Non-interest-bearing liabilities	6	6	3
Total non-current liabilities		6	3
Current liabilities			
Interest-bearing liabilities	22	11	–
Accounts payable		4	1
Other non-interest-bearing liabilities	23	116	123
Total current liabilities		131	124
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		1,179	1,137

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY – PARENT COMPANY

STATEMENT OF CHANGES IN EQUITY – PARENT COMPANY 2015

Amounts in SEK m	Share capital	Statutory reserve	Share premium reserve	Retained earnings, incl. profit for the year	Total shareholders' equity
Opening balance, 1 January 2015	153	440	268	54	915
Dividends to shareholders	–	–	–	-122	-122
Profit for the year	–	–	–	216	216
CLOSING BALANCE, 31 DECEMBER 2015	153	440	268	148	1,010

STATEMENT OF CHANGES IN EQUITY – PARENT COMPANY 2016

Amounts in SEK m	Share capital	Statutory reserve	Share premium reserve	Retained earnings, incl. profit for the year	Total shareholders' equity
Opening balance, 1 January 2016	153	440	268	148	1,010
Dividends to shareholders	–	–	–	-76	-76
Profit for the year	–	–	–	108	108
CLOSING BALANCE, 31 DECEMBER 2016	153	440	268	181	1,042

CASH FLOW STATEMENT

PARENT COMPANY

STATEMENT OF CASH FLOWS – PARENT COMPANY 1 JANUARY-31 DECEMBER

Amounts in SEK m	Note	2016	2015
OPERATING ACTIVITIES			
Operating profit		-28	-6
Depreciation/amortisation and impairment losses		6	0
Received/paid financial items		0	-2
Cash flow from operating activities before changes in working capital		-22	-8
Working capital changes			
Change in current receivables		-68	163
Change in current liabilities (non-interest-bearing)		-1	62
Total changes in working capital		-69	225
CASH USED IN/PROVIDED BY OPERATING ACTIVITIES		-91	217
Investing activities			
Purchase of intangible assets		-9	-1
CASH USED IN INVESTING ACTIVITIES		-9	-1
Financing activities			
Change in used bank overdraft facilities		11	–
Dividends paid		-76	-122
CASH USED IN FINANCING ACTIVITIES		-65	-122
Net cash flow for the year		-165	94
Cash and cash equivalents at the beginning of the year		166	72
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	19	1	166
Unutilised credit facilities		79	90

SUPPLEMENTARY DISCLOSURES AND NOTES

ACCOUNTING POLICIES AND VALUATION PRINCIPLES

BASIS OF THE REPORTS' PREPARATION

These consolidated accounts have been prepared in accordance with the Swedish Annual Accounts Act, International Financial Reporting Standards (IFRS) and the interpretation statements issued by the International Financial Reporting Interpretations Committee (IFRIC), in the form they have been adopted by the European Union. RFR 1 'Supplementary Accounting Rules for Groups' has also been applied.

PRECONDITIONS FOR THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The parent company's functional currency is Swedish kronor, which is also the presentation currency for both the parent company and the Group. Unless otherwise indicated, all amounts shown are rounded to the nearest million. The consolidated accounts are prepared according to the cost method, except in the case of certain financial assets which are measured at fair value.

The most important accounting policies applied when preparing the consolidated accounts are described below. These policies have been applied consistently for all years presented, unless otherwise indicated.

The parent company applies the same accounting policies with the exceptions and amendments stipulated by RFR 2 'Accounting for Legal Entities'. The parent company's accounting policies are described in the section entitled 'The Parent Company's Accounting Policies'.

AMENDMENTS OF ACCOUNTING POLICIES AND DISCLOSURES

Only those standards, amendments and interpretations that are expected to affect the Group are described below.

Standards, amendments and interpretations that entered into force in 2016 and were applied by the Group

The Group has applied the amendments to standards and interpretations applicable for financial years beginning on 1 January 2016 or later for the first time in the 2016 annual report. None of the new and revised standards and interpretations have any material impact on the consolidated financial statements.

Standards, amendments and interpretations that have not yet taken effect and that have not been applied in advance by the Group

A number of new and revised IFRSs have not yet entered into force, nor have they been applied in advance. Described below are the IFRSs that may affect the consolidated financial statements. None of the other new standards, amendments to standards and IFRIC interpretations published 31 December 2016 are expected to have an impact on the consolidated financial statements.

IFRS 9, Financial Instruments

IFRS 9 Financial Instruments enters into force on 1 January 2018 and will replace IAS 39 Financial Instruments: Recognition and Measurement. Various parts of the new standard have been revised, with one part relating to the recognition and measurement of financial assets and financial liabilities. An evaluation of the impact of the standard is underway and the preliminary assessment is that it will not have any significant impact on the Group.

IFRS 15, Revenue from Contracts with Customers

IFRS 15 enters into force on 1 January 2018. The standard will replace all previously issued standards and interpretations addressing income. IFRS 15 contains a comprehensive revenue recognition model for all contracts with customers. An evaluation of the impact of the standard is underway and the preliminary assessment is that it will not have any significant impact on the Group.

IFRS 16, Leases

IFRS 16 replaces IAS 17 commencing on 1 January 2019. Under the new standard, the majority of leased assets will be reported in the balance sheet. The EU is expected to approve the standard in 2017. An evaluation of the impact of the standard is underway and the preliminary assessment is that it will not have any significant impact on the Group.

CONSOLIDATED ACCOUNTING PRINCIPLES

COMPOSITION OF THE GROUP

The consolidated annual accounts include the annual accounts for the parent company and all subsidiaries for which Rottneros AB is entitled to formulate financial and operational strategies in a way that is normally associated with a shareholding amounting to more than half of the voting rights.

PRINCIPLES OF CONSOLIDATION

The consolidated accounts are prepared in accordance with the acquisition method. This method means that the equity in the subsidiary at the time of acquisition is eliminated in full. Only the profit/loss arising after the acquisition date is included in the Group's equity. The equity in the acquired subsidiary is determined on the basis of a fair value measurement of the assets and liabilities on the acquisition date. In cases where the fair value measurement of assets and liabilities indicates materially different values compared to the acquired company's book values, these fair values are deemed to constitute the Group's acquisition cost. The difference between the cost of the subsidiary's shares and the value of the equity calculated on the acquisition date is reported as goodwill on consolidation where applicable. Acquisition-related expenses are carried as an expense when they arise.

Goodwill is initially valued as the amount by which the total purchase price and the fair value of any non-controlling interests exceed the fair value of the identifiable assets acquired and liabilities assumed. If the purchase price is lower than the fair value of the acquired company's net assets, the difference is recorded directly in the income statement.

Intra-Group transactions, balance sheet items, revenues and expenses for transactions between Group companies are eliminated. Profits and losses resulting from intra-group transactions that are recognised in assets are also eliminated.

All subsidiaries are wholly-owned. In other words, there are no non-controlling interests in the subsidiaries.

UNTAXED RESERVES/APPROPRIATIONS

When preparing the consolidated accounts, untaxed reserves and appropriations recorded for the individual companies are split between deferred tax and shareholders' equity. The deferred tax liability has been calculated at the current tax rate. The estimated tax thus arrived at, which is attributable to the year's appropriations, is included in the Group's reported tax as 'deferred tax'. See also Note 10.

TRANSLATION OF FOREIGN SUBSIDIARIES

The local currency for all companies within the Group is the functional currency for the company. The Swedish krona, which is the parent company's functional and presentation currency, is the currency used in the consolidated accounts. Assets and liabilities are translated at closing day rates. Items in the income statements are translated at the average rate for each month. Translation differences are not recognised in the income statement, but are instead posted directly to consolidated shareholders' equity via other comprehensive income. When a foreign subsidiary is no longer included in the consolidated accounts, the accumulated exchange difference is recognised as a reclassification adjustment from the statement of comprehensive income for the Group to the consolidated income statement.

REVENUE

Sales of goods are recognised when products are delivered to the customer in accordance with the terms of the sale. Sales are recognised net of VAT and discounts and thus correspond to the fair value of the consideration received or receivable.

The Group recognises a revenue when its amount can be measured reliably and it is probable that future economic benefits will flow to the company. This assessment is based on the historical outcome and takes into consideration the kind of customer, kind of transaction and specific circumstances of each individual case.

Interest income is recognised as revenue using the effective interest method, and dividend income is recognised when the right to receive payment is established.

SEGMENT REPORTING

IFRS 8, Operating Segments, requires that an operating segment is reported on the same basis as is used in the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the function responsible for allocating resources and assessing the performance of the operating segment. In the Group this function was identified as the President. Rottneros does not report any segments in its internal reporting and consequently nor in its annual accounts.

TRANSACTIONS AND BALANCE SHEET ITEMS IN FOREIGN CURRENCIES

Transactions in foreign currencies are translated to the functional currency in accordance with the exchange rates applicable on the transaction day or the day on which the items are revalued. Exchange gains and losses that arise when paying for such transactions are recognised in the income statement. An exception to this is when the transactions constitute hedging that meets the conditions for the hedge accounting of cash flows, when profits/losses are recognised in 'Other comprehensive income'.

Receivables and liabilities in foreign currencies are valued at the closing day rate. The difference between cost and the value on the reporting date has been included in the profit/loss.

INVENTORIES

Inventories mainly comprise raw materials and consumables together with pulp.

Inventories are measured at the lower of cost and net realisable value. The cost of raw materials and consumables is based on the purchase price and includes expenditure incurred in acquiring the inventories and transporting them to their present location and condition. The cost of finished goods (pulp) comprises raw materials, direct salaries, other direct costs and attributable indirect manufacturing costs (based on normal manufacturing capacity). Net realisable value is the estimated selling price in normal circumstances, less the costs required to complete the sale. Deduction for obsolescence is taken in the required amount.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash and bank balances. Any blocked bank accounts are included under the balance sheet item 'Cash and cash equivalents'.

REPORTING OF LEASE AGREEMENTS

Where a lease agreement means that the Group, as lessee, essentially enjoys the financial benefits and bears the financial risks attributable to the lease object, the object is recognised as a fixed asset in the consolidated balance sheet. A corresponding obligation to pay future lease payments is recognised as a long-term or short-term interest-bearing liability. Each lease payment is apportioned between repayment of debt and financial expenses. The interest element of the financial cost is recognised in the income statement, allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining

balance of the liability. Non-current assets held under financial lease agreements are depreciated over the shorter of the asset's useful life and the lease term.

Other leases are recognised as operating leases and are carried as an expense on a straight-line basis over the lease term.

INTANGIBLE ASSETS

Trademarks and licences acquired are carried at cost. Software licences acquired are capitalised on the basis of the costs that arose to commission the software. Intangible assets under development are carried at cost. All intangible assets have finite useful lives.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and intangible assets are stated at cost less accumulated depreciation and any impairment. Property, plant and equipment have been divided into major components when the components have substantially different useful lives. The depreciable amount is the cost less estimated residual value if this is material. Depreciation is on a straight line basis over the expected useful life. Expenditures for repairs and maintenance are recognised as a cost in the period it arises.

DEPRECIATION/AMORTISATION

Depreciation/amortisation according to plan is based on cost and estimated useful lives. The straight-line method is used for all kinds of non-current assets. The Group applies component depreciation. The residual value and useful life of the assets are assessed on each reporting date and adjusted if appropriate.

The following depreciation/amortisation periods have been applied

Licences	10 years
Software	3–5 years
Intangible assets under development	5 years
Buildings and land improvements	20–50 years
Plant and machinery	10–20 years
Equipment, tools, fixtures and fittings	5–10 years
Computers	3–5 years

IMPAIRMENT OF NON-FINANCIAL ASSETS

Assessments are carried out throughout the year to determine whether any assets have declined in value. The recoverable amount of the asset is calculated as part of these assessments. For intangible assets not yet ready for use the recoverable amount is calculated annually.

If it is not possible to establish essentially independent cash flows for an individual asset, the assets are grouped during impairment testing at the lowest level at which the identifiable cash flow can be identified (cash-generating unit). An impairment is recognised when the recorded value of an asset or cash-generating unit exceeds the recoverable value. Impairment is charged to the income statement.

Impairment of assets is calculated in proportion to the assets included in the unit.

The recoverable amount is the higher of the asset's net realisable value and its value in use. Value in use is the present value of future cash flows discounted at a rate based on the risk-free rate adjusted for the risk associated with the specific asset. For an asset that does not generate cash flows, the recoverable amount of the cash-generating unit to which the asset belongs is calculated.

At each reporting period it is determined whether there are indications that a previous impairment of an asset, wholly or partially, is no longer justified. If such indications are present the recoverable amount of the asset is calculated.

A previous impairment of an asset is reversed only if there has been a change in the assumptions that formed the basis for the determination of the recoverable amount when the most recent impairment was charged. If so, the carrying amount of the asset is increased to the recoverable amount. This increase is a reversal of an impairment.

PROVISIONS

A provision is recognised in the balance sheet where: there is a legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required in order to settle the obligation; and a reliable estimate can be made of the amount.

Provisions for restructurings are made when there is a detailed formal plan

NOTES

for the restructuring and a valid expectation has been raised in those affected.

In cases where it is not expected that the provisions will be utilised within a twelve-month period, they are measured at the present value of the amount expected to be required to settle the obligation. A pre-tax discount rate is used in the calculations that reflects the current market assessment of the time value of money and those risks specific to the provision. The increase in the provision due to the passage of time is recognised as an interest expense.

TAXES

Income taxes recognised include tax that will be paid or received for the current period, adjustments for current tax for prior periods, as well as changes in deferred tax.

Tax assets/liabilities are measured at nominal amounts and in accordance with the tax provisions and tax rates established or where notice has been given and there is a high degree of certainty that they will be confirmed.

For items recognised in the income statement, any related tax effects are also recognised in the income statement. Tax effects of items credited directly to shareholders' equity are also recognised as equity. Tax relating to items reported in other comprehensive income is also reported in other comprehensive income. Deferred tax is calculated and recognised according to the balance sheet liability method for all temporary differences arising between the tax base and the carrying amount of assets and liabilities, and also accumulated tax loss carryforwards. Deferred tax is calculated using the tax rates (and laws) that have been established or where notice has been given as of the reporting date and that are expected to apply when the relevant deferred tax asset is realised or the deferred tax liability is settled.

Estimated current tax liabilities are recognised in the balance sheet as current liabilities. Deferred tax liabilities are recognised as provisions. Deferred tax assets are recognised as long-term receivables to the extent it is likely that a future tax surplus will be available.

REMUNERATION OF EMPLOYEES

With the exception of the ITP (supplementary pensions for salaried employees) plan, the Group only has defined contribution plans. The Group's payments in respect of defined contribution plans are recognised as a cost during the period when the employees performed the services to which the contribution relates.

The commitments for the retirement and family pensions of salaried office workers in Sweden are guaranteed through an insurance policy with Alecta, an ITP plan which according to a statement from the Swedish Financial Accounting Standard Council (UFR 3) is a defined benefit plan covering a number of employees. However, a disclosure in accordance with the provisions of Item 29 of IAS 19 cannot be made as the insurance provider is unable to provide the necessary information. Accordingly the ITP plan is recognised as a defined contribution plan in accordance with Item 30 of IAS 19. This year's pension insurance premiums according to ITP that are contracted with Alecta amount to SEK 5 million (SEK 4 million). Alecta's surplus can be distributed to the policyholders and/or the insured parties. Alecta's surplus in the form of the collective consolidation level amounted to 149 per cent (153 per cent) at the end of 2016. The collective consolidation level comprises the market value of Alecta's assets as a percentage of the insurance commitments calculated according to Alecta's actuarial assumptions, which are not in line with IAS 19.

Rottneros has no share-related payment transactions with employees where the company receives services from employees as consideration for the Group's equity instrument.

EMISSION ALLOWANCES

Emission allowances received are recognised in accordance with the rules for government grants. Upon allocation, emission allowances are recognised as current receivables at cost, which are deemed to correspond to the market value of the emission allowances at the time of allocation. A corresponding amount is recognised as deferred income. The deferred income is taken up as other operating income in pace with recorded receivables reducing and emissions being carried as an expense as raw materials and consumables. Revenue from emission allowances is recognised for emissions made at the value at which they were recognised on allocation. Any remaining emission allowances (not required to cover own emissions) are taken up as income when sold.

ELECTRICITY CERTIFICATES

Electricity certificates shall be allocated for renewable electricity produced by the company and are sold on an ongoing basis. Electricity certificates sold, which are not settled as cash, are recognised at market value as accrued income and other operating income. Any unsold electricity certificates are recognised at market value on each occasion of allocation and as a current financial receivable. They are impaired to the market value at year end if that value is lower.

RESEARCH AND DEVELOPMENT COSTS

Development work forms an integral part of production and refers to measures to improve processes and quality, the costs of which are carried as an expense when they are incurred.

BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Other borrowing costs are recognised as an expense in the period they arise.

CASH FLOW STATEMENT

The cash flow statement is prepared in accordance with the indirect method. The recorded cash flow only covers transactions involving cash receipts or payments. This means that there may be variances when compared with changes to individual items in the balance sheet.

FINANCIAL ASSETS

Financial assets recognised in the balance sheet include accounts receivable, financial assets available for sale and derivative instruments. Financial assets are removed from the balance sheet when the right to receive cash flows from the asset has expired or been transferred and the Group has transferred substantially all risks and rewards associated with ownership.

ACCOUNTS RECEIVABLE

Accounts receivable are amounts to be paid by customers for goods sold in operating activities. They are included in current assets with the exception of items maturing more than twelve months after the reporting date, which are classified as 'non-current assets'. Accounts receivable are initially recognised at fair value and subsequently at amortised cost less any provisions for impairment. The fair value of accounts receivable with short credit periods corresponds to nominal value. A provision is made for impairment when there is objective evidence that the Group will not be able to receive all amounts due. This sum in reserve is recognised in the income statement and included under the item 'Other costs'.

FINANCIAL ASSETS AVAILABLE FOR SALE

Available for sale investments are financial assets that have either been assigned to this category or not been classified in any of the other categories. They are included in noncurrent assets if management does not intend to dispose of the assets within 12 months from the balance sheet date. Financial assets available for sale are stated at fair value after the date of acquisition. Unrealised gains and losses resulting from changes in the fair value are recognised in other comprehensive income. When instruments that are classified as assets available for sale are divested or impaired, the accumulated adjustments to fair value are recognised in the income statement.

DERIVATIVE INSTRUMENTS

Derivative instruments are recognised in the balance sheet on the contract date and are measured at fair value both initially and when they are subsequently revalued. The method for recording the gain or loss resulting from revaluation depends on whether the derivative has been designated as a hedging instrument. The Group uses derivatives to hedge the risk of exchange rate fluctuations and changes in pulp prices, and to hedge its exposure to changes in electricity prices. All types of hedging are used from time to time to protect the value of future cash flows. When the transaction is entered, the Group documents the relationship between the hedging instrument and the hedged item as well as the Group's risk management objectives and risk management strategy for such hedging. The Group also documents its assessment – both at the inception of the hedge and in subsequent periods – of whether the derivative instruments used in hedging transactions are effective as regards cash flows attributable to the hedged items.

A disclosure about a fair value for the various derivative instruments used for hedging purposes can be found in Note 4. Changes in the hedging reserve in shareholders' equity are shown in Note 20. The entire fair value of a derivative that constitutes a hedging instrument is classified as a fixed asset or long-term liability when the remaining term for the hedged item exceeds twelve months, and as a current asset or current liability when the remaining term for the hedged item is less than twelve months.

The effective portion of the changes in fair value of a derivative instrument that has been identified as a cash flow hedge and that meets the conditions for hedge accounting is recognised in other comprehensive income. The ineffective portion of the gain or loss is immediately recognised in the income statement under the item 'Other income' for currency futures and pulp futures and under the item 'Raw materials and consumables' for electricity futures.

FINANCIAL RISK MANAGEMENT

Rottneros is exposed to various risks arising from financial instruments. According to IFRS 7, the financial statements must include qualitative and quantitative disclosures that enable users of the financial statements to evaluate the nature and extent of risks arising from financial instruments to which the company is exposed at the end of the reporting period. Rottneros presents such information both in the notes and in detail in the section 'Opportunities and risks'; see pages 39-43.

ACCOUNTS PAYABLE

Accounts payable are recognised initially at fair value and subsequently at amortised cost using the effective interest method.

BORROWING

Borrowing, including utilised credit facilities, is initially recognised at fair value, net after transaction costs. Borrowing is subsequently recognised at amortised cost, and any difference between the amount received (net after transactions costs) and the amount repaid is recognised in the income statement over the term of the loan applying the effective interest method.

Borrowing is classified as current liabilities unless the Group has an unconditional right to defer payment of the liability for at least twelve months after the reporting date.

IMPORTANT ESTIMATES AND ASSUMPTIONS

When preparing financial statements, a number of important estimates must be made for accounting purposes, and management needs to make certain judgments when applying the Group's accounting policies. Estimates and judgments are evaluated on an ongoing basis and are based on historical experience and other factors, including expectations for future events that are deemed reasonable in the prevailing circumstances.

The Group makes estimates and assumptions about the future. The resulting estimates for accounting purposes, by definition, seldom correspond to the actual outcome. Valuation of property, plant and equipment is an area that involves a high level of judgment on the part of Rottneros and where assumptions and estimates are of material importance for the consolidated accounts.

Property, plant and equipment

Significant assumptions and estimates related to property, plant and equipment include assessment of the expected useful lives, the recoverable amount of the assets, identification of cash-generating units, the discount rate used in present value calculations, as well as assessing whether there is any indication that an asset may be impaired or that a previous impairment is no longer justified.

Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences to the extent that it is probable that they can be utilised against future taxable profits. The Group has now utilised essentially all historical tax losses and therefore a deferred tax asset of SEK 1 million remains as of 31 December 2016 (deferred tax assets relating to tax losses per 31 December 2015 amounted to SEK 31 million).

THE PARENT COMPANY'S ACCOUNTING POLICIES

The parent company applies the same accounting policies as the Group, with the following exceptions.

Derivatives are recognised during the term of the contract at the lower of cost and fair value.

Participating interests in subsidiaries are carried at cost less any impairment losses.

Group contributions that the parent company receives from a subsidiary are reported at the parent company as normal dividends from subsidiaries in accordance with RFR 2. This means that Group contributions are reported as 'financial income'. Tax on Group contributions are reported in the income statement in accordance with RFR 2.

Group contributions provided to a subsidiary by the parent company are reported, according to the main approach of RFR 2, as an increase in the participating interests in the subsidiary. A review is simultaneously conducted of whether there is any need to perform an impairment test on participating interests for those subsidiaries that have received Group contributions. The tax effect is reported in accordance with IAS 12, i.e., in the income statement

All lease agreements are recognised as operating leases. Dividends received are recognised when the right to receive a dividend is deemed to be certain.

Due to the link between accounting and taxation, the deferred tax liability on untaxed reserves is recognised by the parent company as part of untaxed reserves.

Joint risk management applies to all entities within the Group. Consequently, the description contained in the section 'Opportunities and Risks' (see pages 39-43) also applies in all essential respects to the parent company. However the parent company has no production or sales activities, and the risks associated with these areas are thus irrelevant to the parent company.

NOTES

NOTE 1.

GEOGRAPHICAL DISTRIBUTION OF TURNOVER

Net turnover refers to turnover of pulp delivered to geographic markets as follows:

	2016	%	2015	%
Sweden	369	21%	286	16%
Other Nordic countries	70	4%	95	5%
Italy	356	21%	318	18%
Germany	347	20%	344	19%
Poland	77	5%	95	5%
Rest of Europe	230	13%	292	17%
US	218	13%	178	10%
China	41	2%	38	2%
Rest of world	22	1%	149	8%
Total	1,730	100%	1,795	100%

In 2016 the Group's largest customer accounted for 12 (11) per cent of turnover. No other customer accounts for more than 10 per cent of turnover. Of the parent company's net turnover 100 per cent (100) relates to wholly owned subsidiaries and comprises management fees received.

NOTE 2.

OTHER INCOME

Other operating income	Group		Parent Company	
	2016	2015	2016	2015
Sale of by-products	27	30	–	–
Foreign currency gains/losses	12	6	-1	-5
Currency forwards – cash flow hedging	-8	6	–	6
Sale of green electricity certificates	3	3	–	–
Emission allowances	2	1	–	–
Revaluation of shareholding in Söderhamns Stuveri & Hamn AB	8	–	–	–
Other	13	8	6	9
Total	57	54	5	11

NOTE 3.

RAW MATERIALS AND CONSUMABLES

	Group		Parent Company	
	2016	2015	2016	2015
Pulp wood	-580	-591	–	–
Chemicals	-148	-151	–	–
Electricity	-91	-65	–	–
Electricity forwards – cash flow hedging	-1	-23	–	–
Fuels	-43	-51	–	–
Other costs for raw materials and consumables	-18	-18	–	–
Total	-881	-899	–	–

NOTE 4.

FINANCIAL INSTRUMENTS

The following tables show financial instruments measured at fair value on the basis of how the fair value hierarchy was classified. The various levels are defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2).
- Inputs for assets or liabilities that are not based on observable market inputs (i.e., unobservable inputs) (Level 3).

The following table shows the Group's derivative instruments as well as its financial assets available for sale measured at fair value as of 31 December 2016:

Derivative instruments and financial assets available for sale

31 December 2016	Level 1	Level 2	Level 3	Total
Assets				
Derivative instruments used for hedging purposes	–	18	–	18
Financial assets available for sale	–	–	8	8
Total	–	18	8	26
Liabilities				
Derivative instruments used for hedging purposes	–	2	–	2
Total	–	2	–	2

The following table shows the Group's derivative instruments measured at fair value as of 31 December 2015:

Derivative instruments

31 December 2015	Level 1	Level 2	Level 3	Total
Assets				
Derivative instruments used for hedging purposes	–	2	–	2
Total	–	2	–	2
Liabilities				
Derivative instruments used for hedging purposes	–	34	–	34
Total	–	34	–	34

Financial instruments for each category

31 December 2016	Financial receivables and cash and cash equivalents	Derivatives for hedging purposes	Financial assets available for sale	Total
Assets				
Financial assets	–	–	8	8
Derivative instruments	–	18	–	18
Accounts receivable and other receivables, excluding non-financial assets	253	–	–	253
Cash and cash equivalents	16	–	–	16
Total	269	18	8	295
	Financial liabilities	Derivatives for hedging purposes		Total
Liabilities				
Derivative instruments	–	2	–	2
Accounts payable and other liabilities, excluding non-financial liabilities	165	–	–	165
Total	165	2	–	167

Financial instruments for each category

31 December 2015	Financial receivables and cash and cash equivalents	Derivatives for hedging purposes	Total
Assets			
Derivative instruments	–	2	2
Accounts receivable and other receivables, excluding non-financial assets	231	–	231
Cash and cash equivalents	169	–	169
Total	400	2	402
	Financial liabilities	Derivatives for hedging purposes	Total
Liabilities			
Derivative instruments	–	34	34
Accounts payable and other liabilities, excluding non-financial liabilities	146	–	146
Total	146	34	180

Derivative instruments

	2016		2015	
	Assets	Liabilities	Assets	Liabilities
Fair value hedges				
Currency forwards	0	2	1	–
Cash flow hedges				
Currency forwards	–	–	1	–
Pulp forwards	8	–	–	–
Electricity forwards	10	–	–	34
Total	18	2	2	34
Minus non-current portion:				
Currency forwards	–	–	–	–
Pulp forwards	–	–	–	–
Electricity forwards	0	–	–	-15
Current portion	18	2	2	19

The full fair value of a derivative instrument that constitutes a hedging instrument is classified as a non-current asset or non-current liability if the remaining maturity of the hedged item exceeds twelve months, and as a current asset or current liability if the remaining maturity of the hedged item is less than twelve months.

The ineffective portion, which is recognised in the income statement, is SEK 0 (0) million in respect of cash flow hedging.

The maximum exposure for credit risk on the reporting date is the fair value of the derivative instruments recognised as assets in the balance sheet.

Fair value for derivatives, 31 December 2016

Hedging	Hedged volume	Maturity	Hedging level	Fair value
Currency EUR, forward sell	EUR 1.0 m	Jan 2017	SEK 9.73/EUR	0
Currency USD, forward sell	USD 4.0 m	Jan 2016	SEK 8.66/USD	-2
Pulp, forward sell	24,000 tonnes	Jan-Dec 2016	SEK 7,150/tonne	8
Electricity, forward buy	953,160 MWh	2017-2021	SEK 0.229/kWh	10
Total fair value				16

Fair value for derivatives, 31 December 2015

Hedging	Hedged volume	Maturity	Hedging level	Fair value
Currency EUR, forward buy	EUR 1.6 m	Jan-Oct 2016	SEK 9.00/EUR	1
Currency USD, forward sell	USD 4.5 m	Jan-Feb 2016	SEK 8.68/USD	1
Electricity, forward buy	657,480 MWh	2016-2019	SEK 0.245/kWh	-34
Total fair value				-32

The valuation is based on directly observable price quotations on 31 December that are classified at level 2 in the fair value hierarchy described in IFRS 13.

The most significant opportunities and risks for the Rottneros Group are related to the performance of pulp prices in USD, the USD rate and electricity prices. Rottneros is working to lower volatility in its results and to create a secure platform from which to avoid loss-making periods by financially hedging these risks.

NOTES

A more detailed description of the opportunities and risks, together with a sensitivity analysis, can be found in a separate section; see pages 39-43.

NOTE 5. PERSONNEL

	2016		2015	
	Average number of employees	of whom men %	Average number of employees	of whom men %
Parent Company	6	83	7	71
Subsidiaries	276	86	257	86
Group, total	282	85	264	85
Of which				
Sweden	279	86	261	85
Latvia	3	67	3	67
	282	85	264	85

Salaries and remuneration	2016			2015		
	Pay and other remuneration	Social security contributions	(of which pension expenses) ¹	Pay and other remuneration	Social security contributions	(of which pension expenses) ¹
Parent Company	10	5	3	9	4	1
Subsidiaries	148	60	13	149	57	13
Group, total¹	158	65	16	158	61	14

¹ SEK 2.5 (1.5) million of the Group's pension expenses relate to the CEO/MDs and other senior executives.

Pay and other remuneration distributed between the Board of Directors and CEO/managing directors and other employees:

SEK MILLION	2016			2015		
	Board, CEO, managing directors and other senior executives	(of which variable remuneration)	Other employees	Board, CEO, managing directors and other senior executives	(of which variable remuneration)	Other employees
Parent Company	9	2	1	8	1	1
Subsidiaries	1	0	147	1	0	148
Group, total	10	2	148	9	1	149

NOTE 6. REMUNERATION OF SENIOR EXECUTIVES

PRINCIPLES

The Chairman and members of the Board of Directors receive a fee as determined by the AGM. This fee is also for Board committee work. Employee representatives receive a fee as determined by the AGM for the time needed to read materials prior to meetings.

Remuneration for the CEO and other senior executives complies with the guidelines for the remuneration of senior executives adopted by the AGM. Remuneration consists of a fixed salary, any variable component of pay, other benefits and pension. The total remuneration package must be in line with market rates and competitive in the market in which the executives work. Fixed salary and variable remuneration are related to the responsibilities and powers held by each executive. 'Other senior executives' currently means the four people who make up Group management together with the CEO. See page 75 for the composition of Group management.

VARIABLE REMUNERATION

The variable component of pay, which is cash, is based on outcomes in relation to defined and measurable targets and is capped in relation to fixed salary. These targets are broken down into specified quantitative objectives, mainly directed at the Group's but also – in relation to Heads of Units – the respective business unit's financial objectives, results and cash flow, and also qualitative personal targets, which means that the variable remuneration is related to the individual's efforts and performance. Variable remuneration for the CEO is capped at 50 per cent of fixed salary and is pensionable. Variable remuneration for other senior executives is capped at 30 per cent of fixed salary and is not pensionable. The Board of Directors can impose conditions, restrict or decline to make variable remuneration payments in exceptional financial circumstances if the Board considers such measures to be reasonable and compatible with the duties of the company in relation to shareholders, employees and other interested parties.

Chief Executive Officer Lennart Eberleh also has a "stay on bonus" of a maximum of SEK 2.0 million to be paid after three years completed from the first day of employment. This remuneration is not pensionable. If notice of termination is given by the Company between 12 and 24 months from the date of employment 50 per cent will be paid, and if notice of termination is given after 24 months he will receive full payment.

PENSIONS

The retirement age for the CEO is 65 years. The pension premium amounts to 30 per cent of the basic salary. Other senior executives are covered by current collective bargaining agreements between the Confederation of Swedish Enterprise and the Federation of Salaried Employees in Industry and Services (PTK) and have a retirement age of 65.

SEVERANCE PAYMENTS

The period of notice is six months if notice is given by the CEO. If notice is given by the Company, the CEO of the parent company is entitled to 18 monthly salaries. A period of notice of six months applies for other senior executives if notice is given by the employee. If notice is given by the Company, the period of notice is between 12 and 18 months.

DECISION-MAKING PROCESS

All matters relating to the remuneration of the executive management are dealt with by the Compensation Committee, except in respect of the CEO and the principles for remuneration for the executive management, which are decided by the Board of Directors. If the company in a particular case assigns an individual Board member tasks on behalf of the company over and above their regular board and committee duties, the Board shall determine the level of remuneration, which must be reasonable and in line with market rates.

See the Corporate Governance Report regarding proposed guidelines for senior executives for 2017.

Remuneration and other benefits in 2016 (SEK m)	Basic salary/Directors' fees	Variable remuneration	Other benefits	Pension expenses	Other remuneration	Total
Chairman of the Board, Per Lundeen ¹	1.7	0.6	0.1	1.5	–	3.9
Board member, Marie S. Arwidson	0.3	–	–	–	–	0.3
Board member, Ulf Carlson ²	0.2	–	–	–	0.3	0.5
Board member, Rune Ingvarsson ³	0.5	–	–	–	–	0.5
Board member, Roger Mattsson ⁴	0.2	–	–	–	–	0.2
Board Member, Per Lundeen	0.3	–	–	–	–	0.3
Board Member, Roger Asserstahl ⁵	0.1	–	–	–	–	0.1
Chief Executive Officer, Lennart Eberleh ⁶	1.0	–	0.0	1.8	–	2.8
Other senior executives (four people)	3.4	1.1	0.4	1.1	1.9	7.9
Total	7.7	1.7	0.5	4.4	2.2	16.5

¹ Board member since 30 May 2016 and Chairman of the Board since 9 September 2016. He was Chief Executive Officer of the parent company until 1 September 2016.

² Board member since 30 May 2016. In 2016 he also carried out work for the company in addition to his ordinary board and committee work. The remuneration that the Board approved appears in the table as Other remuneration.

³ Chairman of the Board until 9 September 2016 and ordinary Board member since 9 September 2016.

⁴ Board member since 30 May 2016.

⁵ Board member until 30 May 2016.

⁶ Chief Executive Officer of the parent company since 1 September 2016.

Remuneration and other benefits in 2015 (SEK m)	Basic salary/Directors' fees	Variable remuneration	Other benefits	Pension expenses	Other remuneration	Total
Chairman of the Board, Rune Ingvarsson	0.5	–	–	–	–	0.5
Board Member, Marie S. Arwidson ¹	0.3	–	–	–	–	0.3
Board Member, Roger Asserstahl	0.3	–	–	–	–	0.3
Board Member, Per Skoglund	0.3	–	–	–	–	0.3
Chief Executive Officer, Per Lundeen ²	1.7	0.7	0.0	0.5	1.5	4.4
Other senior executives (four people)	3.5	0.7	0.3	1.0	1.8	7.3
Total	6.6	1.4	0.3	1.5	3.3	13.1

¹ Board member since 20 May 2015.

² Board member until 20 May 2015. Acting CEO since 6 November 2014 and CEO since February 2015. Basic salary, variable remuneration, other benefits and pension expense relate to the period from 21 May 2015. Until 20 May 2015 CEO services were invoiced through his company, which appears as Other remuneration.

COMMENTS ON THE TABLE

- Variable remuneration refers to what is charged to profit/loss for 2016 and 2015 respectively. Variable remuneration for 2016 is paid out in 2017.
- Other benefits refer to company cars and housing.

- Pension expenses in the tables also include 'salary exchanges' for those senior executives who have chosen to take out a portion of their compensation in the form of capital pension. The balance sheets for the Group and the parent company include a long-term receivable consisting of premiums paid to the insurance company, as well as a corresponding non-interest bearing liability. The recognised liability is expected to fall due later than 5 years after the balance sheet date.
- There are two employee representatives and two deputies on the Board of Directors. The two representatives are Dan Karlsson and Thomas Wasberg and the two deputies are Gun-Marie Nilsson and Mika Palmu. The four representatives received a fee of SEK 27,500 (27,500) per person for the time needed to read materials prior to meetings.
- The group of senior executives (five people in total) comprised five men at year-end. The Board of Directors (eight people in total) comprised seven men and one woman at year-end. This information applies to both the parent company and the Group.

NOTE 7. AUDIT EXPENSES

	Group		Parent Company	
	2016	2015	2016	2015
Audit engagement (EY)	1.3	1.0	0.7	0.5
Audit-related services in addition to the audit engagement (EY)	0.1	0.2	0.1	0.2
Total	1.4	1.2	0.8	0.7

NOTE 8. TRANSACTIONS WITH RELATED PARTIES AND PARENT COMPANY

Arctic Paper S.A. (parent company of Rottneros AB) owned 51 per cent of the shares in Rottneros AB at the end of the year. Arctic Paper S.A. is a parent company in the Arctic Paper S.A. Group, which includes the following customers of Rottneros and is thus reported as a related party to Rottneros:

- Arctic Paper Grycksbo AB
- Arctic Paper Kostrzyn S.A.
- Arctic Paper Mochenwangen GmbH
- Arctic Paper Munkedals AB

The following table shows the total amount of transactions with the above-mentioned related party that occurred in 2016 and 2015 respectively. Goods are sold on the same terms as for non-related parties but with a lower degree of credit insurance owing to the group relationship between Arctic Paper and Rottneros.

Related party	Sales, 2016	Sales, 2015	Accounts receivable 31 Dec 16	Accounts receivable 31 Dec 15
Arctic Paper S.A. Group	109	140	16	22

Receivables for the related party derive in full from sales transactions, and no provisions have been made for doubtful receivables for the related party.

100 (100) per cent of the parent company's net turnover comprised turnover from subsidiaries and 1 (2) per cent of its operating costs related to purchases from subsidiaries.

NOTES

NOTE 9. FINANCIAL INCOME AND EXPENSES

	Group		Parent Company	
	2016	2015	2016	2015
Financial income				
Dividends from external companies	2	1	–	–
Dividends from subsidiaries	–	–	–	166
Group contributions received/paid, net	–	–	166	23
Reversal of previous impairment of participating interests in subsidiaries	–	–	–	45
Total	2	1	166	234

	Group		Parent Company	
	2016	2015	2016	2015
Financial expenses				
Interest expenses	-8	-4	0	-2
Other financial expenses	-1	-1	0	0
Total	-9	-5	0	-2

NOTE 10. TAX ON PROFIT FOR THE YEAR

	Group		Parent Company	
	2016	2015	2016	2015
Deferred tax	-35	-36	-30	-10
Total	-35	-36	-30	-10

Difference between the Group's tax expense and tax expense based on the applicable tax rate

	Group		Parent Company	
	2016	2015	2016	2015
Reported profit before taxes	163	259	138	226
Tax at applicable tax rate	-36	-57	-30	-50
Tax effect of non-deductible items	-1	-1	0	0
Tax effect of non-taxable items	2	0	0	40
Tax effect of previously non-capitalised unused tax losses	–	22	–	–
Total	-35	-36	-30	-10

TAX RATE

The applicable tax rate is 22.0 per cent (22.0 per cent).

TEMPORARY DIFFERENCES

Temporary differences exist where the carrying amount of assets or liabilities differs from its tax base. Temporary differences relating to the following items have resulted in deferred tax assets (+) and deferred tax liabilities (-):

Group	Unused tax losses	Derivative instruments	Excess depreciation	Provisions	Total
As of 1 January 2015	67	2	–	–	69
Recognised in income statement	-36	–	–	–	-36
Recognised in other comprehensive income	–	5	–	–	5
As of 31 December 2015	31	7	–	–	38
Recognised in income statement	-30	–	-6	1	-35
Recognised in other comprehensive income	–	-11	–	–	-11
As of 31 December 2016	1	-4	-6	1	-8

Deferred tax assets are recognised for tax losses to the extent that it is probable that future taxable profit will be available against which the tax losses can be utilised. Rottneros operates in a market where the volatility of pulp price and exchange rates means that the results may vary significantly between different years. However, it is considered that there will be a positive return over a business cycle. The Group recorded deferred tax assets of SEK 1 million as of 31 December 2016 corresponding to a tax loss of SEK 4 million. There are no tax loss carry-forwards for which deferred tax has not been recorded.

	Group		Parent Company	
	2016 31 Dec	2015 31 Dec	2016 31 Dec	2015 31 Dec
Deferred tax assets, current	–	–	–	–
Deferred tax assets, long-term	2	38	1	31
Deferred tax liabilities, current	–	–	–	–
Deferred tax liabilities, long-term	-10	–	–	–
Total	-8	38	1	31

Deferred tax assets and tax liabilities are offset where there is a legal right to offset the tax assets and liabilities in question and when the deferred tax relates to the same tax authority. The following amounts resulted from such offset and have been recognised in the balance sheet:

	Group		Parent Company	
	2016 31 Dec	2015 31 Dec	2016 31 Dec	2015 31 Dec
Deferred tax assets	–	38	1	31
Deferred tax liabilities	-8	–	–	–
TOTAL	-8	38	1	31

NOTE 11. INTANGIBLE ASSETS

Group	31 Dec 2016					31 Dec 2015				
	Software	Trade- marks	Licences	Assets under development	Total	Software	Trade- marks	Licences	Assets under development	Total
Opening cost	38	25	2	7	72	38	25	2	5	70
Acquisitions for the year	–	–	–	9	9	–	–	–	2	2
Closing accumulated cost	38	25	2	16	81	38	25	2	7	72
Opening depreciation/amortisation and impairment losses	-38	-25	-2	–	-65	-38	-25	-2	–	-65
Depreciation for the year	–	–	–	–	–	–	–	–	–	–
Impairment losses for the year	–	–	–	-6	-6	–	–	–	–	–
Closing accumulated depreciation/amortisation and impairment losses	-38	-25	-2	-6	-70	-38	-25	-2	–	-65
CLOSING RESIDUAL VALUE ACCORDING TO PLAN	–	–	–	10	10	–	–	–	7	7

As of 31 December 2016, there were indications that the residual value of certain intangible assets under development in the parent company exceeds the estimated recoverable amount. Testing showed an impairment and the recoverable value of these assets is zero. An impairment loss of SEK 6 million was recognised in the Group and the parent company.

Parent Company	31 Dec 2016			31 Dec 2015		
	Software	Assets under development	Total	Software	Assets under development	Total
Opening cost	15	6	21	15	5	20
Acquisitions for the year	–	9	9	–	1	1
Closing accumulated cost	15	15	30	15	6	21
Opening depreciation/amortisation and impairment losses	-15	–	-15	-15	–	-15
Depreciation for the year	–	–	–	–	–	–
Impairment losses for the year	–	-6	-6	–	–	–
Closing accumulated depreciation/amortisation and impairment losses	-15	-6	-21	-15	–	-15
CLOSING RESIDUAL VALUE ACCORDING TO PLAN	–	9	9	–	6	6

NOTES

NOTE 12.

PROPERTY, PLANT AND EQUIPMENT

Group	31 Dec 2016							31 Dec 2015						
	Land	Land improvements	Buildings	Machinery	Equipment	Const. in progress/adv.	Total	Land	Land improvements	Buildings	Machinery	Equipment	Const. in progress/adv.	Total
Opening cost	3	32	94	1,603	55	77	1,864	3	26	89	1,535	53	57	1,763
Purchases/advances	–	0	33	123	1	112	269	–	6	2	12	2	80	102
Sales/disposals	–	–	–	-4	-4	-1	-9	–	–	–	0	–	–	0
Items transferred during the year	–	–	9	46	3	-58	0	–	1	3	56	–	-60	0
Closing accumulated cost	3	32	136	1,768	55	130	2,124	3	32	94	1,603	55	77	1,864
Opening depreciation	–	-11	-49	-1,045	-43	–	-1,148	–	-10	-45	-994	-42	–	-1,091
Sales/disposals	–	–	–	4	4	–	8	–	–	–	0	–	–	0
Items transferred during the year	–	–	–	-4	4	–	0	–	–	–	–	–	–	–
Reversal of impairment	–	–	-1	-23	–	–	-24	–	–	–	–	–	–	–
Depreciation for the year	–	-2	-4	-57	-2	–	-65	–	-1	-4	-52	-1	–	-58
Closing accumulated depreciation	–	-13	-54	-1,125	-37	–	-1,229	–	-11	-49	-1,045	-43	–	-1,148
Opening impairment loss	–	–	-4	-46	-9	2	-57	–	–	-4	-46	-9	2	-57
Reversal of impairment	–	–	4	43	–	–	47	–	–	–	–	–	–	–
Impairment losses for the year	–	–	–	-3	–	–	-3	–	–	–	–	–	–	–
Closing accumulated impairment losses	–	–	–	-6	-9	2	-13	–	–	-4	-46	-9	2	-57
CLOSING RESIDUAL VALUE ACCORDING TO PLAN	3	19	82	637	9	132	882	3	21	41	512	3	79	659

For assets that have previously been impaired, a test is conducted on each reporting date of whether a reversal should be effected. As of 31 December 2016 testing showed that an impairment loss recognised in 2011 for buildings and machinery in the grinding line at Rottneros Mill should be reversed. Testing was carried out as present value of projected cash flows that can be attributed to the impaired assets. The key assumptions used in impairment testing were: weighted average cost of capital (WACC) before tax of 10.3% and annual growth rate of 1%. An impairment loss of SEK 47 million was reversed, along with amor-

tisation of SEK 24 million that would have been recognised from 2012 to 2016 if the impairment loss had not been recognised in 2011. The net effect of SEK 23 million improved the Group's profit for 2016.

As of 31 December 2016, there were indications that the residual value of certain tangible assets at Rottneros Mill exceeds the estimated recoverable amount. The testing showed an impairment. An impairment loss of SEK 3 million was recognised in the Group.

Parent Company	31 Dec 2016		31 Dec 2015	
	Equipment	Total	Equipment	Total
Opening cost	2	2	2	2
Purchase/disposals	-1	-1	–	–
Closing accumulated cost	1	1	2	2
Opening depreciation	-1	-1	-1	-1
Depreciation for the year	–	–	–	–
Closing accumulated depreciation	-1	-1	-1	-1
CLOSING RESIDUAL VALUE ACCORDING TO PLAN	0	0	1	1

NOTE 13. PLEGGED ASSETS AND INTEREST-BEARING LIABILITIES

The Group had used SEK 14 million of its credit facilities as of 31 December 2016 (no interest-bearing liabilities as of 31 December 2015). The Group had unutilised credit facilities of SEK 281 million (175).

Assets pledged for the credit facilities are shown below:

	Group		Parent Company	
	2016 31 Dec	2015 31 Dec	2016 31 Dec	2015 31 Dec
Company mortgages				
Shares in subsidiaries	370	509	276	276
Closing balance	370	509	276	276

Bank overdraft facilities are available denominated in the currencies SEK, USD and EUR. Interest rate on reporting date was as follows:

Per cent	31 Dec 2016			31 Dec. 2015		
	SEK	USD	EUR	SEK	USD	EUR
Bank overdraft facilities	1.30	3.60	0.60	1.01	2.08	1.35

The fair value of short-term borrowing corresponds to its carrying amount, as the effect of discounting is insignificant. Fair value is determined on discounted cash flow at an interest rate based on the loan rate. Carrying amounts, by currency, for the Group's borrowing are as follows:

	2016 31 Dec	2015 31 Dec
SEK	7	–
EUR	1	–
USD	6	–
Total	14	–

NOTE 14. OPERATING LEASES

The nominal value of future minimum lease payments relating to non-cancellable leases is broken down as follows:

	Group		Parent Company	
	2016 31 Dec	2015 31 Dec	2016 31 Dec	2015 31 Dec
Due within one year	1	1	–	–
Due later than one year but within five years	0	1	–	–
Total	1	2	–	–

NOTES

NOTE 15. FINANCIAL ASSETS

	Group		Parent Company	
	2016, 31 Dec	2015, 31 Dec	2016, 31 Dec	2015, 31 Dec
Participating interests in Group companies	–	–	276	276
Shareholding in Söderhamns Stuveri & Hamn AB (16%) ¹	8	0	–	–
Other long-term receivables	5	2	5	2
Closing residual value according to plan	13	2	281	278

¹ During 2016, a revaluation of the Group's 16% stake in Söderhamns Stuveri & Hamn AB was carried out, resulting in an upward revaluation of SEK 8 million.

Participating interests in Group companies are specified below for the parent company.

Parent company holdings	Corp. ID no.	Reg. office	No. of participating interests	Votes/share of equity %	Book value, parent company	
					2016, 31 Dec	2015, 31 Dec
Rottneros Bruk AB	556014-4502	Sunne	2,100,000	100	89	89
Utansjö Bruk AB	556012-7994	Härnösand	500,000	100	79	79
Vallviks Bruk AB	556445-8163	Söderhamn	415,000	100	101	101
Rottneros Packaging AB	556307-5356	Stockholm	10,000	100	1	1
SIA Rottneros Baltic	319171	Latvia	100	100	6	6
Total					276	276

Change in the value of financial assets	Parent Company	
	2016, 31 Dec	2015, 31 Dec
Opening cost	821	821
Closing accumulated cost	821	821
Opening impairment losses	-545	-590
Reversal of impairment losses	–	45
Closing accumulated impairment losses	-545	-545
CLOSING BOOK VALUE	276	276

NOTE 16. INVENTORIES

	Group	
	2016 31 Dec	2015 31 Dec
Raw materials and consumables	131	117
Pulp, valued at production cost	138	149
Pulp, valued at net realisable value	9	1
INVENTORIES	278	267

NOTE 17. ACCOUNTS RECEIVABLE

Detailed schedule for accounts receivable	Group		Parent Company	
	2016 31 Dec	2015 31 Dec	2016 31 Dec	2015 31 Dec
Accounts receivable, gross	211	194	–	–
Provision for doubtful accounts receivable	-4	-4	–	–
ACCOUNTS RECEIVABLE, NET	207	190	–	–

Changes in the provision for doubtful accounts receivable are as follows:

	Group		Parent Company	
	2016 31 Dec	2015 31 Dec	2016 31 Dec	2015 31 Dec
Opening balance	-4	-4	–	–
Provision for doubtful receivables	–	–	–	–
Receivables written over the year as uncollectable	–	–	–	–
Closing balance	-4	-4	–	–

The book values of accounts receivable are the same as the fair values and correspond to nominal amounts. No receivables have been provided as collateral for liabilities or contingent liabilities.

Accounts receivable amounting to SEK 30 (17) million were due as of 31 December 2016, although there was not deemed to be any impairment requirement. These refer to a number of independent customers that have previously not had any difficulties in meeting their payment obligations. These receivables are also covered by credit insurance, which recovers most of any bad debt losses. The ageing of these accounts receivable is as follows:

	Group		Parent Company	
	2016 31 Dec	2015 31 Dec	2016 31 Dec	2015 31 Dec
Accounts receivable that are not due	177	169	–	–
Less than 3 months from due date	30	16	–	–
3 to 9 months from due date	–	1	–	–
9 to 12 months from due date	–	4	–	–
More than 12 months from due date	–	–	–	–
Total	207	190	–	–

Carrying amounts, by currency, for accounts receivable are as follows:

	Group		Parent Company	
	2016 31 Dec	2015 31 Dec	2016 31 Dec	2015 31 Dec
SEK	31	36	–	–
USD	111	91	–	–
EUR	61	63	–	–
Other currencies	4	–	–	–
Closing balance	207	190	–	–

NOTE 18. OTHER CURRENT RECEIVABLES

	Group		Parent Company	
	2016 31 Dec	2015 31 Dec	2016 31 Dec	2015 31 Dec
Receivables from Group companies	–	–	884	655
Other receivables	41	35	–	–
Prepaid expenses and accrued income	19	14	3	0
Closing balance	60	49	887	655

Detailed schedule for prepaid expenses and accrued income

	Group		Parent Company	
	2016 31 Dec	2015 31 Dec	2016 31 Dec	2015 31 Dec
Pre-paid insurance premiums	5	5	1	0
Accrued income from hedging	–	2	–	0
Prepaid expenses	7	6	–	–
Other accrued income	7	1	2	–
Closing balance	19	14	3	0

NOTE 19. CASH AND CASH EQUIVALENTS

	Group		Parent Company	
	2016 31 Dec	2015 31 Dec	2016 31 Dec	2015 31 Dec
Cash and bank balances	16	169	1	166

Blocked cash and cash equivalents at the Group amounted to SEK 6 (4) million.

NOTE 20. SHAREHOLDERS' EQUITY

Share capital and number of shares

Group and parent company	Number of shares ¹	Share capital
As of 31 December 2016	152,571,925	153
As of 31 December 2015	152,571,925	153

¹ Excluding the parent company's holding of treasury shares.

Average number of shares outstanding, 2016	152,571,925
Average number of shares outstanding, 2015	152,571,925

All shares are of the class 'ordinary shares' and have a quota value of SEK 1 per share. All shares are fully paid up.

The parent company's holding of treasury shares amounts to 821,965 (821,965) ordinary shares, with a total nominal value of SEK 822 thousand.

SHARE-RELATED INCENTIVE PROGRAMMES

There were no share-related incentive programmes for the Group on 31 December 2016 or 31 December 2015.

DIVIDEND FOR FINANCIAL YEAR 2015

The Annual General Meeting on 30 May 2016 approved an ordinary dividend of SEK 0.30 and an extra dividend of SEK 0.20 to shareholders for the 2015 financial year. The total dividend of SEK 76,285,963 was paid on 7 June 2016.

PROPOSED APPROPRIATION OF PROFITS

The Annual General Meeting proposes an ordinary dividend of SEK 0.30 and an extra dividend of SEK 0.10 to shareholders for the 2016 financial year.

At the disposal of the Annual General Meeting:

Retained earnings	340,868,822
Net profit for the year	107,935,603
SEK	448,804,425

The Board of Directors proposes:

To be distributed to shareholders ^{1,2}	61,028,770
To be carried forward	387,775,655
SEK	448,804,425

¹ After adjustment for repurchased shares in treasury.

² Ordinary dividend SEK 0.30 per share and extra dividend SEK 0.10 per share.

The Board has considered the Company's financial position, cash flows and future prospects in its proposed dividend. A detailed account regarding the Board's proposed dividend is available on the Company's website, www.rottneros.com.

NOTES

MANAGEMENT OF CAPITAL RISK

Rottneros' objective in respect of capital structure is to ensure that the Group is able to continue its operation so that it can continue to generate returns for its shareholders while creating benefits for other stakeholders, and to maintain an optimal capital structure as a means of keeping the cost of capital down.

The Group may take on new debt, change the dividend paid to shareholders, repay capital to shareholders, issue new shares or sell assets to reduce its debts in order to maintain or adjust its capital structure.

In the same way as other companies in the industry, the Group assesses its capital on the basis of its debt/equity ratio. This key ratio is defined as interest-bearing net cash/debt divided by shareholders' equity.

The Group's debt/equity ratio amounted to 0 (-16) per cent as of 31 December 2016.

Change in hedging reserve in consolidated equity	2016 31 Dec	2015 31 Dec
Opening balance	-26	-8
Cash flow hedging:		
– changes in fair value cash flow hedges	69	-32
– tax on cash flow hedges	-15	7
– transfers to income statement	-17	9
– tax on transfers to income statement	4	-2
Closing balance	15	-26

NOTE 21. LONG-TERM LOANS

	Group		Parent Company	
	2016 31 Dec	2015 31 Dec	2016 31 Dec	2015 31 Dec
Loans at beginning of year	–	30	–	–
Repayment during the year	–	-30	–	–
Long-term loans at year-end	–	–	–	–

The loan in 2015 was denominated in SEK and interest was charged at 1.4 percentage points plus STIBOR 90 days.

In December 2016 Rottneros signed loan agreements totalling SEK 120 million that will be used for investments in the Group's two mills within the Agenda 500 investment programme. The loans will be repaid within five years and have a variable interest rate based on STIBOR 90 days plus a margin. The loan terms include customary covenants such as net debt in relation to EBITDA of a maximum of 2.5, as well as an equity ratio of at least 50% and certain restrictions on dividend payments over 50% of the previous year's net income. These covenants were met on the balance sheet date. These granted loans had not been used at year-end.

NOTE 22. GRANTED CREDIT FACILITIES

Granted but unutilised credit facilities amount to SEK 90 (90) million for the parent company and SEK 281 (175) million for the Group.

Utilised credit facilities	Group		Parent Company	
	2016 31 Dec	2015 31 Dec	2016 31 Dec	2015 31 Dec
Due within one year	14	–	11	–
Of which:				
Bank overdraft facilities	14	–	11	–
Due within five years	–	–	–	–
TOTAL	14	–	11	–

NOTE 23. OTHER NON-INTEREST-BEARING LIABILITIES

	Group		Parent Company	
	2016 31 Dec	2015 31 Dec	2016 31 Dec	2015 31 Dec
Liabilities to subsidiaries	–	–	112	110
Other liabilities	13	17	0	0
Accrued expenses and deferred income	143	145	4	13
CLOSING BALANCE	156	162	116	123

Detailed schedule for accrued expenses and deferred income

	Group		Parent Company	
	2016 31 Dec	2015 31 Dec	2016 31 Dec	2015 31 Dec
Holiday pay liability	23	21	2	2
Social security contributions	10	14	0	1
Payroll liability	8	7	–	–
Raw material cost and input goods	44	41	–	–
Other non-invoiced goods and services	2	24	1	1
Other accrued expenses	40	24	1	7
Other deferred income	16	14	0	2
CLOSING BALANCE	143	145	4	13

NOTE 24. CONTINGENT LIABILITIES

The parent company and the Group have contingent liabilities relating to guarantees amounting to SEK 5 (3) million.

In 2015-2016 the Board of Directors decided on investments relating to the long-term industrial plan, Agenda 500. Approximately SEK 140 million of these approved investments will be carried out in 2017. The majority of these investments are already procured and contracted.

NOTE 25. EVENTS AFTER THE END OF THE PERIOD AND OTHER DISCLOSURES

In February 2017 the Board of Directors decided to expand the purification plant at Rottneros Mill, within the scope of Agenda 500. The environmental investment of SEK 84 million is planned to be commissioned in 2018.

No other significant events occurred after the end of the financial year that affected the Group's financial position and results of operations.

See the 'Opportunities and Risks' section on pages 39-43 for disclosures about risks faced by the company.

AUDITOR'S REPORT

To the general meeting of the shareholders of Rottneros AB, corporate identity number 556013-5872

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS Opinions

We have audited the annual accounts and consolidated accounts of Rottneros AB (publ) for the year 2016. The annual accounts and consolidated accounts of the company are included on pages 37-72 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Investments in fixed assets

Rottneros fixed assets are recorded at 882 MSEK in the consolidated financial statements as of 31 December 2016. As described in note 12 of the annual report the group's capitalized investments in 2016 amounts to 269 MSEK whereof the majority is related to the investment program Agenda 500. Accounting principles for fixed assets are described in the annual report under the section consolidated accounting principles. The accounting involves several assumptions including judgements regarding capitalization or expensing of expenses, assessment of useful life and date of completion. As investments are associated with these important assumptions and as the investments amounts to significant amounts and thereby have a significant influence on the group's financial reporting we have assessed this as a key audit matter.

We have in our audit evaluated processes for steering and control of investments in relation to approved investment decisions. We have based on randomly selected sample sizes reviewed capitalized amounts against the established criteria's for capitalization versus expensing. We have reviewed finalized and ongoing investments in relation to investment decisions and assessed established periods for useful life and date of completion. We have reviewed disclosures in the annual report.

Valuation of finished goods

As described in note 16 of the annual report the inventory of finished goods is recorded at 147 MSEK in the consolidated financial statements as of 31 December 2016. The inventory is measured at the lower of cost and net realizable value. The accounting of the finished goods at cost is based on production cost less any obsolescence. The valuation at production cost is made by using calculation models where direct and indirect production related costs are allocated to products. An incorrect accounting would affect the valuation of inventory and the recorded cost for goods sold during the year. When establishing if the net realizable value is lower than cost Rottneros needs to assess the price level for which they will be able to sell the inventory for. Based on this we have assessed the valuation of finished goods to be a key audit matter. The company's method for valuing finished goods is described in the annual report under the section consolidated accounting principles.

In our audit we have evaluated if the inventory accounting model used by the company is in accordance with applicable accounting rules. We have furthermore reviewed the company's calculation models and evaluated the plausibility for used prices, consumption rates and assumptions made when allocating indirect production costs. We have also evaluated Rottneros assessment regarding the net realizable value for the finished goods by comparison to current market prices. We have reviewed disclosures in the annual report.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-36 and 74-82. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing

Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibilities for the audit of the annual accounts and the consolidated accounts is located at Revisorsnämnden's (the Supervisory Board of Public Accountants) website at: http://www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description forms part of our auditor's report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Rottneros AB (publ) for the year 2016 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibilities for the audit of the administration is located at Revisorsnämnden's (the Supervisory Board of Public Accountants) website at: http://www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description forms part of our auditor's report.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 44-48 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm 16 March 2017

Ernst & Young AB

Erik Sandström

Authorized Public Accountant

COMPOSITION OF THE BOARD



Thomas Wasberg, Per Skoglund, Ulf Carlsson, Dan Karlsson, Marie S. Arwidson, Per Lundeen, Gun-Marie Nilsson, Rune Ingvarsson, Roger Mattsson, Mika Palmu.

PER LUNDEEN

(1955) M.Sc. (Engineering). Board member/CEO since 2013. Chairman of the Board of Directors since 9 September 2016. Chairman of the Compensation Committee and member of the Audit Committee. President and CEO until 1 September 2016. Chairman of the Board of Arctic Paper S.A., Nilsbyn Invest AB and Strand Packaging AB. Board member of Fiskeby Board AB and Packbridge AB. Shareholding 31 Dec 2016: 250 000 shares. Not independent of the company and its management, and of Arctic Paper S.A.

ROGER MATTSSON

(1973) MBA. Board member since 30 May 2016. Member of the Audit Committee. CFO for Nemos Holding AB. Board member of Arctic Paper S.A. Shareholding 31 Dec 2016: None. Independent of the company and its management, but not independent of Arctic Paper S.A.

GUN-MARIE NILSSON

(1960) Accounting Administrator at Rottneros Bruk AB. Employee representative since 2013. Deputy board member. Shareholding 31 Dec 2016: 35,000 shares.

MARIE S. ARWIDSON

(1951) MBA. Board member since 2015. Chairman of the Board's Audit Committee. Chairman of the Board of andra AP-fonden (Second AP Fund). Member of IVA, the Royal Swedish Academy of Engineering Sciences. Shareholding 31 Dec 2016: None. Independent of both the company and its management and of the company's largest shareholders.

PER SKOGLUND

(1960) M.Sc. (Chemical Engineering). Member of Board since 2014. Member of the Compensation Committee. CEO and member of the management team, Arctic Paper S.A. Shareholding 31 Dec 2016: 10,000 shares. Independent of the company and its management, but not independent of Arctic Paper S.A.

MIKA PALMU

(1975) Operations supervisor, Vallviks Bruk AB. Employee representative since 2016. Deputy board member. Chairman of Unionen local 23. Shareholding 31 Dec 2016: None.

ULF CARLSSON

(1950) M.Sc. (Chemical Engineering). Board member since 30 May 2016. Member of the Compensation Committee and the Audit Committee. Vice Chairman of Troedssonstiftelsen and the IVA network 'Nyskaparna'. Shareholding 31 Dec 2016: None. Independent of both the company and its management and of the company's largest shareholders.

DAN KARLSSON

(1967) Operator, Rottneros Bruk AB. Employee representative since 2016. Board Member. Chairman of Pappers local 89. Shareholding 31 Dec 2016: None.

RUNE INGVARSSON

(1943) M.Sc. (Engineering). Member of Board since 2013. Chairman of the Board of Directors until 9 September 2016. Board member of SATOMO Invest AB. Shareholding 31 Dec 2016: 54,900 shares. Independent of both the company and its management and of the company's largest shareholders.

TOMAS WASBERG

(1962) Operator at Vallviks Bruk AB. Employee representative since 2009. Board Member. Shareholding 31 Dec 2016: 485 shares.

AUDITORS

Ernst & Young AB
Auditor in charge: Erik Sandström (1975), Authorised Public Accountant.

SENIOR EXECUTIVES

AS OF 31 DECEMBER 2016



Ragnar Lundberg, Sofia Strandvall, Lennart Eberleh, Magnus Persson, Krister Lindgren, Ida Mörtzell, Ingemar Eliasson, Olle Dahlin.

LENNART EBERLEH

President and CEO since 1 September 2016.
(1969) M.Sc. (Engineering).
Shareholding 31 Dec 2016: 15,000 shares.
Employed since 2016.

RAGNAR LUNDBERG

Technical Director.
(1947) M.Sc. (Engineering).
Shareholding 31 Dec 2016: 16,000 shares.
Employed since 2000.

OLLE DAHLIN

Managing Director
Rottneros Bruk AB.
(1954) M.Sc. (Engineering)
and MBA.
Chair of Board for the Swedish
Biathlon Association.
Shareholding 31 Dec 2016:
125,576 shares.
Employed since 2004.

INGEMAR ELIASSON

Purchasing Director.
(1956) M.Sc. (Forestry).
Deputy board member of VMF
Qbera Economic Association.
Shareholding 31 Dec 2016:
66,300 shares.
Employed since 1987.

KRISTER LINDGREN

Interim CFO.
(1956) MBA.
Shareholding 31 Dec 2016:
None.

CO-OPTED TO GROUP MANAGEMENT TEAM MEETINGS IN 2016:

Ida Mörtzell, HR Director
Magnus Persson, Sales Manager, Vallviks Bruk AB
Sofia Strandvall, Factory Manager, Vallviks Bruk AB

SENIOR EXECUTIVES AS OF 1 FEBRUARY 2017

Lennart Eberleh, President and CEO
Olle Dahlin, MD Rottneros Bruk AB
Ingemar Eliasson, Purchasing Director
Ragnar Lundberg, Technical Director
Ida Mörtzell, HR Director
Monica Pasanen, CFO
Kasper Skuthälla, MD Rottneros Packaging AB



Monica Pasanen



Kasper Skuthälla

THE ROTTNEROS SHARE 2016

The Rottneros share is listed on Nasdaq Stockholm. Rottneros had a market value of approximately SEK 1,235 (1,250) million and its share price was 8.05 (8.15) as of 31 December 2016.

The Rottneros share has been listed on Nasdaq Stockholm since November 1987. Rottneros is included in the Small Cap segment and is classified as a company in the Materials sector. Rottneros had a market value of approximately SEK 1,235 (1,250) million at the end of 2016 and the company had 10,092 (8,938) shareholders. Foreign shareholdings in Rottneros amounted to 59.5 (60.1) per cent of the capital. Rottneros' share price was 8.05 (8.15) as of 31 December 2016.

The Stockholm Stock Exchange, Nasdaq Stockholm, had a positive development of approximately 6 per cent (OMXSPI index) in 2016. The Rottneros share peaked at SEK 8.05 on 30 December, while the lowest price of SEK 5.45 was listed on 22 February. The average price during the year was 6.74 (6.21), an improvement of 9 per cent.

THE SHARE'S TURNOVER

A total of 117 (236) million shares were traded in 2016 at a value of SEK 792 (1,465) million. This represents a turnover velocity for share stock of 77 (154) per cent for the year. Total turnover velocity among companies in the Small Cap segment on the stock exchange in Stockholm was 60 (108) per cent, while the average for the Stockholm Stock Exchange as a whole was 67 (72) per cent. An average of 260 (310) trades in Rottneros shares were executed every day.

SHARE CAPITAL AND HOLDINGS OF TREASURY SHARES

The share capital at the end of the year was SEK 153.4 (153.4) million divided between

153,393,890 (153,393,890) shares. All shares carry equal voting rights and equal rights to the company's capital and profit. Trends in the number of shares are illustrated in a table on the following page.

The company's holding of treasury shares remained the same as the previous year (821,965 shares), corresponding to 0.54 per cent of the number of shares outstanding.

DIVIDENDS

A dividend of SEK 0.30 was paid as an ordinary dividend and SEK 0.20 as an extra dividend for the 2015 financial year. The Board of Directors proposes a dividend of SEK 0.30 per share as an ordinary dividend and SEK 0.10 per share as an extra dividend for the 2016 financial year.

DIVIDEND POLICY

Dividends shall be adapted to Rottneros' performance level, debt/equity ratio, general financial status, future development opportunities and investment needs. Our capacity to pay dividends should be viewed over the entire business cycle rather than for an individual year.

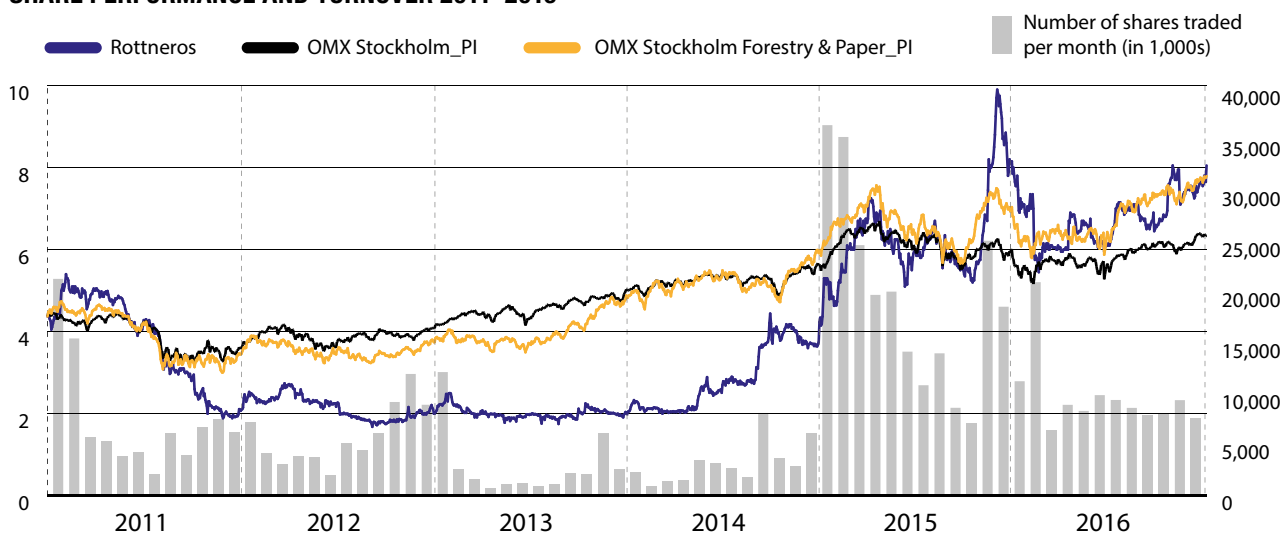
SHARES HELD BY THE BOARD OF DIRECTORS AND SENIOR EXECUTIVES

The own holdings of the Board of Directors and senior executives and those of related parties amounted to a total of 573,261 (610,261) shares in Rottneros AB as of 31 December 2016. No subscription warrants were issued as of 31 December 2016.

INFORMATION FOR SHAREHOLDERS

Rottneros provides information for shareholders and the public through several channels. Information published in the form of annual reports, quarterly reports and press releases is regularly posted on www.rottneros.com. Presentation materials from presentations of quarterly reports for journalists and analysts are also available to download. The home page is the main channel for the Annual Report, for which reason the report is not sent to shareholders unless specifically requested.

SHARE PERFORMANCE AND TURNOVER 2011–2016



Source: SDC Financial Information

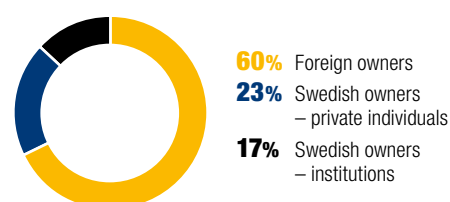
OWNERSHIP STRUCTURE AS OF 31 DEC 2016

Shareholders	Number of shares (= votes)	Per cent of capital
Arctic Paper S.A.	78,230,883	51.0
PROAD AB	7,705,235	5.0
Försäkringsbolaget Avanza Pension	5,065,194	3.3
Nordnet Pensionsförsäkring AB	2,030,322	1.3
Försäkrings AB Skandia	1,542,803	1.0
SSB Client Omnibus AC OM07 (15 PCT)	1,432,211	0.9
Borell, Joakim	1,037,711	0.7
SEB Investment Management	1,029,657	0.7
Andersson, Sten Oskar	867,000	0.6
Handelsbanken fonder	754,695	0.5
Total for 10 largest owners – by size of holding	99,695,711	65.0
Other shareholders	52,876,214	34.5
Rottneros AB (treasury shares)	821,965	0.5
Total	153,393,890	100.0

SHAREHOLDER SPREAD AS OF 31 DEC 2016

Number of shares	Number of shareholders	Per cent of capital
1–500	4,864	0.5
501–1,000	1,395	0.7
1,001–5,000	2,355	3.9
5,001–10,000	691	3.6
10,001–15,000	231	2.0
15,001–20,000	129	1.6
20,001–	427	87.8
Total	10,092	100.0

DISTRIBUTION OF OWNERSHIP BY CATEGORY

SHARE DATA¹

		2016	2015	2014	2013	2012	2011
Shares, opening ²	Number	152,572	152,572	152,572	152,572	152,572	152,572
Shares, closing ²	Number	152,572	152,572	152,572	152,572	152,572	152,572
Average number of shares ²	Number	152,572	152,572	152,572	152,572	152,572	152,572
Holdings of treasury shares ²	Number	822	822	822	822	822	822
Earnings per share	SEK	0.84	1.46	0.87	-1.04	-0.09	-0.95
Cash flow after investments/share ³	SEK	-0.60	1.52	0.29	0.16	-0.07	-0.80
Equity per share	SEK	7.54	6.93	6.39	5.41	6.51	6.65
Dividend per share ⁴							
Ordinary dividend	SEK	0.30	0.30	0.20	–	–	0.10
Extra dividend	SEK	0.10	0.20	0.60	–	–	–
Total	SEK	0.40	0.50	0.80	–	–	0.10
Dividend/equity per share	%	5.3	7.2	12.5	–	–	1.5
Share price at end of period	SEK	8.05	8.15	3.74	1.99	2.00	2.11
Market price/equity/share	times	1.1	1.2	0.6	0.4	0.3	0.3
P/E ratio	times	9.6	5.6	4.3	Neg.	Neg.	Neg.
Dividend yield ⁵	%	5.0	6.1	21.4	–	–	4.7

¹ None of the key ratios are affected by any dilution effect.

² The number of shares is in thousands, excluding Rottneros' treasury shares.

³ Cash flow after normal investments, but excluding strategic investments and sales of fixed assets, divided by the number of shares.

⁴ Proposed dividend for 2016.

⁵ The calculation of dividend yield is based on the share price at year-end.

SIX-YEAR REVIEW

SIX-YEAR REVIEW

GROUP PERFORMANCE IN SUMMARY	2016	2015	2014	2013	2012	2011
INCOME STATEMENT, SEK M						
Net turnover	1,730	1,795	1,547	1,389	1,437	1,513
Profit/loss before depreciation/amortisation and impairment losses	221	321	177	-11	61	4
Depreciation/amortisation and impairment losses	-51	-58	-59	-142	-55	-120
Operating profit/loss	170	263	118	-154	6	-117
Financial items (net financial items)	-7	-4	-4	-4	0	-3
Profit/loss after financial items	163	259	114	-158	6	-120
Tax on profit for the year	-35	-36	19	0	-19	-24
Net income	128	223	133	-158	-13	-144
STATEMENT OF CASH FLOWS, SEK M						
Cash flow from operating activities	187	335	104	62	41	35
Investments in non-current assets	-278	-103	-59	-37	-51	-157
Cash flow after investments	-91	232	45	25	-10	-122
Sale of non-current assets	0	0	39	2	1	9
Cash used in/provided by financing activities	-62	-152	-30	-18	14	-21
Net cash flow	-153	80	54	9	5	-134
BALANCE SHEET ITEMS (SEK M)						
Non-current assets	905	706	691	706	809	841
Inventories	278	267	255	246	240	276
Current receivables	290	244	226	175	219	209
Cash and cash equivalents	16	169	89	35	26	21
Net cash (+) / net debt (-)	2	169	59	-25	-52	-26
Shareholders' equity	1,151	1,058	975	825	993	1,014
Long-term interest-bearing liabilities	-	-	30	0	0	6
Long-term non-interest-bearing liabilities	14	18	9	13	15	11
Current interest-bearing liabilities	14	-	0	60	78	42
Current non-interest-bearing liabilities	310	310	247	264	208	275
Capital employed	1,165	1,058	1,005	884	1,071	1,061
Total shareholders' equity and liabilities	1,489	1,386	1,261	1,161	1,294	1,347
KEY RATIOS						
Operating margin, %	9.8	14.7	7.6	-11.1	0.4	-7.8
Profit margin, %	9.4	14.4	7.3	-11.4	0.4	-8.0
Return on equity, %	11.6	21.9	13.6	Neg.	Neg.	Neg.
Return on capital employed, %	15.2	25.5	12.4	Neg.	0.1	Neg.
Equity/assets ratio, %	77	76	77	71	77	75
Debt/equity ratio, %	0	-16	-6	3	5	3
Interest cover, times	21	53	29	Neg.	2	Neg.
OTHER						
Average no. of employees	282	264	251	256	275	298
Pulp production, 1,000 tonnes	374.1	373.3	345.0	333.4	330.4	324.1
Pulp deliveries, 1,000 tonnes	374.1	372.2	344.2	332.1	331.4	311.4
List price of NBSK pulp, USD per tonne ¹	802	857	925	857	814	960
SEK/USD ²	8.56	8.44	6.86	6.51	6.78	6.50
List price of NBSK pulp, SEK per tonne	6,867	7,228	6,345	5,582	5,519	6,229

¹ PIX price is the source for the NBSK list price. Annual average based on weekly quotations.

² Source: The Riksbank's yearly average.

QUARTERLY DATA, GROUP

	2016				2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Income statement, SEK M												
Net turnover	441	444	413	432	429	455	456	454	370	404	394	380
Profit before depreciation/amortisation and impairment losses	1	61	73	86	18	95	90	118	28	67	45	35
Depreciation/amortisation and impairment losses	-5	-15	-16	-15	-15	-14	-14	-14	-15	-14	-14	-14
Operating profit/loss	-4	46	57	71	3	81	76	104	13	53	31	21
Financial items (net financial items)	-3	-1	-1	-2	-2	-1	-1	-1	0	-1	0	-1
Profit/loss after financial items	-7	45	56	69	1	80	75	103	13	52	31	20
Tax on income for the period	1	-11	-10	-15	0	-18	6	-23	42	-11	-7	-4
Net income	-6	34	46	54	1	62	81	80	55	41	24	16
Per share												
Earnings per share, SEK	-0.04	0.23	0.30	0.35	0.01	0.41	0.53	0.52	0.36	0.26	0.16	0.10
Other												
Pulp production, 1,000 tonnes	87	92	100	95	89	95	96	94	83	89	88	85
Pulp deliveries, 1,000 tonnes	93	96	93	93	91	95	95	91	78	89	90	87
List price of NBSK pulp, SEK per tonne	7,313	6,912	6,541	6,699	6,970	7,173	7,199	7,560	6,916	6,452	6,035	5,919

ALTERNATIVE KEY RATIOS

Alternative ratios are financial measures that are not defined in IFRS and are presented outside the financial statements. Rottneros uses the alternative ratios Cash flow after investments, Net cash/debt, Capital employed, Return on capital employed, Return on equity, Equity/assets ratio, Debt/equity ratio and

Interest coverage ratio. The Company believes that these key ratios are useful for readers of the financial statements as a complement to other key performance indicators to assess the Rottneros Group's financial position and profitability. Rottneros also uses the alternative indicators P/E ratio and Direct

yield, which the Company believes are relevant for investors and other readers. Alternative key ratios can be defined in different ways by other companies and therefore may not be comparable with similar measures used by other companies.

DEFINITIONS OF KEY RATIOS

OPERATING MARGIN

Operating profit/loss as a percentage of net turnover.

PROFIT MARGIN

Profit/loss after financial items as a percentage of net turnover.

EARNINGS PER SHARE

Net income divided by the average number of shares.

SHAREHOLDERS' EQUITY PER SHARE

Shareholders' equity divided by number of shares.

CASH FLOW AFTER INVESTMENTS

Cash flow from operating activities less investments.

NET CASH/DEBT

Cash and cash equivalents less interest-bearing liabilities.

CAPITAL EMPLOYED

Shareholders' equity plus interest-bearing liabilities.

RETURN ON CAPITAL EMPLOYED

Profit/loss after financial items, plus financial expenses, divided by average capital employed for the year.

RETURN ON EQUITY

Net income as a percentage of average shareholders' equity for the year.

EQUITY/ASSETS RATIO

Equity as a percentage of the sum of shareholders' equity and liabilities.

DEBT/EQUITY RATIO

Net debt/cash as a percentage of shareholders' equity.

INTEREST COVERAGE RATIO

Profit/loss after financial items, plus financial expenses, divided by financial expenses.

P/E RATIO

Closing share price at year-end in relation to earnings per share.

DIRECT YIELD

Dividend as a percentage of the closing share price at year-end.

GLOSSARY

AOX

Absorbable organic halogens.

MARKET PULP

Pulp sold on the market and transported to the customer. Market pulp accounts for about one third of pulp production worldwide. The remaining two thirds are produced at integrated paper and board mills, or used internally within a group.

BCTMP

Bleached Chemi-Thermo-Mechanical Pulp: bleached mechanical pulp where the raw material is impregnated with chemicals. Stronger than TMP. The term is common in North America and Asia (see CTMP).

BEK

Bleached Eucalyptus Kraft pulp.

BOD

Biological Oxygen Demand, biological method for measuring oxygen-demanding substances.

BULK

Volume, inverted value for density expressed as cm³/g.

COD

Chemical Oxygen Demand. Chemical method for measuring oxygen-demanding substances.

CTMP

Chemi-Thermo-Mechanical Pulp. Development of TMP, where the mechanical pulp is impregnated with chemicals. Stronger than TMP. The term is used in Europe for both bleached and unbleached pulp.

ECF

Elemental Chlorine Free. Sulphate pulp bleached using chlorine dioxide, instead of chlorine gas.

EPIS

European Pulp Industry Sector.

SCM UB

Timber measured under bark, used to measure raw timber.

HC BLEACHING

High Consistency Bleaching; pulp is bleached at a consistency of 25-30%. Reduces consumption of bleaching chemicals compared with MC bleaching.

HIGH-YIELD PULP

Groundwood pulp, TMP and CTMP/BCTMP.

CHEMICAL PULP

Paper pulp produced by boiling raw timber with chemicals. The pulp can be bleached to a higher brightness and a higher strength than mechanical pulp. Chemical pulp is usually sulphate pulp, but can also be sulphite pulp.

SHORT-FIBRE PULP

Pulp where the raw material is hardwood, which has shorter cellulose fibre than softwood.

LATENCY

The deformed condition of pulp fibre.

LIGNIN

Polymer compound consisting mainly of phenylpropane units; the main binding agent for wood fibre. It comprises about 1/3 of the wood.

LWC

Light Weight Coated. A type of coated paper often used for catalogues and magazines.

LONG-FIBRE PULP

Pulp where the raw material is softwood, which has longer cellulose fibre than hardwood.

MECHANICAL PULP

Pulp produced using a mechanical process for fibre separation and processing. Has a higher level of bulk, stiffness and opacity than chemical pulp. Groundwood pulp, TMP and CTMP/BCTMP are types of mechanical pulp.

MC BLEACHING

Medium Consistency Bleaching, bleaching process where the consistency of the pulp is 10-15%.

NBSK

Northern Bleached Softwood Kraft: bleached long-fibre sulphate pulp. The leading indicator of world market prices.

NORSCAN

Canada, the United States, Sweden and Finland.

NUTRIENT SALTS

These consist of various phosphorus and nitrogen compounds which have a fertilising effect in the recipient.

OPACITY

Degree of opaqueness.

PIX

Price index published by FOEX.

GROUNDWOOD PULP (SGP)

Mechanical pulp based on roundwood as a raw material.

SHIVES CONTENT

Proportion of unseparated fibres found in the pulp.

SULPHATE

Method for producing chemical pulp.

SULPHITE

Like sulphate, but using a different cooking technique, different chemicals and with a different chemical recovery.

TCF

Totally chlorine-free bleached sulphate pulp.

TMP

Thermo-Mechanical Pulp: mechanical pulp produced using a technique in which the chips are preheated with steam, but without chemicals.

UKP

Unbleached Kraft Pulp, unbleached sulphate pulp.

ULWC

Ultra Light Weight Coated. Similar to LWC but with a lower grammage.

GRAMMAGE

Weight of paper per surface unit, expressed as g/m².

ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) will be held on Tuesday, 16 May 2017 at 2:00 p.m. at Kvarnen on Kvarngatan in Söderhamn.

REGISTRATION AND NOTIFICATION

Shareholders who wish to participate in the proceedings of the AGM must:

- be registered as shareholders in the register of shareholders maintained by Euroclear Sweden AB on Wednesday, 10 May 2017, and
- notify the company of their intention to attend the AGM no later than Wednesday, 10 May 2017. The notification can be made via Rottneros' website, www.rottneros.com. Notification may also be made in writing to Rottneros AB, c/o Euroclear Sweden AB, Box 191, SE-101 23 Stockholm, Sweden, or by phone at +46 8 402 90 78. Please include in the notification your name and personal identity number or company name and corporate identity number, as well as address, phone number, and the number of assistants accompanying the shareholder to the AGM.

NOMINEE-REGISTERED SHARES

In addition to notification, shareholders whose shares are registered in the name of a nominee through a bank or other nominee must request to have their shares temporarily re-registered in their own name in the register of shareholders by Wednesday, 10 May 2017, in order to be entitled to attend the AGM. Shareholders should inform their nominee of such request well in advance of this date.

PROXY

Shareholders represented by proxy must issue a power of attorney for their proxy. If the power of attorney is issued by a legal entity, a copy of the registration certificate (or corresponding authorisation documents, if no such registration certificate exists) should be attached. To facilitate registration for the AGM, the power of attorney, in original, and any authorisation documents shall have been received by the company at Euroclear Sweden AB at the above address no later than Wednesday, 10 May 2017. Proxy forms are available on the company's home page, www.rottneros.com.

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