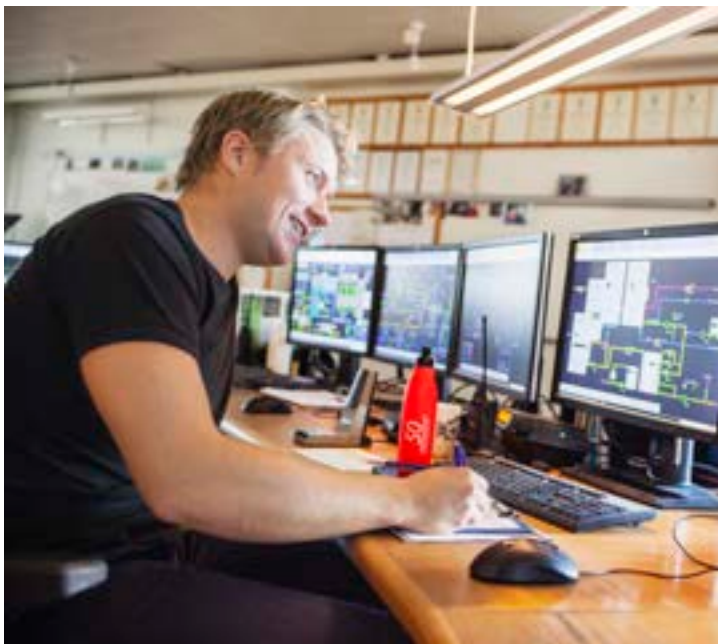


# YOUR PULP COMPANY

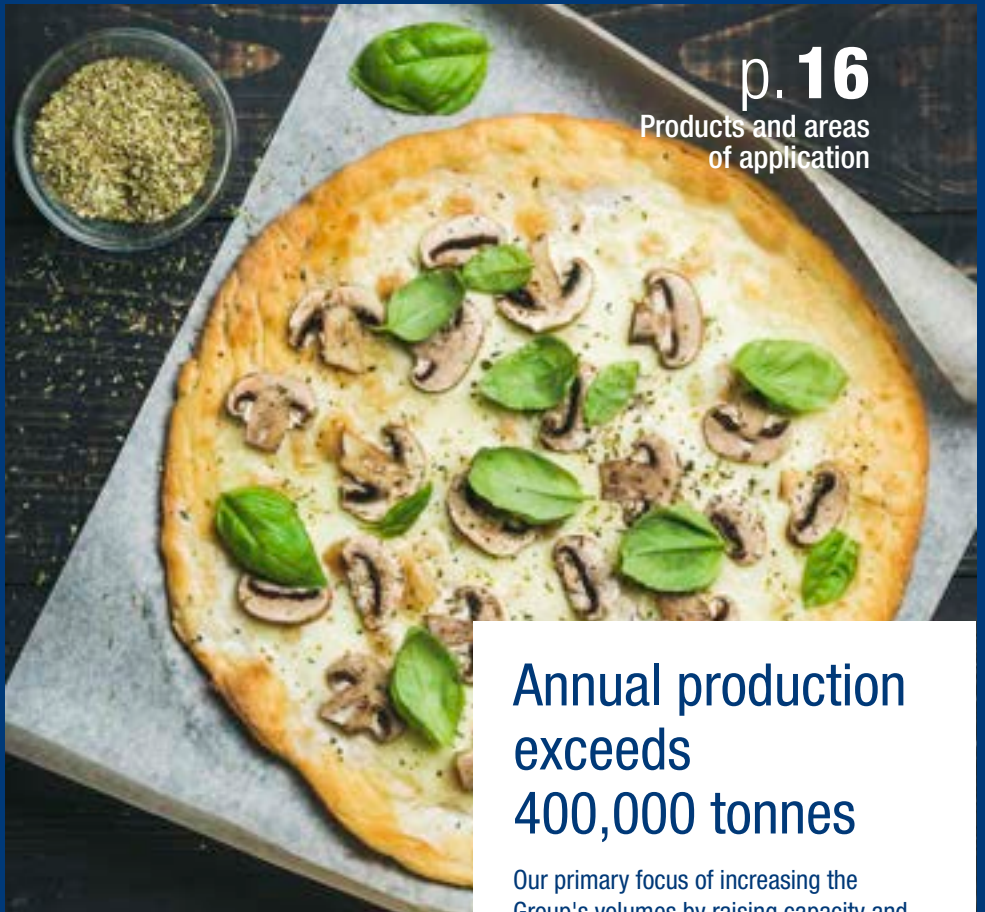




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Strategies



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Comments by the CEO



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Products and areas  
of application



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Environment

## Annual production exceeds 400,000 tonnes

Our primary focus of increasing the Group's volumes by raising 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 implemented 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.

### Goal

#### THE GROUP SHALL 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.

#### ➔ SAFETY FIRST

The safety of our employees is paramount and we emphasise safety in every situation. The objective is to have zero injuries resulting from inadequate safety.

#### ➔ SELECTED NICHE PRODUCTS

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

#### ➔ CUSTOMER FOCUS

We shall work closely with our customers and learn to know their products – to be able to develop the best type of pulp for their specific application.

#### ➔ ROTTNEROS PACKAGING

In 2017, we have continued to develop Rottneros Packaging, where we are developing packaging trays used mainly for food.

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# 2017

## IN BRIEF

### SEK 575m

#### Continued intensive investment programme

**WITHIN THE AGENDA 500 FRAMEWORK**  
Of the investments of SEK 705m approved to date, SEK 575m have now been completed. The remaining SEK 130m will be completed in 2018.

### SUSTAINABLE

#### Practically fossil-free production

**THE ENERGY USED** at both mills is practically fossil-free. Rottneros is contributing to a more sustainable development in society through our use of natural raw materials and recyclable products.

### 20%

#### Continuous increase in production

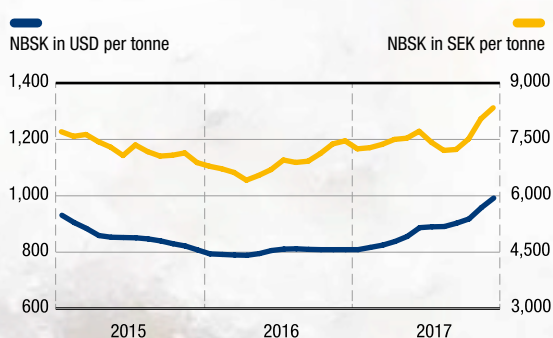
**PULP PRODUCTION** has increased by 20 per cent compared with 2013. Total production in 2017 amounted to 401,200 tonnes.

### 13%

#### Return on capital employed

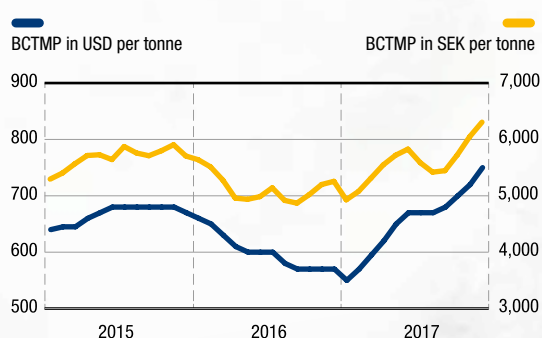
**ROTTNEROS IS WELL** placed in the ranking of comparable pulp producers.

PULP PRICES NBSK IN USD AND SEK

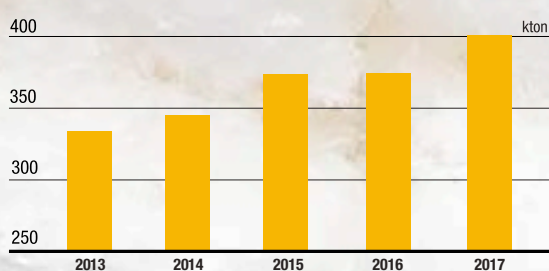


NBSK is used as a proxy for "chemical pulp", BCTMP is used as a proxy for "mechanical pulp". Sources: NBSK (FOEX), BCTMP (RIS), exchange rates (The Riksbank, monthly averages).

PULP PRICES FOR BCTMP IN USD AND SEK



### PRODUCTION



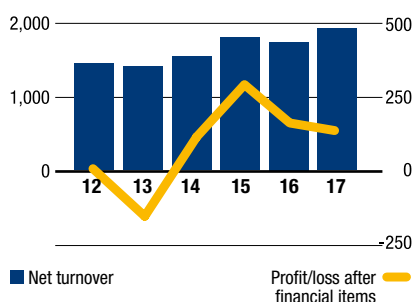
### FINANCIAL RESULTS

SEKm	2017	2016	Change
Net turnover	1,912	1,730	+182
EBITDA	247	221	+26
Operating profit	156	170	-14
Profit after financial items	147	163	-16
Net income	114	128	-14
Earnings per share, SEK	0.75	0.84	-0.09

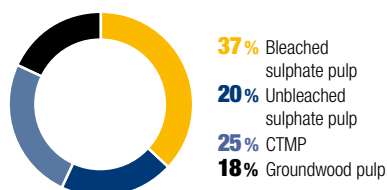
# CUSTOMISED PULP FOR THE OPEN MARKET

**1,912** Turnover, SEKm  
**301** Employees  
**401,200** Pulp production, tonnes

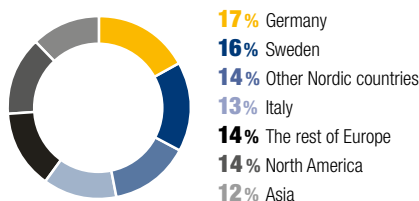
## NET TURNOVER AND RESULTS, SEKm



## THE GROUP'S PRODUCTS, DELIVERY VOLUME DISTRIBUTION



## GEOGRAPHIC DISTRIBUTION OF TURNOVER



## ROTTNEROS IN FIGURES

SEKm	2017	2016	2015	2014	2013	2012
Net turnover	1,912	1,730	1,795	1,547	1,389	1,437
EBITDA	247	221	321	177	-11	61
Profit/loss after financial items	147	163	259	114	-158	6
Investments in non-current assets	237	278	103	59	37	51
Average no. of employees	301	282	264	251	256	275
Production per employee, kilotonne	1.3	1.3	1.4	1.4	1.3	1.2

## RATIO, %

Equity/assets ratio	60	77	76	77	71	77
Return on capital employed	12.9	16.7	29.1	13.4	Neg.	0.6
Return on equity	9.6	11.6	21.9	13.6	Neg.	Neg.
Operating margin	8.2	9.8	14.7	7.6	-11.1	0.4

## SEK PER SHARE

Share price, 31 December	7.15	8.05	8.15	3.74	1.99	2.00
Equity per share	7.91	7.54	6.93	6.39	5.41	6.51
Earnings per share	0.75	0.84	1.46	0.87	-1.04	-0.09
Cash flow after investments/share	-0.10	-0.60	1.52	0.29	0.16	-0.07
Dividend <sup>1</sup>						
Ordinary dividend	0.30	0.30	0.30	0.20	-	-
Extra dividend	0.07	0.10	0.20	0.60	-	-
Total	0.37	0.40	0.50	0.80	-	-

<sup>1</sup>) Proposed dividend for 2017.

## 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). Both are manufactured on the same production line.



Analysis at the operational analysis laboratory.

## MECHANICAL PULP

Rottneros Mill produces the mechanical pulp grades CTMP (Chemi-Thermal-Mechanical Pulp) and groundwood pulp.



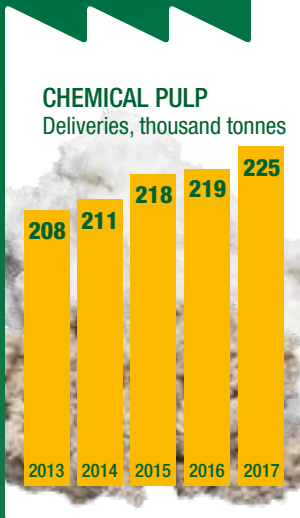
Pulp bale on the baling line.

## PACKAGING

Rottneros Packaging is developing trays primarily intended for food. We are investing in Packaging in order to have a third focus for the Group in the future.



# CHEMICAL PULP

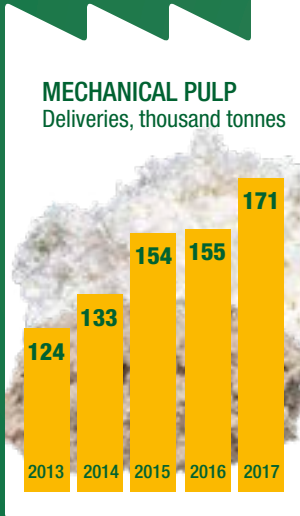


**LONG-FIBRE SULPHATE**

Spruce/pine

Bleached			Production, tonnes	
			2017	+7%
Board	Printing and writing paper	Tissue paper	148,100	
			2016	
Filters	Filters		138,400	
Unbleached			Production, tonnes	
			2017	+2%
Kraft paper	Filters	Electrical insulation material	80,500	
			2016	
			79,100	

# MECHANICAL PULP



**GROUND-WOOD PULP**

Spruce

**CTMP**

Spruce/pine

**CTMP**

Aspen/birch

Bleached/unbleached				Production, tonnes	
				2017	+3%
Board	Printing and writing paper	Tissue paper		71,300	
				2016	
				69,000	
Bleached/unbleached				Production, tonnes	
				2017	+16%
Board	Printing and writing paper	Tissue paper	Filters	101,300	
				2016	
				87,600	
Bleached				Production, tonnes	
Board	Printing and writing paper	Fine paper			

# FIBRE TRAYS



**MECHANICAL PULP**

Product	Development
 Food trays and protective packaging	<p>Validation and development of a completely biobased tray</p> <p>Industrial scale</p> <p>Continued development</p>



# AN EVENTFUL YEAR WITH RECORD PRODUCTION

Rottneros' clear path towards profitable and sustainable growth continues. Our targeted work and strategic investments have resulted in a significant increase in production at both our mills during 2017, while we at the same time have become even more sustainable. Since 2013, annual production has increased by a full 20 per cent and our environmental impact has decreased significantly. The 2017 profit was held back, however, by increased costs. For 2018, we have a clear focus on increased profitability through improvements in efficiency alongside continued volume growth.

## THE YEAR IN BRIEF

2017 was an eventful year and Rottneros passed a number of important milestones. Our strategic alignment towards sustainability is confirmed by the significant progress we have made in reducing our environmental impact whilst increasing production. It is very satisfying to see that the Group's production for the entire year grew seven per cent to over 400,000 tonnes. This is a result of the investments made together with our systematic approach to optimise production and increase availability.

We are now placing significant emphasis on mapping out how we can make operations more efficient in order to further increase profitability. This is taking place in parallel with our continued drive for growth in the selected niches for our products. After several years of major investments to increase capacity, we are on the road to a

new phase of optimising and consolidating what has been achieved to generate the highest possible return for our shareholders.

## SUSTAINABILITY IS KEY

Sustainability and a long-term perspective on our business are key elements of our future strategy. Our products are part of a sustainable ecosystem that originates from the forest. The entire Group continues to develop in a sustainable and responsible manner. A number of important actions were closely linked to this during the course of the year. We invested in, and successfully brought into operation, a new solid fuel boiler that is used to dry the pulp at Rottneros Mill. Instead of running on oil, the new boiler runs on biofuels like bark and wood chips, which means that the mill is now moving towards becoming fossil-free.

In August, we secured the financing of our

planned investments through the issue of a bond loan of SEK 400m. The bond issue created a more optimal balance sheet enabling a higher potential yield on equity. The balance sheet continues to be characterised by limited debt and we are well equipped should the market see a downturn.

Our development area, Rottneros Packaging, started up industrial production and customer deliveries during the year. The development of the manufacturing process and product quality is thus ongoing. We are building a completely new factory in Sunne with a planned production launch around mid 2018. Demand in the sustainable packaging solutions market is robust and we are very optimistic about the long-term development potential of this new segment.

In September, we signed an agreement with RenFuel which means that we will supply lignin from Vallvik Mill. Lignin is

” For 2018, we have a clear focus on increased profitability through improvements in efficiency alongside continued volume growth.

currently a residual product in the manufacturing process. Test deliveries will start in 2018 and will be used for RenFuel’s lignin oil, which in turn can be refined into renewable petrol and diesel. This is definitely an exciting market for the future.

#### AN ATTRACTIVE COMPANY

We are continuing work on both competence and leadership development with the aim of becoming a good role model in this field. Common values and a clear corporate culture are central to being able to deliver added value to our customers and owners. It is therefore satisfying to hear that, in 2017, Rottneros was named one of the top ten best building and manufacturing companies in Powered by People, a distinction in employee relations. We see this as an acknowledgement that we are doing the right things to create an attractive and positive workplace.

#### THE WAY AHEAD

We are now focusing on making operations even more efficient. We are doing this using the same systematic approach that we applied when increasing production. The new organisation we presented during the fourth quarter is part of creating “One Rottneros”, strong and effective, in which we utilise the combined skills of all employees. We have formed a joint Group sales organisation, site managers for the respective mills as well as joint Group functions for finance, HR and safety, purchasing and technology. The aim is primarily to create clear areas of responsibility and in so doing establish the conditions for increased efficiency, knowledge transfer and continued development in the future.

#### CONTINUED STRONG MARKET

The market balance between supply and demand continues to be favorable. The weakening of the USD against the SEK compared with the previous year has been offset by an increasing pulp price in USD. Demand is partly driven by good growth in the global economy. Thus, we have a good base for achieving profitable growth during 2018. This is confirmed by our stable order books and the positive development within our various niches.

During the autumn, the Board decided on further investments at both mills that amount to a total of almost SEK 120m. At Rottneros Mill, investment stage two will be implemented on the CTMP line. The investment will increase capacity by approximately 18,000 tonnes per year from 2019 and is expected to be commissioned in autumn 2018. Through increased capacity, we ensure that Rottneros continues to be a reliable CTMP supplier and an attractive partner for our customers. Vallvik Mill will invest in a weak gas system to meet the requirements relating to the environmental permit for increased production that was secured in 2016. We expect the investment to be implemented at the end of 2018.

#### GREAT INTEREST IN THE ANNUAL GENERAL MEETING

It was great to see so many shareholders attending the Annual General Meeting in Söderhamn. The chance to view our new investments during the tour of the mill in Vallvik definitely contributed to the strong attendance. This year’s annual general meeting will be held in Sunne with a presentation of Rottneros Mill and its new investments. I hope and believe that there will be a good attendance this year as well.

- ➔ Safety first
- ➔ Sustainability continues to create value
- ➔ Packaging continues to develop and builds a new plant
- ➔ We continue to expand the capacity

Holding meetings at our facilities and close to many of our owners is part of increasing communication with owners and investors. During the year, we started holding various investor meetings and presentations of the quarterly report to increase interest in Rottneros, and also to be clear and transparent about our successes and challenges.

I would like to thank all our employees for their wholehearted support during the year. This is vital in the efforts to develop Rottneros. I would also like to thank our customers, owners and suppliers for the inspiring cooperation. To sum up, 2017 was a year of clear successes for Rottneros, both in terms of production and the market. A continued strong market and hard work means that there are good opportunities for taking the Group to the next level in terms of efficiency and profitability.

**Lennart Eberleh**  
President and CEO

# A STRATEGY OF CONSTANT DEVELOPMENT

Our employees' safety is our highest priority – we therefore have a zero target policy regarding personal injury. In order to deliver sustained profitability, the Rottneros Group must offer products and services of the highest quality that will create clear added value. The investments to increase capacity at the mills continued during the year, and we are working continuously to develop our niche strategy through new products and applications for both new and existing customer groups.

## SAFETY

Rottneros' zero target policy regarding personal injury is reflected in all our activities and is part of the Group's endeavours to be a sustainable workplace. We work in a structured and target-oriented manner to avoid workplace accidents. All investment projects have a project team that includes a safety officer to ensure that solutions meet safety requirements. In daily operations, scheduled safety inspections are conducted in the workplaces to ensure that equipment and procedures meet safety requirements. Safety is the first point on the agenda at our production meetings, as well as at all other internal meetings. The safety aspect is always included as an element in internal training programmes.

## SUSTAINABLE AND PROFITABLE GROWTH

To continue developing sustainability within Rottneros is a key aim. Our wood-based products are part of a natural and sustainable ecosystem, which has its beginnings in the forest. Sustainability, however, is more than just having a natural raw material and recyclable products. It implies

that the entire Group must be built up in a sustainable and responsible manner; the investments made need to result in both financial and environmental benefits.

The Rottneros Group shall demonstrate sustained profitability over a business cycle. In order to do so, the Group must generate profitable growth. This will be achieved by:

➔ **Focusing on selected niches** where Rottneros is one of the market leaders and has competitive advantages. The Company is continuously working on developing pulp to meet the needs of new segments, and is currently focused on expansion primarily within the following areas:

- Electrotechnical applications, where customers require pulp that must meet extremely high specifications regarding purity. Robur Flash E-grade is one of the leading products in this market.
- Filters for the food and automotive industries, where the porosity properties (permeability) of our filtering pulp are very important for the quality of the end product.

- Board and packaging, where bending stiffness, tensile strength and bulk are of particular importance.
- Tissue paper products, where our pulps contribute to absorption and strength.
- Thin printing paper, where our pulps improve printability and opacity of the paper.

In addition to more traditional applications, we have started to develop new segments:

- Fibre-formed packaging trays, which are based entirely on sustainable raw materials, for e.g. the food industry.
- Extraction of lignin from the chemical pulp manufacturing process. Lignin can be processed into a fossil-free oil, which in turn can be refined into renewable petrol and diesel.

➔ **Increased production volume.** We are planning for continued capacity expansion through capacity-enhancing investments and eliminating bottlenecks at the mills.

➔ **Increased productivity.** Rottneros' goal is to increase long-term productivity through continuous process development, combined with well planned and effective preventive maintenance work.

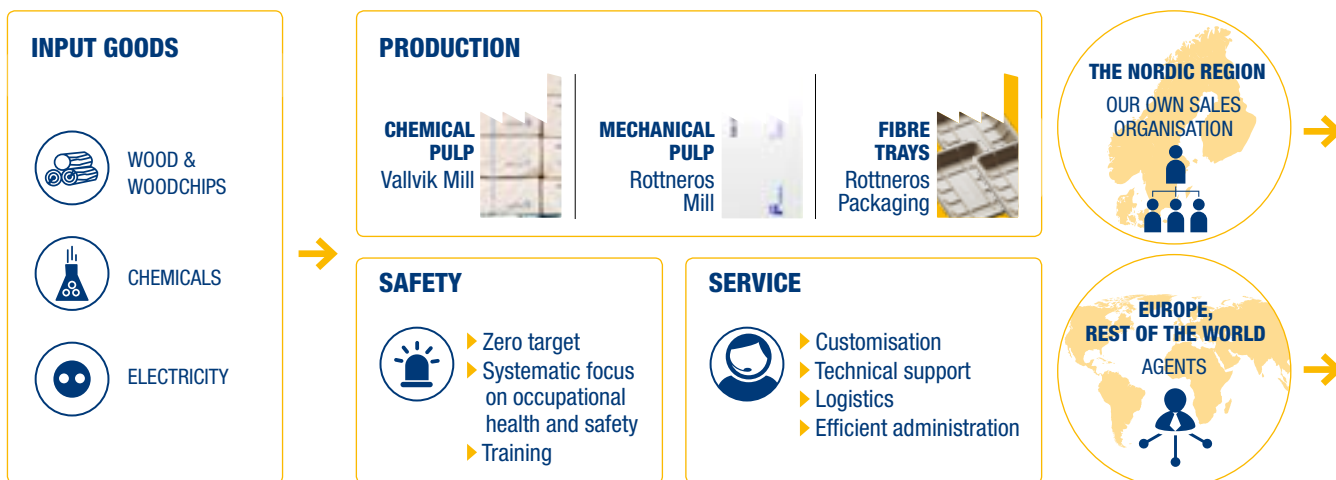
## CUSTOMER FOCUS

We are increasing our customer focus by creating a common Group marketing organisation, and drawing on the benefits of the similarity between our pulps.

This common organisation will provide a service with in-depth knowledge of how the Group's products can be used to improve the end customers' products. Such knowledge is acquired through close collaboration with our customers and suppliers.

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 objective is to yield a competitive return for the shareholders in the form of both value development and dividend yield.

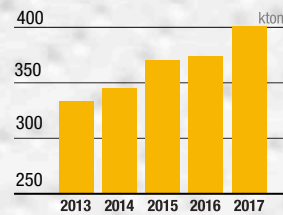
### RETURN

➔ Profitability, measured as return on capital employed, shall exceed the profitability of comparable pulp producing companies.

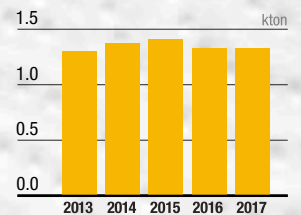
### DIVIDEND POLICY

➔ Dividends shall be in line with Rottneros' profitability level, debt/equity ratio, financial position, future development opportunities and investment needs. Our ability to pay dividends should be viewed over an entire business cycle rather than in an individual year. Dividends may thus be held back in good years to enable paying dividends in years when results are weaker.

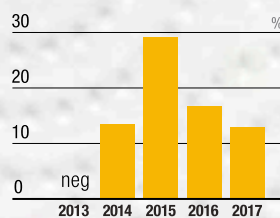
### PRODUCTION



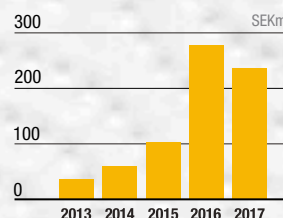
### PRODUCTION PER EMPLOYEE



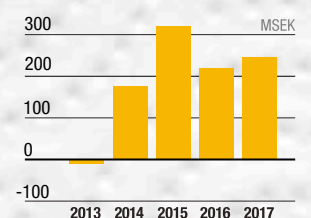
### RETURN ON CAPITAL EMPLOYED



### INVESTMENTS



### EBITDA



**Sustainability is more than just having a natural raw material and recyclable products. It implies that the entire Group must be built in a sustainable and responsible way.**

### 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, 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:

- A high level of safety
- A focus on selected niches
- Increased productivity
- Increased volume
- Being the leader in service



The new washing press in Vallvik Mill was put into operation during autumn 2017.

# AGENDA 500 – ROTTNEROS' ROAD TO PROFITABLE GROWTH

Rottneros manufactures a number of specialised pulp types that are leaders in the market. At the start of 2015, Rottneros' board of directors approved Agenda 500, an investment programme that is primarily targeted at increasing the Company's production capacity and also producing more specialised products for the market.

Agenda 500 is a strategic plan to stabilise profit for the Company and returns to its shareholders on a high sustainable level in the medium to long-term horizon.

**This goal shall be achieved through:**

- A high level of safety
- Increased productivity
- Increased production
- A focus on selected niches
- Customer focus

If the strategy is followed, the increase in capacity will result in Rottneros' pulp mills producing in the order of 460-500,000 tonnes of pulp per year. The project involves a total of SEK 800m at the two pulp mills. Approximately SEK 575m was invested during 2015-2017. Investments continue in

2018, as the financial position remains stable and market conditions continue to be good. The investments that have been completed so far have achieved the established production goals. It should also be noted that the investment for each additional tonne is considerably lower for the Rottneros pulp mills than for other mill investments made internationally. The investments thus make Rottneros more competitive.

During 2017, the Board decided on investments within the Agenda 500 framework totalling approximately SEK 200m. The largest investments (extension of the water treatment plant and a further CTMP capacity increase at Rottneros Mill, as well as a weak gas system at Vallvik Mill) will be implemented in 2018.

**VALLVIK MILL**

Vallvik set a new record in 2017 by producing 228,600 tonnes of pulp, compared with 217,500 tonnes in 2016. The investments that have been completed so far within the Agenda 500 programme have led to the expected rise in production capacity. Coupled with more efficient work methods, this has also led to increased capacity utilisation. We can also conclude that of the ten months with the highest output in Vallvik's history, seven have come during 2017. A new quarterly record was also set during the third quarter, which is a considerable improvement on the previous record. All of these circumstances demonstrate how Agenda 500, together with a more focused work method, has generated the desired increase in production.

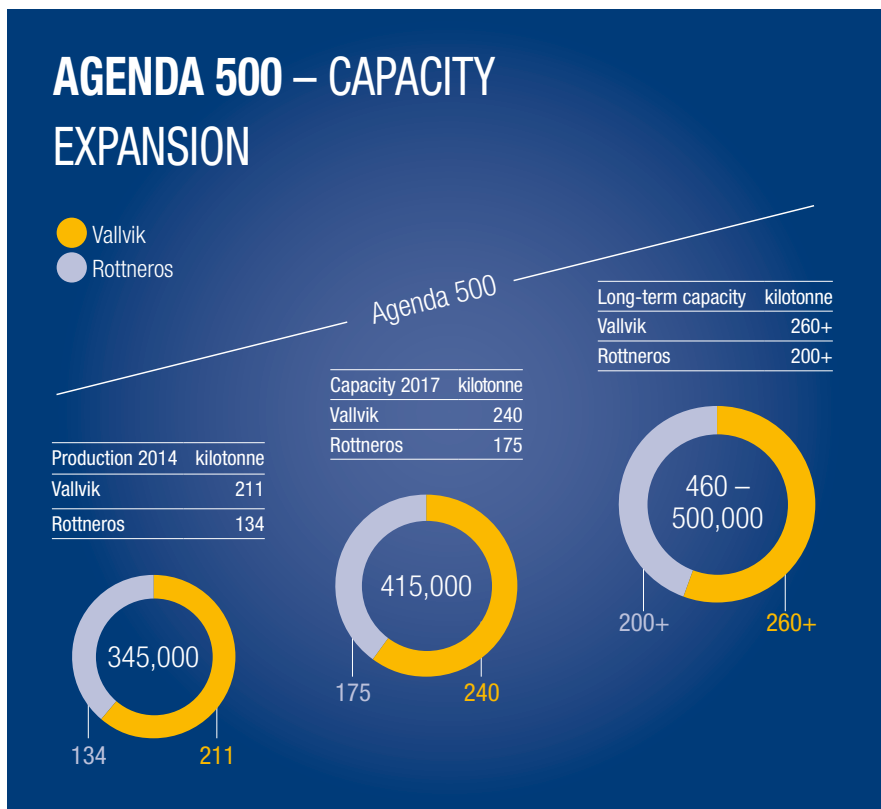
A new washing press was commissioned during the autumn shutdown. It replaces two old washing filters. The new washing press is an essential part of adapting to the expected higher environmental standards. The steam hopper, which is used to perform essential pre-steaming of chips before they enter the digester, has been redesigned to increase retention time and allow more



Rottneros biofuel boiler was put into operation during autumn 2017.



Construction of a biological water treatment plant in Rottneros.



Rottneros Packaging is building a new plant in Sunne for the production of fibre trays.

Investments continue in 2018, as the financial positions remains stable and market conditions continue to be good.

uniform steaming. This investment is key in managing the planned growth in production.

Extensive investigations have been performed during the year to enable investment in a plant intended to recover “weak gases”. These are process gases with a moderate sulphur content that the mill needs to manage in accordance with the environmental ruling. This requirement will enter into force on 1 January 2019. It should be noted that an EU directive on the Best Available Techniques to manage weak gases, will enter into force on 1 October 2018. The directive is mandatory for all pulp mills, which then need to meet the maximum value set. Vallvik has a somewhat more demanding requirement than the EU’s maximum level, as this requirement can be, and is, regularly expected of mills by Swedish environmental courts. As Vallvik will bring its weak gas system into service after 1 October 2018, Vallvik has applied for and achieved a permit for later commissioning.

It can also be confirmed that the increased capacity utilisation and higher production are leading to better use of resources, such as reduced electricity consumption per

tonne of pulp, for example. This is one of the reasons for the high quality of Vallvik’s output.

### ROTTNEROS MILL

Rottneros Mill has two production lines. One of the lines produces CTMP (Chemical-Thermo-Mechanical Pulp), which is a high yield pulp where wood chips are lightly impregnated with chemicals and pre-steamed before being ground in disc refiners. The other line turns out groundwood pulp; this is an entirely mechanical process in which logs are pressed against grindstones in order to release the fibres. The pulps are supplied bleached or unbleached depending on the application area.

A new production record was set during 2017. 172,600 tonnes of pulp were produced, which is an increase from 2016 when 156,600 tonnes were manufactured.

101,300 tonnes were manufactured from the CTMP line, which is a sizeable rise of 13,700 tonnes on the previous year, and the result of the completed investments.

During 2016, the Board decided to invest in a biofuel boiler. This was brought into service during the shutdown in September

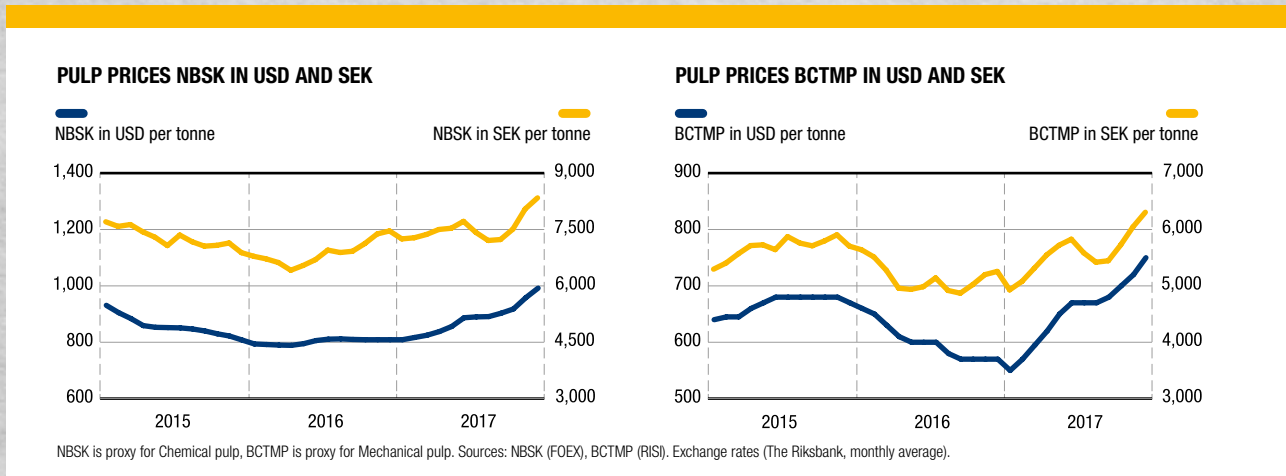
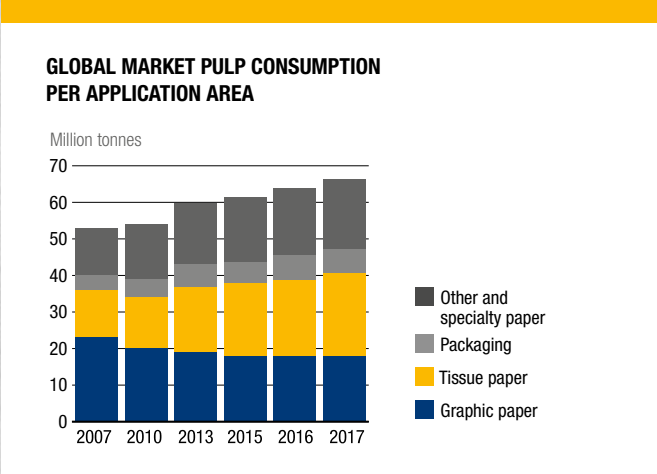
2017. Once the boiler has been calibrated, the mill’s energy consumption will be practically fossil-free, which is a significant improvement compared with previously when only half of the fuel was fossil-free.

The production growth at Rottneros Mill requires the addition of a plant for biological treatment of process water. The Board approved this investment during the course of 2017. The plant will come into service in mid 2018. The process that was chosen, “anaerobic water treatment”, will produce biogas that can be used when drying the pulp.

In late autumn of 2017, the Board decided to make further investments in the CTMP line. Once these have been implemented in autumn 2018, production capacity of the line will increase by 18,000 tonnes per year. As of 2019, the total production capacity in Rottneros Mill will therefore be 193,000 tonnes.

# MARKET FACTS

**Tissue paper is the largest application area with 35% of global consumption.**



# 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 around the world. Europe and the United States, along with some Asian markets, represent the main focus of Rottneros' sales.

## ROTTNEROS AND THE MARKET

Around 175 million tonnes of pulp are produced worldwide every year. Almost two thirds of this volume is manufactured at integrated paper and board mills. The remaining portion (approximately 65 million tonnes per year) comprises market pulp, one third of which is long-fibre pulp made 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 strives to be a market leader in production for niche areas such as pulp for manufacturing various types of filter, as well as E-pulp, where the end product is used for electrical insulation in transformers and

high-voltage marine cables, for example. The Rottneros Group produces extremely pure pulps with specific properties 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 in terms of stiffness and surfaces for printing.

Groundwood pulp from Rottneros Mill represents a competitive alternative within the fine printing paper market segment, especially where there are high requirements for opacity (non-transparent paper), as well as for tissue paper and board.

Total market pulp production of the Rottneros Group amounted to 401,200 tonnes in 2017.

## MARKET REVIEW

### The global market

The state of the global market strengthened further during 2017. The USA and China were the driving forces behind the global upturn in the market, although the rate of growth increased in Europe as well.

ROTTNEROS ON THE MARKET

14%  
North America



74%  
Europe

12%  
Asia

Rottneros deliveries  
2017

395,900 TONNES

THE GROUP'S CUSTOMER SEGMENTS  
PROPORTION OF TOTAL DELIVERIES



- 27% Board and packaging
- 26% Printing and writing paper
- 18% Filters
- 13% Special applications
- 10% Electrotechnical applications
- 6% Tissue paper

66 million tonnes of market pulp were delivered over the year, an increase of approximately 3.5 per cent compared with 2016.

The ongoing changes in structure, with digital media taking market share from printed products, have resulted in continued reduced consumption of pulp for graphic paper during the course of the year. However, the decline in graphic paper has been more than 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 10 per cent).

**Europe**

The Group is dependent on trends in the European market, which accounts for 74 per cent of our sales. The main focus of our sales organisation is consequently on meeting the demands of this market.

At 19 million tonnes, Europe accounts for almost 30 per cent of the global consumption of market pulp. Demand was stable in

2017, with deliveries to the region at the same level as in 2016.

**Asia and the USA**

One fourth of the Rottneros Group's sales are to markets other than Europe. This concerns mechanical pulp sold to Asia and also chemical pulp to north-eastern USA.

More than half of all market pulp in the world, around 35 million tonnes, is consumed in Asia. Deliveries to the region increased by 6 per cent in 2017, with strong growth in volume not only to China, but also to the rest of Asia.

The North American market amounts to nearly 8 million tonnes. Demand increased somewhat over the year in this mature market, which is dominated by hygiene products and special paper. Despite the large domestic production, there is still demand for the special pulp delivered by Rottneros.

**LONG-TERM DRIVERS 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 in Asia, where rapid industrial expansion and improved living standards are being accompanied by increased consumption of pulp.

Global demand for market pulp has risen over the past five years by about 3 per cent annually, though this growth has been unevenly distributed across markets and regions. The mature industrial countries are displaying stagnating or only weakly increasing demand, while consumption in Asian emerging markets continues to pick up strongly. Asia is responsible for 85 per cent of the last five years' global increase in the consumption of market pulp. At just over 23 million tonnes, China is the world's largest purchaser of market pulp and, since 2010, the country has increased its share of the global market from 22 to 34 per cent.

For many years, graphic paper was by far the dominant area of use for market pulp. Ten years ago, almost 45 per cent of the world's market pulp has been used to

MARKET

# EXAMPLES OF APPLICATIONS FOR OUR PULP



Air filters



Inner soles for shoes



Coffee filters



Tissue paper

Labels for jeans



Wallpaper

“ Rottneros is continually developing its grades of pulp and can tailor products to suit the end products of specific customers.

Photo: Borás wallpaper

produce this type of paper. The ongoing structural changes in media have forced the paper industry to implement restructuring measures and adapt production to a lower demand. While graphic paper is still a significant application, its share of world consumption is now estimated to have declined to 27 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 shows promising 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 mature markets and increasing sharply in emerging markets. Tissue paper is primarily made in non-integrated mills and expansion in tissue paper has largely been based on market pulp. Tissue paper is also manufactured from recycled pulp but access to this raw material is decreasing as a consequence of declining consumption and reduced collection of graphic paper. The continued expansion of the tissue paper industry is therefore expected to involve increased use of market pulp, while the share of recovered paper in tissue paper will decrease. In 2007,

tissue paper accounted for 24 per cent of market pulp consumption; in 2017, the proportion had increased to 35 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 developed countries and increase in emerging markets. The Group estimates that board manufacture will increase, primarily in the rapidly developing Asian markets.

For the Rottneros Group, this requires adaptation 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 its 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' operations and needs, both of which make technical sales additionally important.

One important niche area is pulp for manufacturing various 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 to these areas. As regards pulp for electro-technical 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 USA.

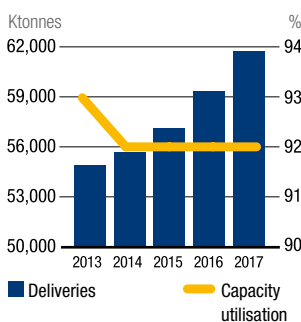
**PRICE TRENDS**

Capacity utilisation of long-fibre pulp remained stable in 2017 at around 94 per cent. The level of utilisation of short-fibre remained at 90 per cent, but with major differences between the various short-fibre qualities. Significant disruptions in the production of short-fibre pulp occurred during the year with a drop in production of more than one million tonnes of pulp. This prevented the expected excess supply and pressure on prices. Instead, soaring prices for all pulp qualities were recorded during the year.

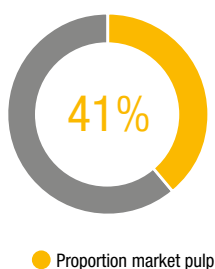
The price of long-fibre pulp, NBSK, increased during 2017 from USD 810 at the start of the year to USD 1,000 by year-end. The price of short-fibre increased by approximately USD 300 to USD 950. Thus, the price gap between long and short-fibre, which has historically stayed at around USD 90 per tonne, contracted during the year from USD 155 to USD 50.

**CHEMICAL PULP**

**GLOBAL DEMAND AND CAPACITY UTILISATION 2013-2017, MARKET PULP**

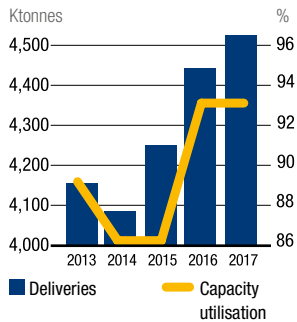


**PULP CAPACITY WORLDWIDE**

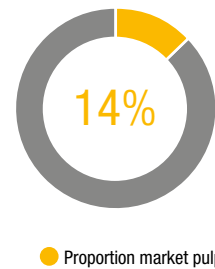


**MECHANICAL PULP**

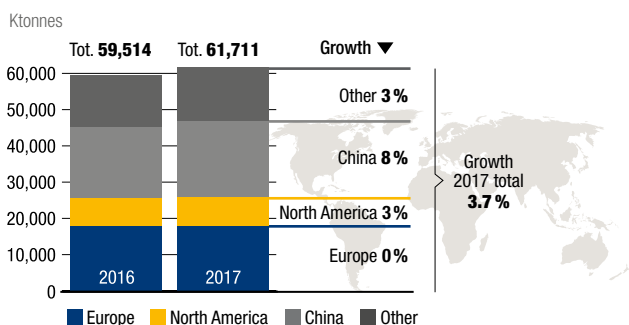
**GLOBAL DEMAND AND CAPACITY UTILISATION 2013-2017, MARKET PULP**



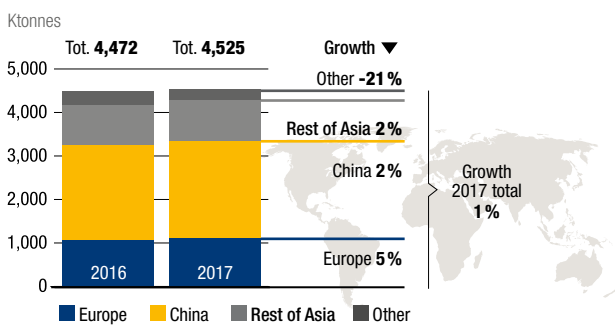
**PULP CAPACITY WORLDWIDE**



**DELIVERIES OF CHEMICAL MARKET PULP, WORLDWIDE**



**DELIVERIES OF MECHANICAL MARKET PULP, WORLDWIDE**



## PRODUCTS AND AREAS OF APPLICATION



**”** Rottneros' technical expertise gives a strong market position in selected niches.

Approximately

**50%**

of Rottneros Mill's production goes to board production.

# ROTTNEROS – A NICHE LEADER

The Rottneros Group is a leading pulp 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, giving it the potential to become a market leader.

In 2017, production amounted to 401,200 tonnes and deliveries to 395,900 tonnes.

Rottneros' overarching goal is to increase the proportion of sales going to end products that show clear market growth. This objective will be achieved by developing both existing and entirely new niches. The Group uses its technical competence 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 as well as electrotechnical applications. Currently, only a limited number of manufacturers are competing in the global market for these types of pulps, thus giving Rottneros a prominent position.

An important part of Rottneros' very broad product range 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 products of specific customers. This development and the high level of service are key components of the Group's strategy to position the two mills to capture a high proportion of the specialised customers.

A further important element of the Group's output is the role of the pulp, and thereby also the fibre products, as a natural and eco-friendly alternative to plastic. The high quality of Rottneros pulps is a major advantage, as they can be used to manufacture products that are used for food and drink.



# From forest to end product

## Value chain

Forest ▶



Wood ▶



Woodchips ▶



Production process ▶

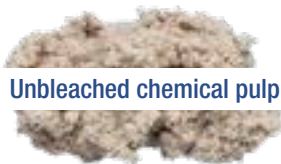


Pulp



## Types of pulp

Unbleached chemical pulp



Bleached chemical pulp



Unbleached mechanical pulp



Bleached mechanical pulp



## End products

Filters



Electrical insulation material



Tissue paper



Board



Printed matter



Board and packaging

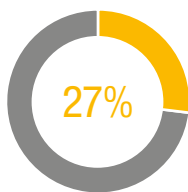
# A SUSTAINABLE CHOICE IN THE FOOD STORE

“ Pulp for board is considered to be a segment with long-term market growth.

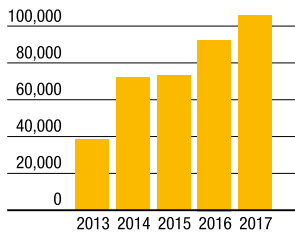


Photo: Alfa

PROPORTION OF ROTTNEROS' TOTAL DELIVERIES



ROTTNEROS' DELIVERIES OF PULP FOR BOARD, TONNES



**Stable packaging optimised to your needs**

Board is a generic name for the thicker grades of paper used in the manufacture of packaging for food or other products. Rottneros' employees have extensive knowledge of the customers' end products and often work closely with the customers' laboratory employees, who are sometimes also on site at the mills, to achieve pulp that is optimised for their particular products.

**A growing niche with many driving forces**

Pulp for board is considered to be a segment with long-term market growth and therefore constitutes one of the areas which Rottneros is focusing on. As global affluence has increased, so has global trade, both on the Internet and in physical shops, implying more goods need to be packaged, both in grocery and electronics shops. In combination with a lack of recycled pulp, this is driving the demand for pulp. The increasing demand for paper packaging in countries such as Sweden has also been driven by an awareness of the question of sustainability and a wish to move away from plastic packaging.

**Our specialists optimise your end products**

A number of the pulp types manufactured at both Rottneros and Vallvik Mills are suitable for producing board. 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. Robur Flash sulphate pulp is also an excellent choice for increasing strength and thereby also convertability. The fact that Robur Flash is both unbleached and very pure makes it particularly suitable for liquid board, for example, milk or juice packaging, as it is both odourless and tasteless.

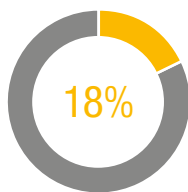


Filters

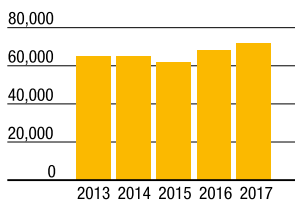
# CLEANER AIR WITH THE RIGHT FILTER

“ Rottneros is a world-leading supplier of cellulose fibres for the automotive industry.

**PROPORTION OF ROTTNEROS' TOTAL DELIVERIES**



**ROTTNEROS' DELIVERIES OF PULP FOR FILTERS, TONNES**



### Long-standing relationships in an important niche

One important niche for Rottneros is pulp for the manufacture of filters. With two mills producing specially developed grades of pulp for filter products, the Group has a comprehensive range of products for manufacturers of both air and liquid filters. With regular and high quality pulp in combination with security in the form of service, technical customer service, stockholding and logistics solutions, the Group has long-standing relationships with its filter customers. In addition, the Group has high credibility through its constant market presence, independent of the prevailing economic conditions.

### Filters for the automotive industry

The Rottneros Group has a number of pulp types that are used to manufacture filters for the automotive industry, both for air and liquids. A combination of properties must be achieved for these different industrial filters. These properties are a pressure drop in the filter (total capacity), filtering efficiency (how much is filtered away at different particle sizes) and filtering capacity (how many particles of dirt can be removed by the filter before the total capacity is too low). The Rottneros Group's different categories of filter pulp provide a full spectrum of the desired properties. This is why the Group is a world-leading supplier of cellulose fibres for the automotive industry.

### A taste experience in every home

Coffee filters are an entirely different type of filter using Rottneros pulp. The benefits of the Group's pulp quality in the manufacture of both automotive filters and coffee filters include its high porosity, strength and cost-effectiveness. In the case of coffee filters, it also enables the highest quality of purity and filtration capacity. All for the sake of a balanced and aromatic taste sensation.

Photo: ©Nexans Norway

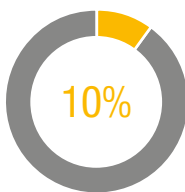
Electrotechnical applications

# INSULATION THAT LASTS ON THE OCEAN FLOOR

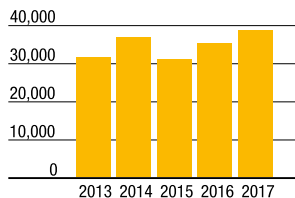


**Rottneros' world-leading E-pulp has unique insulating properties that have been continuously developed for over 20 years.**

**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. Different types of E-pulp are available, with the cleanest pulp type marketed under the name Robur Flash UKP E-grade and used for applications such as insulation in high voltage marine cables. This pulp clearly holds a unique position in its niche.

**Holding electrons in place in extreme environments**

E-pulp has been continuously developed over the last twenty years to achieve today's unique low conductivity. The advanced production process and extensive washing have made it possible to achieve a quality that can be used in the most demanding electrical insulation material. The end products are often used in applications that require a high and uniform quality level, where the E-grade's strength characteristics are also important besides its electrical properties.

**A market with less volatility**

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

Photo: Dunt

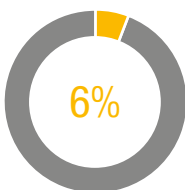
Tissue paper

# ABSORPTION IN DEMAND WORLDWIDE

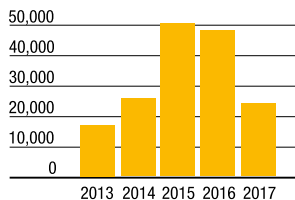
“ Demand continues to increase strongly in line with improved living standards in many emerging markets.



PROPORTION OF ROTTNEROS' TOTAL DELIVERIES



ROTTNEROS' DELIVERIES OF PULP FOR TISSUE PAPER, TONNES



### Paper products making everyday life easier in more and more homes

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. Demand continues to increase strongly in line with improved living standards in many emerging markets. However, during 2017 we have chosen to reduce deliveries to tissue producers in certain markets outside the Nordics. Instead we have increased deliveries to other Nordic customer segments.

### Our specialists help customers tailor their paper

Both Rottneros Mill and Vallvik Mill manufacture grades of pulp that are used for the production of tissue paper. Both groundwood pulp, CTMP (Chemi-Thermo-Mechanical Pulp) and long-fibre sulphate pulp can all be used to manufacture tissue paper. Our technical specialists recommend to customers which types of pulp should be mixed in order to produce the right properties.

### Absorption and a feel that lasts

The requirements for tissue paper are often numerous and stringent. The properties that need to be considered include bulk, absorption, how the paper feels, how well it holds together when wet, appearance and brightness. One of the Group's foremost products in the field is Absorption Express which, as the name suggests, offers superior absorption, as well as high bulk.

**PRODUCTS AND AREAS OF APPLICATION**



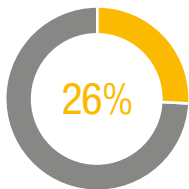
**From standard to exclusive niche products**

In mature industrial countries, the rise of digital media has resulted in the decline of graphic paper, a trend that has impacted many industries. Demand is switching from normal writing paper to more exclusive products, which suits Rottneros fine. The Group's broad product profile creates opportunities to adapt the pulp mix and to offer precisely the properties that the customer wants, allowing us to achieve the position of niche player in a historically large market.

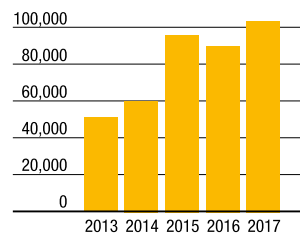
**Purity and opacity for an elegant finish**

Different properties are required depending on whether the product is a magazine, book, gift wrap or gift card. For thin packaging and printing paper, as well as a number of special applications, opacity is important when low light transmission is needed, 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 pulp categories. One type of pulp that is perfect in this area is Opacity Extreme.

**PROPORTION OF ROTTNEROS' TOTAL DELIVERIES**



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



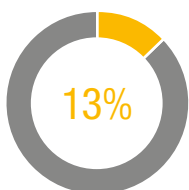
**Tailor-made pulp categories for a variety of products**

The potentials for the use of Rottneros' mechanical and chemical pulp categories are countless. In addition to the product areas mentioned above, the list of applications for our pulp categories includes wallpaper, laminate flooring, greaseproof paper, baking cups and shoe insoles. Many of the products from our special pulp categories can be found in the home.

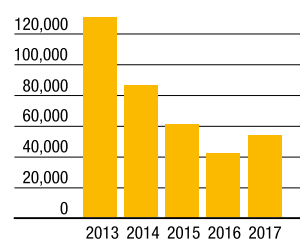
**Eco-friendly materials in the home**

Baking paper and greaseproof paper can be found in the majority of homes, and make food preparation simpler whilst simultaneously improving hygiene. The most important properties are resistance to grease and oil. Our high quality and specially developed Robur Flash pulp is perfect as a strong and reliably grease-resistant paper. Tailor-made pulp mixes have also been shown to be a good base material for the labels of many leading jeans manufacturers. In this case, it is the fibre structure of the sulphate pulp, the long fibres that guarantee excellent strength and absorption, which attracts customers. Another type of pulp that is common in the home is high-yield pulp, which is well suited for use as parts in laminate flooring and wallpaper.

**PROPORTION OF ROTTNEROS' TOTAL DELIVERIES**



**ROTTNEROS' DELIVERIES OF PULP FOR SPECIAL APPLICATIONS, TONNES**



# CHEMICAL PULP

Vallvik Mill produces chemical pulp by boiling woodchips in a special cooking liquor. The 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

The long-fibre chemical sulphate pulp, which is produced at Vallvik Mill and marketed under the name Robur Flash, accounts for 57 per cent of the Group's production. The properties of long-fibre pulp primarily contribute to the strength of different paper qualities. The slowly growing North Scandinavian spruce and pine fibre used by Rottneros are optimal materials in this respect. Vallvik Mill's pulp is flash dried, which gives the fibres an open structure that produce important properties in the pulp when manufacturing absorbent products and filters.

The bleached long-fibre sulphate pulp is generally called NBSK (Northern Bleached Softwood Kraft) and is used in official price indications, for example PIX.

ECF (Elemental Chlorine Free) bleached pulp is used for the production of white or light-coloured paper and board products, writing and printing paper, tissue paper and specialty paper.

The mill also produces unbleached sulphate pulp, UKP (Unbleached Kraft Pulp) in different qualities, one of which is highly washed and thus very clean. The high quality of this pulp (referred to as E-pulp) has made Vallvik Mill the global leading supplier of pulp for use in the manufacture of electrical insulation material such as

transformer boards, condenser paper and primarily electricity cables that are used e.g. under water.

## THE PRODUCTION PROCESS

The sulphate process used is the most common process for the production of chemical pulp and results in a stronger end product than the sulphite process.

The pulp is produced by cooking woodchips in white liquor, a chemical mix that releases the adhesive substance lignin, which holds the fibres together in the wood. After cooking, the materials left are the released fibres and a liquid known as black liquor, which contains cooking chemicals and the released wood material, primarily lignin. The cooking chemicals are reused in the production process, while the wood material is used as fuel to produce the mill's own steam and electricity.

## PRODUCTION

Vallvik Mill has a production capacity with the current product mix of approximately 240,000 tonnes per year. During 2017, output amounted to 228,600 tonnes, which is a new record and an increase of 5 per cent over the previous year.

Due to the advanced cycle of Vallvik's production process, the mill has very limited environmental impact. The washing

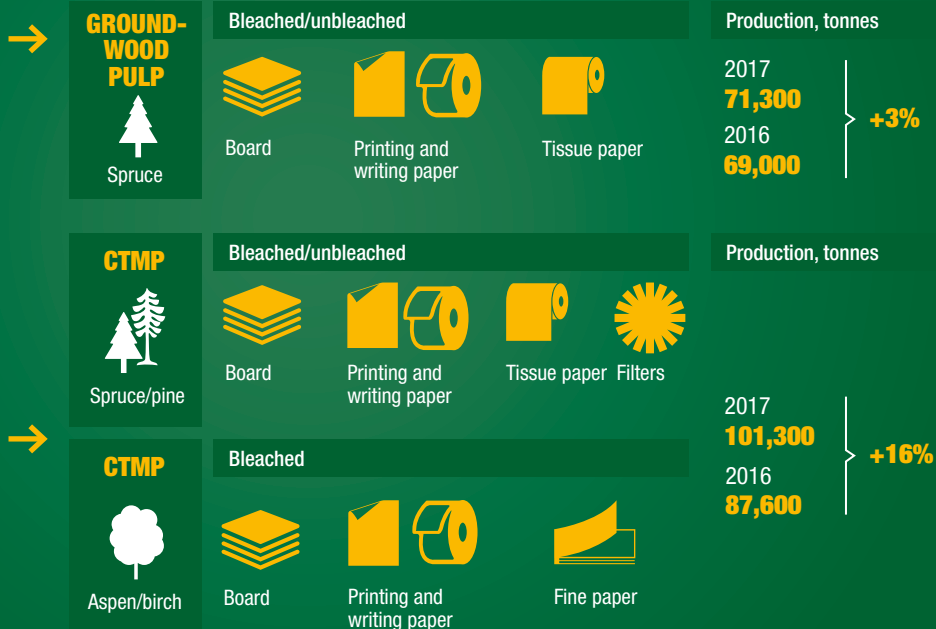
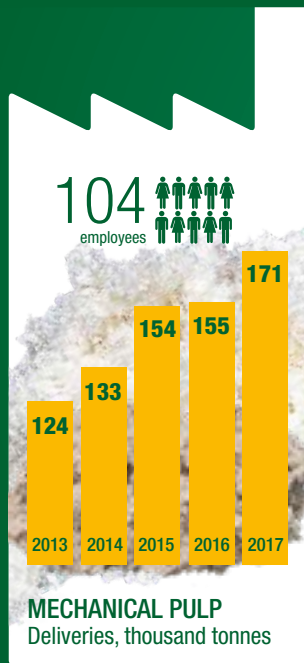
liquid with chemicals from the digester is converted into white liquor during recovery, while the remains of the pulp wood are used as fuel. An impressive 99 per cent of fuel used is fossil-free and 97 per cent of all chemicals are recycled. The liquor that is burned in the recovery boiler produces energy in the form of steam, which is used in different parts of the production process, where it also generates electricity with the aid of a steam turbine. The mill generates all of the steam that is required in the process and is to a great extent self-sufficient with regard to electricity. Exposure to fluctuation in electricity prices is therefore very small.

## INVESTMENTS

A new washing press was installed during the annual shutdown at the start of the fourth quarter, which leads to both higher production capacity and a reduction in emissions to meet the stricter environmental standards to which the mill will be subject in the coming years. In November 2017, the Board decided on investments to meet the strict environmental standards for sulphur emissions that were laid down when the mill obtained a new environmental permit in 2016. The investment is expected to be implemented during the fourth quarter of 2018.

# MECHANICAL PULP

Rottneros Mill produces two types of mechanical pulp, CTMP (Chemi-Thermo-Mechanical Pulp) and groundwood pulp. These pulp categories, of which there are 25 or so product variants with varying properties, account for 43 per cent of the Group's production.



## PRODUCTS

The Group produces two types of mechanical pulp, CTMP (Chemi-Thermo-Mechanical Pulp) and groundwood pulp. These pulp categories, which are manufactured on two separate lines at Rottneros Mill, are available in about 25 different varieties of products with varying properties. Rottneros has the most complete product range in mechanical pulp on the global market, and the product range can often be adapted to customer preferences.

## AREAS OF APPLICATION

CTMP and groundwood pulp are used in many areas, primarily the manufacture of board, printing and writing paper, filters and tissue paper. Mechanical pulp for board is a segment with long-term market growth and is one of the areas in which the mill will be investing in the future.

Three products launched over the last few years, Absorption Express for tissue paper, Bulk Booster for board and Opacity Extreme for thin paper, have generally been very well received on the market.

Absorption Express has a very high absorption capacity, which makes it competitive as an ingredient for tissue paper.

Bulk Booster is a niche product for board and increases thickness so that the stiffness of the board is improved without increasing weight. Alternatively, lighter packaging can be achieved without changing stiffness. With its combination of excellent strength

properties, high cleanliness and superior opacity, Opacity Extreme is highly competitive in the market for thin packaging and printing paper. Rottneros' broad product range in mechanical pulp categories will continue to be supplemented with more niche applications in the future.

## PRODUCTION PROCESSES

Both product categories are characterised by a highly sustainable production process due to a high degree of utilisation of raw materials and low chemicals consumption. CTMP utilises up to 95 per cent of the pulp wood provided and groundwood pulp an impressive 95 to 98 per cent. However, as production is also energy intensive, Rottneros Mill is exposed to variations in the price of electricity.

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 grinding discs to produce the finished pulp. In contrast, groundwood pulp is produced by processing the wood directly when the logs are pressed against and ground by special stone rollers, or 'grindstones'.

The wood primarily comes from the surrounding area, which has both environmental and cost advantages. It is often collected within a radius of approximately 100 km from Rottneros Mill.

Annual production capacity is currently

about 175,000 tonnes following the most recent investments, which makes the Group one of the largest producers of mechanical market pulp in Europe. In 2017, the mill produced a total of 172,600 tonnes, an increase of just over 10 per cent over the previous year – even this is a new record.

## INVESTMENTS

The new energy and emission-efficient biofuel boiler at Rottneros Mill was put into service as part of the September shutdown. The energy from the boiler is used to dry the paper pulp. The new boiler uses bark and chips as fuel, and replaces an old oil-based equivalent. After commissioning and calibrating the boiler, the mill's energy consumption is essentially fossil-free.

In February 2017, the Board decided to invest in an extended water treatment plant at the mill. The investment amounts to SEK 84m. It involves a new anaerobic treatment stage for waste water, in which biogas will be produced. The biogas will be used to heat air for the mill's pulp driers. The water treatment stage is expected to be ready for introduction in summer 2018. As a next stage in capacity development, the Board decided in November 2017 on further investments in the CTMP line. These will increase capacity by approximately 18,000 tonnes per year and are expected to be brought into operation in autumn 2018. The total capacity at Rottneros Mill will therefore be 193,000 tonnes of pulp from 2019.



# ROTTNEROS PACKAGING – NEW DEVELOPMENT AREA



Rottneros Packaging produces trays that are mainly intended for high-quality food packaging. The trays are made of cellulose pulp and are therefore a very eco-friendly packaging option. They are both recyclable and decomposable. In addition to the environmental benefits, the potential for adapting the design and feel of the packaging is much greater than if plastic or board were used. The products can withstand high heat and are ideal as serving dishes or for convenience foods with long shelf life – for both hot and cold dishes.

Rottneros Packaging started industrial production and customer deliveries during 2017. This will enable further development of the manufacturing process and product quality. An entirely new factory will be built in Sunne with planned start of production in mid 2018.

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 fully renewable packaging solution at a competitive price, and thus contribute to more sustainable

development in the packaging industry. The trays that the company currently produces are 90-95 per cent renewable. The goal of PULPACKTION is to be 100 per cent renewable. The biobased packaging solutions present on the market today are often too expensive for commercial use. An important part of the project is thus to find a solution that results in a competitive price. The initiative is one way to meet the increased demand for renewable products, and is an important part of the Group's strategic decision to grow within the field of sustainable packaging.

## ROTTNEROS PACKAGING

Rottneros Packaging is developing trays primarily intended for food. The investment in Packaging is intended to provide a third focus for the Group in the future.

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

# 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 are responsible for almost 40 per cent of the Company's total costs, which is considerably more than the purchase of other consumables such as electricity and chemicals. Traceability certification guarantees control over the origin of the raw materials.

For each tree harvested, two new ones are planted. Stocks of Swedish timber have thus increased constantly over many decades.

## SUPPLY OF PULP WOOD

Availability of raw materials for the Group's business has been relatively good during the year. A wet autumn has, however, had a negative effect on the opportunities for felling and transport. The increase in demand for new lumber sources is consequently affecting the market.

40%

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

Rottneros has its own organisation to acquire raw materials 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 various sawmills. Low stock levels reduce the Rottneros capital tied-up, and at the same time fresh wood means better use of raw materials, including reduced use of bleaching chemicals.

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 any field organisation that buys trees or timber directly from forest owners. The Company primarily sources the wood it uses in production on the local timber market surrounding each of the mills. In relative terms, Rottneros Mill has more suppliers, while Vallvik has fewer but larger suppliers. The largest suppliers are the state-owned Sveaskog and the Mellanskog Forest Owners' Association.

In addition, a certain volume is also imported. The import of a certain quantity of wood provides greater flexibility in pulp wood supply. SIA Rottneros Baltic is a strategic part of 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 are from neighbouring Norway and are considered to be normal border trade. The decline of the forest industry in Norway has led to an increase in deliveries from Norway.

Both of Rottneros' factories together used around 1.5 million cubic metres of pulp wood and chips in 2017, which is the equivalent of 38,000 lorry loads. The goal is to maintain a supply of pulp wood at the mills that is sufficient for 2-3 weeks of production. Some special materials or grades of pulp at Rottneros Mill require a slightly larger stock. Some of the raw materials are exchanged with other industries in order

## CERTIFIED WOOD RAW MATERIALS



Traceability certification guarantees that there is nothing controversial about the origin of the wood used and that this can be traced back in the supply chain.

## SIA ROTTNEROS BALTIC



Rottneros imports some of its pulp wood from Latvia through its own subsidiary, SIA Rottneros Baltic, which represents a strategic part of the Rottneros Group's pulp wood supply. These imports, which are mainly destined for Vallvik Mill, corresponded to approximately 13 per cent of the mill's pulp wood requirements in 2017. SIA Rottneros Baltic is certified for traceability and has control over the origin of the wood.

## SUPPLY OF RAW MATERIALS



### WOOD

- ➔ Purchased as pulp wood or woodchips.
- ➔ Sveaskog and the Mellanskog Forest Owners' Association are the largest suppliers.



### CHEMICALS

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



### ELECTRICITY

- ➔ The Group's electricity consumption: 446 GWh.
- ➔ Vallvik Mill produced 77 per cent of its electricity consumption, which was a total of 178 GWh in 2017.

to reduce transport distances. This leads to both an environmental and financial saving. Seasonal variations, pricing and weather conditions are factors that affect the flow of raw materials. Maintaining a stock level to secure production, while minimising the amount of capital tied-up, requires good communication and long-term good relationships with the suppliers.

The Rottneros Group is traceability certified in accordance with two systems: FSC® (Forest Stewardship Council) and the PEFC™ (Programme for the Endorsement of Forest Certification).

Traceability certification guarantees that there is nothing controversial about the origin of the wood used (e.g. illegal logging or activity from key biotopes, etc.), which can be traced backwards through the supply chain. Demand for certified pulp is increasing and, at the same time, access to certified raw materials has thus far been adequate.

### THE PULP WOOD MARKET

The average cost of Rottneros' wood supplies increased somewhat during 2017, especially towards the end of the year, due to the wet, mild weather as well as a high level of production in the whole forest industry. The total cost increased to SEK 646m (2016: SEK 580m), mainly driven by increased production, corresponding to 37 per cent (2016: 37 per cent) of the Group's expenses. The stock of timber at the end of 2017 was, however, somewhat below the desired level.

The balance of raw materials is primarily affected by the forest owners' interest in logging and selling their timber, the prices of pulp wood and sawn wood, and market structures. Expansions in the forest industry that have been announced in Sweden and Finland are increasing demand for wood. Since woodchips from sawmills represent a significant portion of the wood, trading conditions 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.

### ELECTRICITY

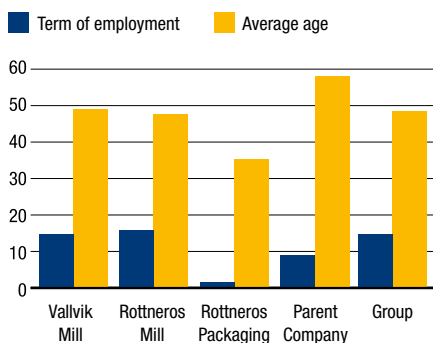
The Group's third largest external input is electricity. All external electricity for the mills is purchased directly via the Nord Pool electricity exchange at a market price. To achieve a stable cost of electricity, the future electricity prices are hedged in advance according to a set strategy. At the end of 2017, Rottneros had hedged the price of 85% of electricity consumption for 2018-2020 and 42% of consumption for 2021.



# SAFETY FIRST AT OUR WORKPLACES

In order for us to be a sustainable and successful business, our employees must experience job satisfaction and personal growth at work. This also requires our workplaces to be safe. Consequently, we are continuing to focus on safety, internal training and external collaboration in our personnel work.

**TERM OF EMPLOYMENT AND AVERAGE AGE, 2017**



**FOCUS ON SAFETY**

The zero target for occupational accidents leading to sick leave is a guiding principle within the Group. Our programme to improve systematic focus on occupational health and safety is ongoing. During 2017, among others, we have also invested in a training programme called “Better working environment”, involving the participation of approximately 50 employees.

Rottneros conducts continuous follow-up and reporting of incidents and accidents. Four accidents occurred at Vallvik Mill in 2017, resulting in a total of 23 sick days. The corresponding figures at Rottneros Mill were three accidents with a total of 103 days of sick leave.

**TRAINING AND COLLABORATION STRENGTHENS FUTURE COMPETENCE**

The Rottneros Group is undergoing a generational change. In order to ensure a high level of competence, Vallvik Mill, together with Hälsinglands Utbildningsförbund (Hälsingland Training Association), has organised a 52-week process operator training programme. Six out of approximately 40 applicants were chosen to start their training in January 2017. Everyone who completed the training has been offered, and accepted, employment at Vallvik Mill.

The training set-up ensures retention of the required competence in a cost-effective way. During 2018, a further group will start their training at Vallvik Mill and equivalent training will begin at Rottneros Mill.

The Rottneros Group is very active in training matters within the industry. We participate in steering groups for vocational university courses, are involved in and arrange technical projects for elementary schools, receive trainees from apprenticeship training courses, and have now started a collaborative project with high schools to train automation technicians. We also have a number of internal training programmes.

**EMPLOYEE SURVEY**

In 2017, Rottneros was named one of the top ten Best Building and Manufacturing Companies in Powered by People, an award for employee relations. The distinction is based on the results of the companies' employee surveys from 2016, which means that it is employee experiences that determine who is awarded this prestigious distinction.

Despite the positive results of the employee survey in 2016, the 2017 survey has shown improvements within the majority of areas and has a higher result than the benchmark, both within the industry and in general.

# Rottneros is training the employees of tomorrow

**Vallvik Mill is undergoing a generational change. A decision has therefore been made to start a one-year process operator training programme together with Hälsinglands Utbildningsförbund. This will provide knowledge and understanding of the requirements to which a facility within the processing industry is subject, as well as what is required to achieve a final product of the appropriate quality.**

The first training programme was launched in January 2017. Two of the participants are Helena Pettersson and Dennis Hoffmann, who both chose to change the direction of their careers.

“I had worked in the food industry for 15 years and felt that I wanted to get involved in something new. I like nature and the environment but actually wasn't very aware of what Rottneros did. But it's a great product and eco-friendly so I thought that it seemed exciting,” explained Helena.

“My background is in graphic design, and over the last few years I have worked broadly within this area at a newspaper company. I wanted to challenge myself and try something new. So when this chance came up, I jumped at it, and am incredibly grateful that they wanted to accept me for the training programme,” said Dennis.

As new to the industry, both Helena and Dennis found that the training programme began with a theory section.

“First we had to read up on the theory so we would have a good foundation before we came to Vallvik. We then visited all areas in the mill before ending up in our own department. This gave us a good overview of the entire process and system.

An understanding that what I do has particular importance for colleagues in other sections of the mill,” said Helena.

“I think the best aspect was the reception and patience I received from Vallvik and my mentor. They knew that I was very new and was coming from a different background so they had to be really patient. Then we studied theory before getting hands-on and following a shift. This meant we had a foundation to work from, which helped both me and my mentor. It has really helped a great deal,” Dennis continues.

Before the end of the training programme, both Dennis and Helena were offered employment within the Rottneros Group.

“It has been an incredible challenge for me. I have got a job at Vallvik Mill and will start as an operator in the mixing department where the white liquor is prepared,” says Dennis.

“This requires a degree of problem solving as an operator, and it has been great fun and challenging to train at Vallvik Mill so I am looking forward to continuing there as an employee,” Helena concludes.

” I think the best aspect was the reception and patience I received from Vallvik and my mentor.

Dennis Hoffmann,  
trainee

” Understanding that what I do here has significance for colleagues in other sections of the mill.

Helena Pettersson,  
trainee

Hanna Virsand from the HR Department together with some of the trainees at Vallvik Mill.



# AN ENVIRONMENTAL FOCUS FROM FOREST TO END PRODUCT



Our wood-based products are part of a natural and sustainable ecosystem originating in the forest. That is why responsibility for the environment is reflected in all activities at Rottneros. We place great emphasis on reducing our environmental impact, while our ambition is to conduct our business in a sustainable manner. The forest is the key to future substitute materials for packaging and construction, etc.

Our business begins in the forest, where we obtain our raw material. Having the pulp wood supply as close as possible to the mills reduces not only our environmental footprint but also our transport costs. Thanks to the timber exchange, we can obtain the majority of our raw materials from within a 100 km radius of the mill. This allows us to reduce our transports and at the same time contribute to local trade and industry.

The main raw material in our mills is wood, which is a natural and renewable input product. In Sweden, two new trees are planted for every tree that is harvested. In general, we are committed to reducing the consumption of input products and

achieving optimum use of our resources. At Rottneros Mill, CTMP and groundwood pulp are produced in two separate lines. Both processes are environmentally-friendly due to their high yield of raw materials, at a rate of 90-95 and 95-98 per cent respectively, and their low chemical consumption.

#### **INCREASED EFFICIENCY AS ROTTNEROS MOVES TOWARDS BECOMING FOSSIL-FREE**

An important part of the production process at Rottneros Mill is the solid fuel boiler that supplies the drying process with heat. During the course of the year, we have therefore installed and placed a new biofuel burner into service, which means that no

## Rottneros' environmental and energy policy

- ➔ All production units within the Group must comply with the environmental requirements laid down in laws and regulations.
- ➔ One environmental target within the Group is to reduce emissions to levels that are financially viable and ecologically justified. The same applies to energy consumption when choosing energy sources. The primary raw material used in production – wood – is a renewable raw material that must come from sustainable sources in accordance with the Rottneros Group's traceability certification.
- ➔ All employees must have the necessary expertise within the environmental and energy sector, be aware of the environmental and energy policy and actively contribute to its implementation.
- ➔ Environmental protection and energy targets are regularly monitored together with the financial reports.
- ➔ An active dialogue is being pursued with stakeholders on the impact of the Group's activities and products on both energy consumption and the environment.
- ➔ One aim of product and process development is to limit the environmental impact and reduce energy consumption both during production and in the use of the Group's products. Product development must also lead to new areas of application that contribute to more sustainable development in society.

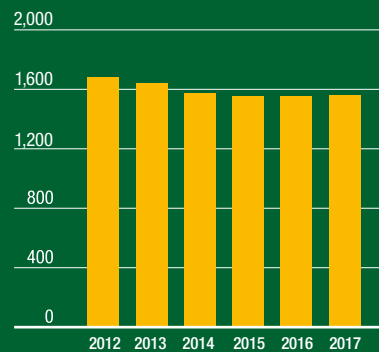
## Environmental facts

**99%**  
of the fuel used at the mills is biofuel.

**97%**  
of all chemicals used in the production process at Vallvik Mill are recycled.

**77%**  
of the electricity at Vallvik Mill is generated at the mill.

**ELECTRICITY CONSUMPTION ROTTNEROS MILL, KWH/TONNE**



fossil oil will be used in future when drying pulp. Instead of oil, the new boiler is fired by bark and fuel chips, which means that the mill is moving towards becoming fossil-free. In the future, we will also use sludge from our own water treatment plant as fuel to further reduce our environmental impact and bring us closer to a closed cycle. The new boiler also increases efficiency whilst at the same time significantly reducing air emissions.

### RECOVERY OF CHEMICALS AND FOSSIL-FREE MILL AT VALLVIK

Vallvik Mill produces chemical pulp where the majority of the chemicals used are

recycled through an integrated recycling 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 generate electricity. The factory's production process means that 99 per cent of the energy used is fossil-free. The remainder consists of the fossil fuel that is required when the plant starts up again following 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 THAT HELP US

Sustainability is an integral part of our business model and an important part of the development of the Group. That is why the investments we have made, and will make, within the framework of Agenda 500, will also reduce our emissions and our environmental impact. We are committed to implementing measures that will both increase production and quality, while meeting the environmental requirements that the authorities have set for the Company. Eco-friendly sustainable production is not only good for nature, it is also gaining far greater significance when customers select a pulp supplier.



In the Vallvik Mill laboratory, controls are performed to make sure the emissions from the production are kept within accepted limits.

# ENVIRONMENTAL EVENTS AT THE MILLS IN 2017

## VALLVIK MILL

In 2016, Vallvik Mill obtained a new environmental permit from the Land and Environmental Court, requiring Vallvik to conduct a number of investigations. Vallvik Mill reported to the court on the requested investigations in 2017. The mill has also requested time for further investigations in order to propose final terms to the Land and Environmental Court. At the same time, during the year, efforts continued to further reduce emissions to air and water. An important part of this is the new washing press, which not only makes the wash more effective but also reduces chemical emissions from the bleaching plant, while the operators can work in a better working environment. At the end of 2017, the Board also approved an investment in a new weak gas system, which will reduce the mill's sulphur emissions and thus also the smell in the area.

” The washing press will increase efficiency and reduce emissions.

## ROTTNEROS MILL

At Rottneros Mill, a new biofuel boiler was installed and put into operation in 2017. Once the boiler has been installed, only a minimal amount of oil will now be used for drying pulp. Instead of oil, the new boiler is fired by bark, fuel chips and, in the future, also sludge from the mill's biological water treatment plant. The biofuel boiler will also lead to significantly lower emissions of carbon dioxide, nitrogen oxide and dust into the air. The next stage for Rottneros Mill is the construction of a new anaerobic water treatment stage, where we will produce biogas and further streamline the drying process. At the same time, we are continuing our efforts in reducing electricity consumption in production.

” The new investment will significantly reduce emissions.



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

	Road	Rail	Sea	Proportion of total transport work, %
<b>2017</b>				
Pulp wood, %	60	1	39	<b>20</b>
Other input goods, %	100	–	–	<b>1</b>
Pulp, %	17	9	74	<b>79</b>
<b>Proportion of total transport work, %</b>	<b>25</b>	<b>8</b>	<b>67</b>	<b>100</b>
<b>2016</b>				
Pulp wood, %	56	4	40	<b>18</b>
Other input goods, %	100	–	–	<b>1</b>
Pulp, %	15	15	70	<b>81</b>
<b>Proportion of total transport work, %</b>	<b>23</b>	<b>13</b>	<b>64</b>	<b>100</b>

The expression "Other input goods" encompasses process chemicals, paper for packing the bales, steel wire, fossil fuels, etc. The distance is counted from supplier to mill.

**ENERGY CONSUMPTION**

	GWh	Rottneros	Vallvik	Total Group
<b>2017</b>				
Biofuels, incl. black liquor		63	1,628	1,691
Fossil fuels		52	13	65
<b>Total energy consumption excl. electricity</b>		<b>115</b>	<b>1,641</b>	<b>1,756</b>
– Proportion of biofuels, %		54.5	99	96
Electricity generated at mills		–	137	137
– of which green electricity		–	136	136
Electricity purchased		268	41	309
<b>Total electricity consumption</b>		<b>268</b>	<b>178</b>	<b>446</b>
– Proportion produced at the mills, %		–	77	31
<b>2016</b>				
Biofuels, incl. black liquor		54	1,573	1,628
Fossil fuels		58	23	80
<b>Total energy consumption excl. electricity</b>		<b>112</b>	<b>1,596</b>	<b>1,708</b>
– Proportion of biofuels, %		49	99	95
Electricity generated at mills		–	125	125
– of which green electricity		–	123	123
Electricity purchased		241	53	294
<b>Total electricity consumption</b>		<b>241</b>	<b>178</b>	<b>419</b>
– Proportion produced at the mills, %		–	70	30

**EMISSION ALLOWANCES FOR CARBON DIOXIDE**

	Allocation/ year 2013–2020	Emissions 2017	Emissions 2016
<b>2017</b>			
Rottneros	19,668*	14,361	15,748
Vallvik	11,355*	3,420	6,276
Total	31,023*	17,781	22,024

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

**EMISSIONS TO WATER AND AIR**

	Rottneros	Vallvik	
<b>2017</b>			
Production, tonnes	172,600	228,600	
S, tonne/year	22	22	
Permit	–	80 tonnes/year	
NOx	31 tonnes/year	368 tonnes/year	
Permit	–	420 tonnes/year	
Suspended substances	208 tonnes/year	1.3 tonnes/day	
Permit	375 tonnes/year	2.5 tonnes/day	
		ECF	UKP
COD	3,842 tonnes/year	12.1 tonnes/day	5.3 tonnes/day
Permit	4,000 tonnes/year	15 tonnes/day	6.5 tonnes/day
BOD7, tonnes/day	3.1	1.5	
Permit	–	–	
AOX, kg/tonne	–	0.08	
Permit	–	0.25	
Phosphorus	0.9 tonnes/year	16.5 kg/day	
Permit	2.2 tonnes/year	25 kg/day	
Nitrogen	28 tonnes/year	80 kg/day	
Permit	42 tonnes/year	175 kg/day	
Chlorate, tonnes per day ECF	–	0.3	
Permit	–	0.6	
<b>2016</b>			
Production, tonnes	156,600	217,500	
S, tonne/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	–	0.6	

**CARBON DIOXIDE EMISSIONS, TONNE/YEAR**

	Rottneros	Vallvik	Total
<b>2017</b>			
Fossil fuels*	14,361	3,477	17,838
Biofuels	35,415	628,886	664,301
Biofuels, %	71	99	97
<b>2016</b>			
Fossil fuels	15,748	6,276	22,024
Biofuels	37,492	603,689	641,181
Biofuels, %	70	99	97

\* Only fossil fuels contribute to the green house effect.



# WE CREATE VALUE FOR OUR SHAREHOLDERS

The most important responsibility of the Board towards the shareholders is to ensure that the company is operating in such a way that the value creation is maximised. At the same time, the sustainability aspect guides all strategic decisions. Rottneros is characterised by a clear strategy of long-term value creation for our shareholders. The company operates in an exciting market, where an ever-increasing focus on sustainable development of the society means significant possibilities for Rottneros and the established strategy to grow profitably in selected niches.

Both Rottneros' and our product offering's profile towards a sustainable development of society are well aligned with the times we live in. The pulp market shows healthy structural growth, creating good long-term growth opportunities for Rottneros. It is obvious that the need to replace fossil-based plastic products with renewable material, that has a minimal environmental impact, will continue to grow for a long time ahead. The consumers' increasing environmental awareness is a driver of the demand for wood fibre-based packaging solutions. Thus, packaging solutions of various kinds will be one of the main drivers for Rottneros' future growth.

The potential is significant, and we as Board members place a great deal of focus on creating long-term values in different ways when we work with strategic issues concerning the company's future direction. The investments we decide on should clearly create value to our shareholders in the form of attractive risk-adjusted returns. In addition, sustainability and environmental considerations are central parameters of our evaluations.

To be able to give a high return on the shareholders' invested capital, an optimal

balance sheet with a balanced debt level is an important part of the equation. And it fits well with the aim of creating a good, sustainable dividend level. In this context, the bond issue finalised in August 2017 is a good fit as it means an increased gearing. At the same time, it is key that the balance sheet continues to be solid, in order to be well-equipped if the business cycle would reverse.

We also attach great importance to creating good, sustainable long-term cash flows as it is crucial for the company's ability to provide returns to the shareholders. It is important that the company's long-term niche strategy is competitive, in spite of the fact that the competitors often are considerably larger.

In conclusion, I would like to express my warmest gratitude to the management and all employees as well as my Board colleagues for an excellent job during the year.

**Per Lundeen**  
Chairman of the Board

## 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 2017.

Rottneros reports for 2017 a year of significant growth in production and net turnover. Profit, however, was being held back by increased costs. Both mills and the Group in its current structure set new annual production records. 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. The Group also develops Rottneros Packaging, producing packaging trays used mainly for food.

## SALES, EARNINGS, INVESTMENTS AND FINANCIAL POSITION

# VOLUME GROWTH CONTINUES

### SUMMARY CONSOLIDATED INCOME STATEMENT

SEK m	2017	2016
Net turnover	1,912	1,730
Operating profit	156	170
Profit after financial items	147	163
<b>Net income</b>	<b>114</b>	<b>128</b>

### DEVIATION ANALYSIS

SEK m	2017	2016
NBSK PIX, USD	882	802
SEK/USD	8.54	8.56
NBSK, SEK	7,530	6,867
<b>Operating profit</b>	<b>156</b>	<b>170</b>
Delivery volume	99	
Price, mix and currency	83	
<b>Total difference in turnover</b>		<b>182</b>
Variable production costs, incl. change in inventories		-58
Employee benefit expenses		-43
Depreciation/amortisation		-40
Maintenance costs		-26
Shipping and commissions		-11
Other fixed costs		-8
Other operating income		-10
<b>Total difference in operating profit</b>		<b>-14</b>

### SALES AND RESULTS

#### Sales

Turnover for the Group amounted to SEK 1,912m for 2017 (2016: SEK 1,730m), an increase of 11 per cent. Production for the year amounted to 401,200 (374,100) tonnes, an increase of 7 per cent. Deliveries for the year amounted to 395,900 (374,100) tonnes, an increase of 6 per cent. Both mills set new volume records for both production and deliveries, as did the Group in its current structure.

The average price of long-fibre sulphate pulp (NBSK) in SEK increased by 10 per cent compared with the previous year. For Rottneros, however, the price increase was lower due to the mechanical pulp taking a larger share of the sales when compared with 2016.

#### Operating profit

The Group's operating profit amounted to SEK 156m (170) for 2017. Higher sales were outweighed by higher expenses and depreciation. Operating profit before depreciation/amortisation increased, however, to SEK 247m (221).

#### Expenses

The cost of raw materials and consumables increased by 10 per cent compared with the previous year, mainly related to the higher production volume and somewhat higher prices of wood and woodchips. Electricity costs, which

are also included in raw materials and consumables, are affected by the price of electricity on the Nord Pool electricity exchange (area SE3), which averaged SEK 0.30 (0.28) per kWh in 2017. Due to the high level of hedging, the higher electricity price only had a marginal effect on profit in comparison with 2016.

Other expenses were 13 per cent higher than in the previous year. Shipping costs were 7 per cent higher in line with the increased deliveries. As part of the Group's industrial plan Agenda 500, the cost of maintenance of production facilities was 22 per cent higher than the previous year. An ongoing focus on personnel also resulted in 20 per cent higher personnel costs than the previous year.

#### Other

The outcome of hedging activities realised in 2017 amounted to SEK 0m (-5). SEK -3m (-4) of the hedging result is linked to currency hedging, SEK 12m (-1) to electricity price hedging, and SEK -9m to pulp price hedging. In 2016, the Group had no realised pulp hedges.

The comparison with 2016 is impacted by certain non-recurring items that were reported in 2016. A partial reversal of a previous impairment loss recognized in 2011 relating to the grinding line in Rottneros Mill impacted the 2016 results positively by SEK 23m. Impairment losses of SEK 9m relating to

## SALES, EARNINGS, INVESTMENTS AND FINANCIAL POSITION

certain property, plant and equipment and intangible assets impacted the 2016 results negatively. In 2016, the Group also carried out a revaluation of its 16% stake in Söderhamns Stuveri & Hamn AB, resulting in an upward revaluation of SEK 8m.

### Profit after financial items

Group profit after financial items amounted to SEK 147m (163) and includes net financial items of SEK -9m (-7).

### Net income

Consolidated net income amounted to SEK 114m (128) and earnings per share were SEK 0.75 (0.84).

The tax expense for the year amounted to SEK 33m (35). Rottneros plans to take advantage of higher tax depreciation, which means that the Group is reporting a deferred tax expense instead of tax paid.

### INVESTMENTS

Group investments in non-current assets amounted to SEK 237m (278) in 2017. In both 2017 and 2016, these investments primarily related to capacity and efficiency increases as well as environmental investments under Agenda 500, the long-term strategic action plan to strengthen and develop Rottneros.

The largest investment taken into operation in 2017 at Rottneros Mill was a new energy and emission-efficient biofuel boiler. The energy from the boiler is used to dry the paper pulp. The new boiler replaces an old oil-fired boiler that was used previously. Following the investment, energy consumption at both mills is fossil-free, for all practical purposes.

The largest investment taken into operation in 2017 at Vallvik Mill was a new washing press, allowing both higher production capacity and a reduction in emissions so as to meet new and higher environmental requirements.

Within the scope of Agenda 500, the Board of Directors decided in 2017 on an expanded water treatment plant at Rottneros Mill. This environmental investment is planned to be commissioned in 2018. Additionally, the Board has in 2017 decided on investment stage 2 on the CTMP line at Rottneros Mill. The

investment is scheduled to come online in autumn 2018 and will increase the capacity of the mill by 18,000 tonnes per year.

The Board has in 2017 also decided to implement a weak gas system at Vallvik Mill in order to fulfil the strict environmental requirements of the mill's new environmental permit. The investment is expected to be operational during the fourth quarter of 2018.

In 2015-2017 the Board of Directors has decided on total investments of approximately SEK 705m relating to Agenda 500, including approximately SEK 575m already carried out in 2015-2017. The remaining investments of around SEK 130m will be carried out in 2018.

In addition to Agenda 500, the Board has in 2017 decided on investments of approximately SEK 120m that will be carried out in 2018. These investments mainly relate to the weak gas system at Vallvik Mill, a new factory for Rottneros Packaging, and normal replacement investments at the mills.

### FINANCIAL POSITION

Non-current assets amounted to SEK 1,078m (905) on 31 December 2017, a 19 per cent increase compared with the previous year. Property, plant and equipment comprise 95 (97) per cent of the Group's non-current assets.

Current assets, excluding cash and cash equivalents, amounted to SEK 603m (568) on 31 December 2017 and comprise 46 (49) per cent inventories and 54 (51) per cent receivables. Current assets increased by 6 per cent compared with the end of the previous year.

Group cash and cash equivalents amounted to SEK 326m (16) at the end of the year.

In order to complete financing of the strategic plan Agenda 500, and to optimise the Group's capital structure in the long term, Rottneros AB issued an unsecured bond of SEK 400m in August with a maturity of 5 years to primarily Nordic institutional investors. The bond bears variable interest of STIBOR 3m + 4.15 per cent and must be repaid in September 2022. The bond has a framework amount

of SEK 600m, which allows for an additional bond issue of SEK 200m. The bond is listed on Nasdaq Stockholm. The bond terms contain standard covenants in the form of net debt to EBITDA of a maximum of 3.5, minimum equity/assets ratio of 50 per cent, and a maximum dividend of 50 per cent of the previous year's net income. These covenants were fulfilled on the balance sheet day.

The Group's net debt at the end of 2017 amounted to SEK 68m, compared to net cash of SEK 2m at the end of 2016. Granted and unused credit facilities amounted to SEK 182m (281) on 31 December 2017.

The equity/assets ratio at year-end was 60 (77) per cent. Equity per share amounted to SEK 7.91 (7.54).

### CASH FLOW

Cash flow from operating activities for 2017 amounted to SEK 222m (187). The strong cash flow from operating activities largely funded the Group's investments during 2017. Cash flow after investments for the year was SEK -15m (-91).

Cash provided by financing activities amounted to SEK 325m (-62). The Group issued a bond of SEK 400m in August and repaid other long-term loans of SEK 80m that were taken out during the first half of the year. Shareholders were paid dividends totalling SEK 61m (76) in the second quarter.

Net cash flow for the year was SEK 310m (-153).

### PARENT COMPANY

The parent company's turnover for 2017 amounted to SEK 6m (6). The parent company's sales comprise revenues from administrative and operational management services. The parent company's loss after financial items amounted to SEK -11m (profit 138) for 2017. This figure includes group contributions received/paid of SEK 28m (166).

### FUTURE TRENDS

The Rottneros Group continues to carry out its strategic action plan, Agenda 500, to strengthen and develop Rottneros. The focus is on selected niches. By elimi-

### SUMMARY CONSOLIDATED BALANCE SHEET

SEK m	2017	2016
Non-current assets	1,078	905
Current assets	603	568
Cash and cash equivalents	326	16
<b>TOTAL ASSETS</b>	<b>2,007</b>	<b>1,489</b>
Shareholders' equity	1,207	1,151
Interest-bearing liabilities	394	14
Non-interest-bearing liabilities	406	324
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>2,007</b>	<b>1,489</b>

### SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS

SEK m	2017	2016
Cash flow from operating activities	222	187
Cash used in investing activities	-237	-278
<b>Cash flow after investments</b>	<b>-15</b>	<b>-91</b>
Change in interest-bearing liabilities	386	14
Dividend paid	-61	-76
<b>NET CASH FLOW FOR THE YEAR</b>	<b>310</b>	<b>-153</b>

nating bottlenecks at the mills, continued capacity expansion is planned over the next few years.

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

In 2018, the Group will focus on increased profitability through improvements in efficiency.

**CHANGES IN MANAGEMENT**

Kasper Skuthälla took over as Managing Director of Rottneros Packaging AB in January 2017. Kasper most recently worked at FreeForm Packaging AB, an associated company to BillerudKorsnäs, where he was the managing director and cofounder of the business. He has more than 10 years of experience in a variety of management positions in both business development and marketing.

Monica Pasanen took over as Chief Financial Officer for the Rottneros Group in January 2017. Monica most recently worked at Stora Enso, where she was Supply Chain Director in the Consumer Board division. She has more than 20 years of experience in a variety of management positions in both finance and marketing.

Michael Berggren was appointed Mill Director at Vallvik Mill in September 2017. Michael most recently worked at Ahlstrom-Munksjö where he was production manager at Aspa Mill. He is a member of Rottneros Group management.

In October 2017, Rottneros reported that Olle Dahlin, MD of Rottneros Bruk AB and member of the Group management, was going to leave his position. A process has been started to recruit a new site manager, in accordance with the new organisation.

As part of optimising the Group, Rottneros announced in November 2017 that a new organisation would be introduced with a joint group sales organisation and site managers for the respective mills. From 1 January 2018, Kasper Skuthälla was appointed the Group's Director of Sales and Business Development, in addition to his role as MD of Rottneros Packaging AB.

**NUMBER OF EMPLOYEES**

The average number of employees was 301 (282) in 2017. The increase is mainly attributable to capacity expansion and skills enhancement.

The average term of employment is about 15 (16) years, and the average age of employees is approximately 48 (49) years.

**SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR**

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

**GUIDELINES FOR REMUNERATION FOR SENIOR EXECUTIVES**

The Annual General Meeting decides on guidelines to determine remuneration for the CEO and other senior executives. The Board's proposed guidelines for the 2018 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 77 of the 2017 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 compatible with the duties of the company in relation to shareholders, employees and other interested parties.

The period of notice is between three months and one year should notice be given by the executive, and between six months 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 two years.

Pension benefits shall be defined contribution plans, and entitle the executive 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. Remu-

neration 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.

**Remuneration 2017**

Pay and remuneration for the company's senior executives in 2017 was compatible with the guidelines determined at the 2017 AGM. Pay and remuneration for the CEO and other senior executives in 2017 can be found in Note 8 of the annual report.

Variable remuneration for 2017 was dependent on the achievement of targets, which are set annually. These targets were 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 business units – the respective business unit, as well as qualitative personal objectives, which means that the variable remuneration was related to the individual's efforts and performance.

Variable remuneration of 2017 for the CEO was capped at 50 per cent of fixed salary. Variable remuneration for other senior executives was capped at 30 per cent of fixed salary.

# 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 the risks 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 risks 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, 2017**

Type of risk	Change	Effect on annual profit after financial items (SEK m)		Sensitivity
		2017	2016	
Pulp prices	USD 50/tonne	110	110	High
USD	SEK 0.50/USD	55	40	High
Electricity prices	SEK 0.10/kWh	30	25	High
Pulp wood prices	SEK 10/m <sup>3</sup>	15	15	Medium
Interest rate risk	1 percentage point	4	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 neither been taken into account.

**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.

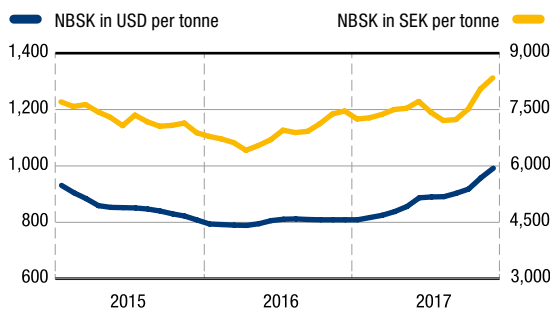
The setting of prices in the pulp market is governed by international price levels that depend on demand and the global economy. Pulp hedging is used when the price levels in long-term contracts are economically advantageous or when the market price is so low that further reductions may threaten the survival of the company. As a main rule, pulp prices are hedged in SEK.

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 2017:**

Before the beginning of year 2017 the Group had entered into pulp price hedges of 24,000 tonnes, with due dates between January 2017 up to and including December 2017 at a price of SEK 7,150 per tonne. The realised result from these pulp price hedges was a loss of SEK 9m in 2017. As of 31 December 2017, the Group had pulp price hedges of 42,000 tonnes, with due dates between January 2018 up to and including December 2018 at an average price of SEK 7,293 per tonne.

**PULP PRICES NBSK IN USD AND SEK**

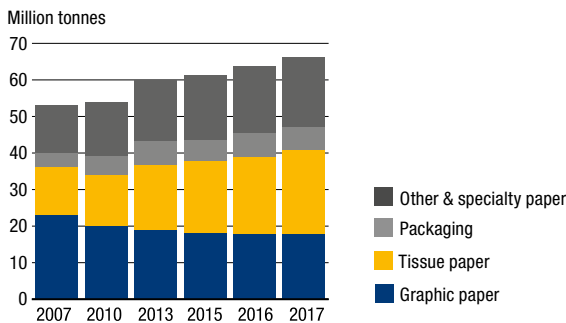


**B STRUCTURAL CHANGE** **PROBABILITY: 5 IMPACT: 2**

Digitalisation, 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 BY APPLICATION AREA**



**C1 ACCESS TO RAW MATERIAL** **PROBABILITY: 2 IMPACT: 4**

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. The largest suppliers are the state-owned Sveaskog and the Mellanskog Forest Owners' Association. Rottneros normally concludes agreements with major pulp wood suppliers for a period of between six and twenty-four months. The Group has its own company in Latvia for supplies of pulp wood and chips in order to increase flexibility. The goal is to maintain a supply of pulp wood at the mills that is sufficient for 2-3 weeks of production.

**COMMENTS ON OUTCOME FOR 2017:**

High levels of production in the whole forest industry as well as expansions in Sweden and Finland have increased the demand for raw material in 2017. Towards the end of the year the wet and mild weather caused disturbances in the flow of raw material in Sweden. Rottneros' stock of timber was below the desired level at the end of 2017.

## OPPORTUNITIES AND RISKS – OPERATIONAL

### 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 m<sup>3</sup> will affect the Group's annual profit by approximately SEK 15m.

#### COMMENTS ON OUTCOME FOR 2017:

The average cost of Rottneros' wood supplies increased somewhat during 2017, especially towards the end of the year, due to the wet, mild weather as well as a high level of production in the whole forest industry. Rottneros raw material cost for the year amounted to SEK 646m (580), equivalent to 34 (34) per cent of net turnover.

#### **D** ELECTRICITY PRICES

PROBABILITY: 3 IMPACT: 3

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 external electricity for the mills is purchased directly via the Nord Pool electricity exchange. Electricity prices are quoted in EUR. A price change of SEK 0.10 per kWh will affect the Group's annual profit by approximately SEK 25m, in the absence of any electricity price hedges. Future electricity prices are hedged in advance in SEK according to a set strategy to protect Rottneros' future electricity costs against major fluctuations and to achieve a predictable electricity price.

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

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



#### COMMENTS ON OUTCOME FOR 2017:

The average price level for electricity on the Nord Pool exchange (area SE3) amounted to SEK 0.30 (0.28) per kWh for 2017. Due to the high level of hedging, the higher electricity price only had a marginal effect on profit in comparison with 2016. The Group's cost of electricity, adjusted for the hedging result, amounted to SEK 88m (92) in 2017.

At the end of 2017, electricity prices were hedged as specified in the table. The table shows the hedged proportion of forecast consumption and the average hedged price in SEK/kWh.

Year	Proportion hedged	SEK/kWh
2018	85%	<b>0.226</b>
2019	85%	<b>0.225</b>
2020	85%	<b>0.218</b>
2021	42%	<b>0.237</b>

#### **E** CUSTOMER STRUCTURE AND CUSTOMER CREDIT

PROBABILITY: 1 IMPACT: 2

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, Sweden, Italy and Norway 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 threshold.

#### COMMENTS ON OUTCOME FOR 2017:

The Group has approximately 150 customers and the maximum credit risk on outstanding accounts receivable amounted to SEK 33m (33) at the end of 2017 (10-15 per cent threshold + any uninsured receivables).

97 (93) per cent of total outstanding accounts receivable were insured on 31 December 2017. Historically, the Group has only incurred small credit losses.

In 2017, the Group's largest customer accounted for 11 (12) per cent of turnover. No other customer accounts for more than 10 per cent of turnover.



RISK AREA	RISK MANAGEMENT
<p><b>F FACILITIES</b></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: <b>3</b>    IMPACT: <b>3</b></p> <p>Management 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 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 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. The book value of Rottneros property, plant and equipment was SEK 1,020m (882) at the end of 2017. The replacement cost is much higher.</p> <p><b>COMMENTS ON OUTCOME FOR 2017:</b> In 2017, maintenance shutdowns were carried out during the third quarter at Rottneros Mill and during the fourth quarter at Vallvik Mill. In the beginning of the second quarter of 2017, Vallvik Mill had an unplanned shutdown due to a leak in the recovery boiler, resulting in a production loss of approximately 4,500 tonnes. Investments under Agenda 500 are progressing according to plan. Insurance is reviewed and procured annually.</p>
<p><b>G POLITICAL DECISIONS</b></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: <b>1</b>    IMPACT: <b>2</b></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 and the rest of Europe. 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><b>H SUSTAINABILITY AND RESPONSIBILITY</b></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 report on pages 43-45.</p>	<p style="text-align: right;">PROBABILITY: <b>3</b>    IMPACT: <b>4</b></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 its 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 sustainability policy describing Rottneros' responsibility regarding shareholders, customers, suppliers, environment, society, personnel and the work environment, human rights and anti-corruption.</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 zero target regarding occupational injuries leading to sick leave.</p> <p><b>COMMENTS ON OUTCOME FOR 2017:</b> Rottneros continues to develop new areas of application for its products that contribute to more sustainable development in society. Rottneros Packaging started industrial production and customer deliveries of recyclable and decomposable fibre trays during 2017. Through the EU innovation project PULPACKTION, Rottneros Packaging is developing a completely bio-based packaging solution at a competitive price.</p> <p>Rottneros has also entered into an agreement with RenFuel on the delivery of the residual product lignin for the production of Lignol®, RenFuel's patented lignin oil that can be refined into renewable petrol and diesel. During 2018, Rottneros will start smaller deliveries of lignin from Vallvik Mill for RenFuel's testing and pilot plant in Bäckhammar, Värmland county.</p> <p>In 2017, seven (nine) accidents occurred that resulted in a total of 126 (62) sick days.</p>
<p><b>I ENVIRONMENT</b></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.</p> <p>See also the environment section on pages 30-33.</p>	<p style="text-align: right;">PROBABILITY: <b>3</b>    IMPACT: <b>4</b></p> <p>Good management of environmental issues represents a fundamental and important issue for the Board of Directors and 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 undertakes 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><b>COMMENTS ON OUTCOME FOR 2017:</b> In 2016, Vallvik Mill was granted a new environmental permit, authorising the mill to produce 255,000 tonnes of sulphate pulp. In 2017, Vallvik Mill reported to the court on the requested investigations. At the same time, the mill has requested time for further investigations in order to propose final terms to the Land and Environmental Court. During 2017, Vallvik Mill has taken into use a new washing press, which not only makes the wash more effective but also reduces chemical emissions from the bleaching plant, while the operators can work in a better working environment. At the end of 2017, the Board also approved an investment in a new weak gas system, which will reduce the mill's sulphur emissions and thus also the smell in the area.</p> <p>At Rottneros Mill, a new biofuel boiler for drying the pulp was put into operation in 2017. Instead of oil, the new boiler is fired by bark, fuel chips and, in the future, also sludge from the mill's biological water treatment plant. The biofuel boiler will also lead to significantly lower emissions of carbon dioxide, nitrogen oxide and dust into the air. The new anaerobic water treatment stage, producing biogas and further streamlining the drying process, is planned to be put into operation in mid-2018.</p> <p>Following the investments in 2017, energy consumption at both mills will for all practical purposes be fossil-free.</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 7.

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.

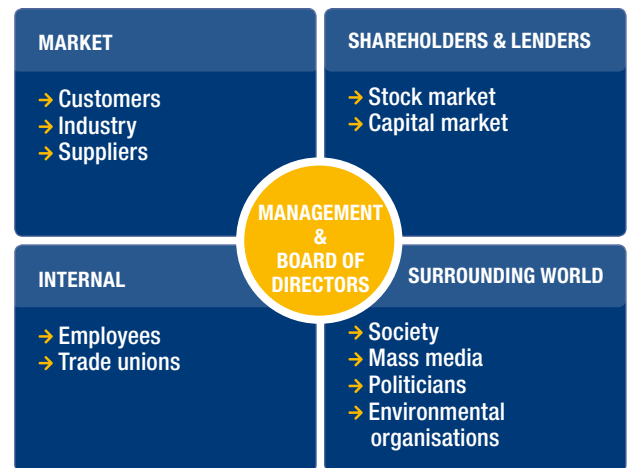
The Board of Directors makes decisions on overall mandates and limits for restricting the Group's financial risk exposures and also makes decisions on all long-term financing.

The Board of Directors approves hedging levels based

on proposals from management. The management continually assesses whether factors such as the USD rate, pulp price or electricity price 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
<p><b>J CURRENCY – BALANCE EXPOSURE</b></p> <p><b>PROBABILITY: 4 IMPACT: 1</b></p> <p>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.</p>	<p>Rottneros' pulp mills and assets are 99 per cent in Sweden and other than the currency risk related to operating transactions, balance exposure is very low.</p>
<p><b>K CURRENCY – TRANSACTION EXPOSURE</b></p> <p><b>PROBABILITY: 4 IMPACT: 4</b></p> <p>Transaction exposure is the risk of exchange rate fluctuations in export revenue and import costs having a negative impact on operating profit.</p>	<p>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. The 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.</p> <p>The Group applies a netting procedure so that all sales and purchases in each currency are netted and the net flow is hedged.</p> <p><b>COMMENTS ON OUTCOME FOR 2017:</b> The underlying exposure to USD is high, while the direct inflow of USD (the real flow) corresponds to approximately 50 per cent and in EUR approximately 35 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 2017 Rottneros held currency hedges of USD 9.8m and EUR 2.0m.</p>
<p><b>L INTEREST RATES</b></p> <p><b>PROBABILITY: 2 IMPACT: 1</b></p> <p>Interest rate risk comprises the exposure of the Group's financial assets and financial liabilities with a variable interest rate.</p>	<p>Between 2009 and 2016, Rottneros had a low level of borrowing. In August 2017, Rottneros issued a bond of SEK 400m. The Group's borrowing is shown in Note 20 on page 72. Interest rate risk relates primarily to the variable interest rate of the bond and the return on cash and cash equivalents.</p> <p><b>COMMENTS ON OUTCOME FOR 2017:</b> The bond of SEK 400m that Rottneros issued in August has a maturity of five years and bears variable interest. A change of one percentage point in the interest rate will affect the Group's annual profit by SEK 4m. Cash and cash equivalents amounted to SEK 326m (16) as of 31 December 2017. Approximately one third of cash and cash equivalents are placed on an interest-yielding savings account.</p>
<p><b>M LIQUIDITY AND REFINANCING</b></p> <p><b>PROBABILITY: 2 IMPACT: 4</b></p> <p>There is a risk that Rottneros may not have sufficient liquidity to pay for running costs, or the Group not being granted credit.</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>The Group shall maintain an optimal capital structure to keep capital costs down while ensuring that it is able to continue its activities.</p> <p>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.</p> <p>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.</p> <p><b>COMMENTS ON OUTCOME FOR 2017:</b> In order to complete financing of the strategic plan Agenda 500, and to optimise the Group's capital structure in the long term, Rottneros AB issued an unsecured bond of SEK 400m in August with a maturity of 5 years to primarily Nordic institutional investors. The bond bears variable interest of STIBOR 3m + 4.15 per cent and must be repaid in September 2022. The bond has a framework amount of SEK 600m, which allows for an additional bond issue of SEK 200m. The bond is listed on Nasdaq Stockholm. The bond terms contain standard covenants in the form of net debt to EBITDA of a maximum of 3.5, minimum equity/assets ratio of 50 per cent, and a maximum dividend of 50 per cent of the previous year's net income. These covenants were fulfilled on the balance sheet day.</p> <p>Granted and unused credit facilities amounted to SEK 182m at the end of the year. The Group's liquidity reserve at the end of 2017 amounted to 27 (16) per cent of turnover, while the target is "at least 10 per cent".</p> <p>The Group's net debt at the end of 2017 amounted to SEK 68m (net cash of SEK 2m at the end of 2016). Debt/equity ratio amounted to 6 (0) per cent at the end of 2017.</p>

# ROTTNEROS TAKES RESPONS- IBILITY 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 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. Rottneros' sustainability report complies with the requirements in the Swedish Annual Accounts Act, and covers all entities in the Group.

## BUSINESS MODEL

Rottneros is an independent, flexible supplier of customised, high-quality market pulp. Rottneros meets the needs of its customers by actively developing its products and providing an attractive service offering. The Group has pulp mills

in Vallvik and Rottneros, a production line for fibre trays in Rottneros, and a wood procurement unit in Latvia. Rottneros has a zero target policy regarding personal injuries, which is reflected in all our activities. The main input goods in production are wood, chemicals and electricity. Wood and chemicals are procured as close to the mills as possible, in order to minimise transports. The products are sold to Nordic customers through the Group's own sales organisation, and to other customers through agents. Transport to customers takes place by sea, rail or road.

Rottneros vision is that the Group shall be perceived as a market leader that is able

## SUSTAINABILITY INFORMATION

	Location of information (page in Annual Report)		Location of information (page in Annual Report)
<b>STRATEGY AND ANALYSIS</b>		<b>GOVERNANCE</b>	
Comments by the CEO and a letter from the Chairman	6-7, 34	Governance structure	46
Opportunities and risks	38-42	Process for delegating authority for sustainability	46-50
<b>THE GROUP'S OPERATIONS</b>		Executives responsible for sustainability issues	77
Full name of the organisation	35	Processes for dialogue between stakeholders and the Board	46-50
Primary brands and products	16-25	Composition of the Board and its committees	47-49
Location of the head office	83	Role of the Chair of the Board	46-50
Countries where the Group operates	43, 70	Nomination and selection process for the Board and its committees	46-50
Nature of ownership and legal form	78-79	Processes for the Board to ensure that conflicts of interest are avoided and managed	46-50
Markets served	4, 12-22, 25, 63	The role of the Board in defining purpose, values and strategy	46-50
Group size	3-5	<b>ETHICS AND INTEGRITY</b>	
Total number of employees	23-24, 28, 65	Values, principles, standards, code of conduct and code of ethics	43-45
Share of employees covered by collective bargaining agreements	45	<i>Economic performance indicators</i>	
Supply chain of the organisation	26-27	Direct economic value generated and distributed	45
Significant changes during the reporting period	43-45	Coverage of the organisation's defined benefit plan obligations	61, 65-67
<b>STAKEHOLDER ENGAGEMENT</b>		<i>Environmental indicators</i>	
Stakeholder groups	43	Direct energy consumption by primary energy source	33
Identification and selection of stakeholders	44	Energy saved due to efficiency improvements	23-27, 30-33
Methods of stakeholder engagement	44-45	Total direct and indirect greenhouse gas emissions by weight	33
Key topics raised through stakeholder engagement and actions taken	44-45	Initiatives to reduce greenhouse gas emissions and reductions achieved	30-33
<b>REPORT PROFILE</b>		Significant environmental impacts due to transport	26-27, 30-31, 33
Reporting period	43	<i>Labour practices and decent work</i>	
Date of most recent previous report	home page	New employment and rate of employee turnover	28
Reporting cycle	43	Number of occupational accidents	28, 45
Contact point for questions regarding the report	83, home page		

# SUSTAINABILITY REPORT

to meet the needs and high expectations of pulp customers.

Rottneros' overall objective is to achieve sustained profitability and yield a good return for the Group's shareholders. Profitable growth will be generated by:

- A high level of safety
- A focus on selected niches
- Increased productivity
- Increased volume
- Being the leader in service

## STAKEHOLDERS

It is important for Rottneros 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.

The Group has a sustainability policy and a code of conduct describing Rottneros' responsibility regarding shareholders, customers, suppliers, environment, society, personnel and the work environment, human rights, fair competition and anti-corruption.

## PRIORITIES

Rottneros' responsibility extends beyond the company itself; from employees and the financial position to shareholders, customers, suppliers, local communities and the environment. Different stakeholders can, however, sometimes have differing interests or specific expectations. Based on a dialogue with the primary stakeholders, the company regularly analyses, weighs and balances the various interests and their potential impact on the operations, as well as updates the priorities when necessary.

A description of significant risks and the risk management is presented on pages 38-42.

## MARKET

### Customers

Rottneros assists its customers in their sustainability efforts by providing custom-



ised, renewable and recyclable pulp products that strengthen the customers' market position and profitability. By providing new knowledge and developing the products, Rottneros creates added value for its customers. Rottneros' ambition is also to develop new areas of application for its products that contribute to more sustainable development in society. Rottneros engages in continual dialogue with its customers at regularly scheduled meetings to discuss issues relating to products and quality.

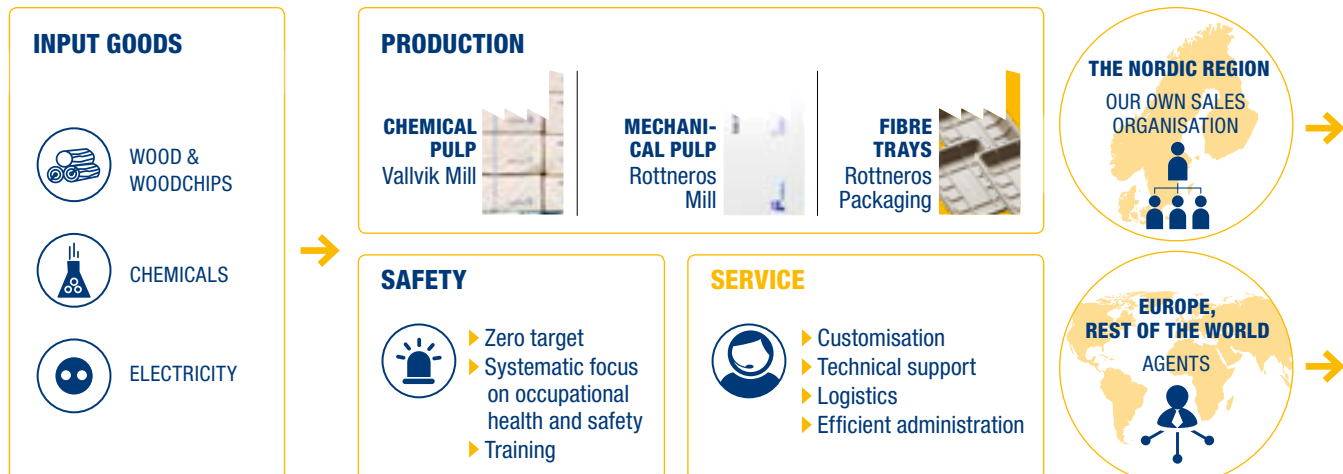
Information about Rottneros and the company's products is provided in Pulp Focus, a self-produced customer magazine that is distributed to the customers. Customer surveys are conducted regularly to gain a better understanding of how the customers perceive Rottneros and how the cooperation can be developed.

### Suppliers

Rottneros also has a responsibility towards its 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 deliberately and systematically violate laws, regulations, human rights or other ethical norms.

According to the management process at Rottneros, new suppliers are chosen according to set criteria. When choosing suppliers or contractors and in the procurement process, Rottneros aims to choose alternatives that are sustainable in the long term, provided that they fulfil the company's requirements for quality and profitability. Meetings are

# BUSINESS MODEL



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 other 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.

See also pages 26-27 for a description of the supply of raw materials.

**SHAREHOLDERS AND LENDERS**

**Stock and capital market**

Rottneros considers sustainability a key component of operations that is important for the long-term value creation. Rottneros shall demonstrate sustained profitability over a business cycle by running its operations in a sustainable and responsible manner and by carrying out financially, environmentally and socially sustainable investments. Rottneros' capital market activities are characterised by transparency and honesty. Rottneros complies with the laws, regulations and ethical guidelines that apply to the capital markets. Rottneros aims to reduce the Group's risk exposure and to pay steady dividends to its shareholders. Press releases, quarterly financial statements, meetings with analysts and attendance at capital market days are the primary ways to contact existing and potential shareholders.

See also Rottneros' financial objectives on page 9.

**INTERNAL**

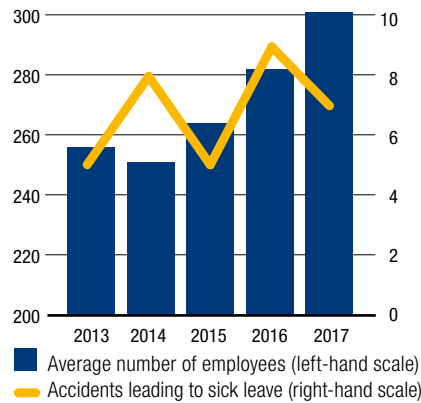
**Employees and work environment**

Employee well-being and safety are a central component of Rottneros' success. Rottneros shows its responsibility towards its employees by promoting good health, environment and safety at the workplace. The company offers desirable employment terms as well as good opportunities for development. Rottneros is working intensively with both skills and leadership development. The company protects the rights of its employees, fights against discrimination and harassment, and promotes diversity in the workplace. All employees have an equal value and shall be treated equally and with respect.

Rottneros conducts regular employee surveys. The latest survey in 2017 showed improvements in most areas and had a higher result than the benchmark, both within the industry and in general.

See also Rottneros' work on human resources on pages 28-29.

The Group has a work environment policy that is applied to the employees of the company and of contractors, consultants as well as other individuals when they are working in or visiting Rottneros' facilities. The central goal of Rottneros work with health and safety is the zero target for occupational accidents. In 2017, seven



accidents leading to sick leave occurred, compared to nine accidents in 2016.

The Group also has a Code of Conduct describing how Rottneros and its 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 the employees should adopt on issues of principle importance.

**Trade unions**

The right to organise collectively is self-evident at Rottneros. 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.

Rottneros shall always comply with the applicable laws, rules and ethical norms. Rottneros respects and promotes human rights and rejects all forms of corruption. Rottneros does not currently have separate policies on human rights or anti-cor-

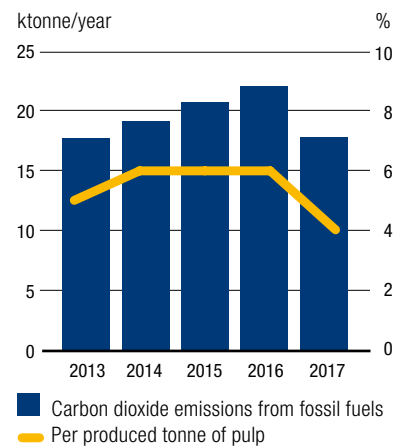
ruption, as these areas are already covered by the company's sustainability policy, work environment policy and the code of conduct.

**Environment**

Rottneros assumes its 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 the financial reporting, and the company engages in dialogue with stakeholders on the environmental impact of its activities and products. The production units work to continuously improve the production process and the goal is that all investments in the mills also will benefit the environment.

A comprehensive description of how Rottneros takes responsibility for the environment, the Group's environmental and energy policy, significant environmental events in 2017, and a follow-up of environmental key data are presented on pages 30-33.

In accordance with the company's environmental and energy policy, the key environmental target is to reduce emissions to levels that are financially viable and ecologically justified. The same applies to energy consumption when choosing energy sources. A big step towards decreasing the Group's CO<sub>2</sub> footprint was taken in 2017, by putting into service the new biofuel boiler at Rottneros Mill. As a result, 99 per cent of the fuel used at the mills is now fossil-free.



**CONSOLIDATED INCOME STATEMENT BROKEN DOWN BY STAKEHOLDER**

Stakeholder group	Type of activity	SEK m	Percentage of total cost
Customers	Sale of paper pulp	1,912	
Suppliers	Raw materials & consumables	-965	52%
	Other purchases of goods and services including depreciation, amortisation and impairment	-594	32%
Employees	Pay, social security contributions and other employee benefit expenses	-266	14%
Lenders	Interest	-11	0%
State	Tax	-33	2%
Shareholders	Net income	114	

# 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 2017.

## 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, values and codes of conduct.

The policies resolved by the Board include the Code of Conduct, the Financial Policy, the Communication Policy, the Sustainability Policy, the Environmental and Energy Policy, the Anti-Corruption Policy, the Competition Policy and the Insider 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](http://www.rottneros.com). Minutes, the CEO's statements, etc. from the latest meetings are also available on the home page.

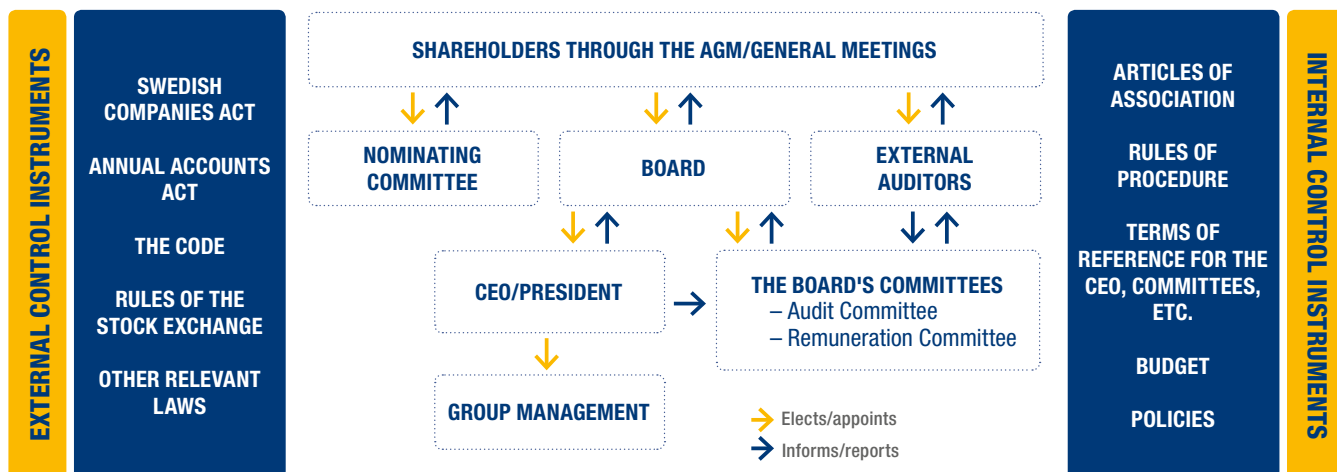
## SHAREHOLDERS

Rottneros' ordinary shares have been listed on Nasdaq Stockholm since 1987. According to the share register kept by Euroclear Sweden, Rottneros had 11,344 shareholders on 31 December 2017. The share capital amounted to SEK 153,393,890, divided 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 2017. 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

## STRUCTURE FOR CORPORATE GOVERNANCE



around 0.54 per cent of the total number of shares. See pages 78-79 for additional information about the share, shareholders, etc. Information is also available on the company's home page.

### 2017 ANNUAL GENERAL MEETING

Rottneros' 2017 AGM was held on 16 May 2017 in Söderhamn. Thirty-eight of the company's shareholders attended the meeting, representing 57.5 per cent of the company's votes and capital (excluding Rottneros' treasury shares). All of the Board members, including Chairman Per Lundeen, 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 2016 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 0.10 per share as an extra dividend (total of SEK 0.40 per share).
- The Board should comprise five ordinary members.
- Marie S. Arwidson, Ulf Carlson, Per Lundeen, Roger Mattsson and Per Skoglund were re-elected as directors.
- Per Lundeen 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 2018 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 2017 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 2018 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 10 November 2017 and held available on Rottneros' home page. Olle Grundberg (appointed by Arctic Paper S.A.) was appointed Chairman of the Nominating Committee. Other members were Stefan Sundh, appointed by PROAD AB, and Per Lundeen, Chairman of the Board of Rottneros AB. Altogether, the Nominating Committee represents approximately 56.5 per cent of the votes attached to all shares in Rottneros.

The Nominating Committee shall submit proposals for decisions to the 2018 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.

The Nominating Committee has ahead of the 2017 AGM held three meetings in addition to further contacts between meetings. The Nominating Committee has for its work received an account of the evaluation of the Board and taken part of the Chairman's summary of the company's operations, objectives and strategies. The Nominating Committee has discussed the requirements that will be imposed on the Board of Directors in the years to come, and has considered the company's operations, phase of development and other circumstances, the diversity and breadth of the Board members' competence, experience and background, as well as considered the requirement

### COMPOSITION OF THE BOARD AND ATTENDANCE 2017

Amounts in SEK thousand	Dependence	Total fees, 2017/18	Total fees, 2016/17	Attendance in 2017		
				Board meetings	Committee meetings	
Per Lundeen <sup>1) 2)</sup>	Chairman of the Board	X	550	481	100%	100%
Marie S. Arwidson			275	275	100%	100%
Ulf Carlson			275	275	100%	100%
Roger Mattsson <sup>2)</sup>		X	275	275	100%	100%
Per Skoglund <sup>2)</sup>		X	275	275	93%	100%
Rune Ingvarsson <sup>3)</sup>			–	344	83%	–
Dan Karlsson	employee representative		28	28	93%	–
Thomas Wasberg	employee representative		28	28	93%	–
Gun-Marie Nilsson	employee representative/deputy		28	28	93%	–
Mika Palmu	employee representative/deputy		28	28	93%	–

<sup>1</sup> Per Lundeen is dependent in relation to the company and its management, because he served as CEO of the company from 6 November 2014 until 1 September 2016.

<sup>2</sup> Dependent in relation to the company's largest shareholder, Arctic Paper S.A.

<sup>3</sup> Rune Ingvarsson served on the Board of Directors until the 2017 AGM and was Chairman of the Board until 9 September 2016. His attendance in 2017 relates to the meetings held before the AGM.

## CORPORATE GOVERNANCE REPORT

for an equal gender balance. The Nominating Committee has discussed the above criteria from a diversity perspective and has chosen to use rule 4.1 of the Code as its diversity policy.

### AUDITORS

Rottneros' auditors are elected at the AGM. At the 2017 AGM, Ernst & Young AB (EY) was elected as the company's auditor for the period up until the 2018 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 2017 AGM. The auditor attends the AGM to present the auditor's report.

Fees for the auditor for 2017 (including fees for advisory services) are presented in Note 6 of the 2017 Annual Report.

### BOARD OF DIRECTORS

#### Composition and fees of the Board

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 five 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. 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 47 shows the composition of the Board in 2017 as well as remuneration paid to Board members for 2017 and 2016 respectively. Additional information about the Board members is presented on page 76.

### EVALUATION OF THE BOARD'S WORK

The Board of Directors annually conducts a systematic evaluation where members are given an opportunity to present their views on work arrangements, Board material, their own and other members' contributions to the Board's work. The purpose is to improve the work of the Board and also to furnish 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 2017, with the exception of Board member Per Lundeen, 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 operations, 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 16 May 2017 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 2017 15 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, July/August and October.
- 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. 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.

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 2017 AGM the Committee has consisted 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 six meetings in 2017 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 2017 AGM the Committee has consisted of Board members Ulf Carlson, Per Lundeen and Per Skoglund. Per Lundeen is Chairman of the Committee.

The Committee held one meeting in 2017 and the Board received minutes from the Compensation Committee.

#### CEO/PRESIDENT

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.

Lennart Eberleh is CEO since 1 September 2016.

#### GROUP MANAGEMENT

The CEO leads the work of Group management and makes decisions in consultation with the other members of the management team. In 2017 this team comprised the CEO and six additional individuals: the heads of two subsidiaries, the CFO and three heads of Group staff. Beginning on 1 January 2018, Group Management consists of the CEO and six other people: a mill director, a head

of subsidiary, the CFO and three heads of Group staff. Information about the CEO and Group management is shown on page 77 of the 2017 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.

#### 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 2007 to 2017 (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, with the aim of ensuring a clear definition of roles and responsibilities. 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.

## CORPORATE GOVERNANCE REPORT

### 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.

### 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 subsidiary, where the CEO, CFO and Group Controller have a review with 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 is a Group-wide finance function, with controllers both locally and centrally, that compares these forecasts with outcomes and ensures 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.

Rottneros' Group-wide finance function is represented locally at each company and reports via a Group-wide reporting system. The finance function has regular meetings and a close cooperation 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 is of the opinion that the business does not need such a function. Instructions are available and an ongoing evaluation is conducted to ensure that officers in the organisation have the competence and support resources required to perform their work concerning the production of financial reports.

## APPROPRIATION OF PROFITS AND SIGNATURES

# PROPOSED APPROPRIATION OF PROFITS

The consolidated income statement and balance sheet will be submitted to the AGM on 16 May 2018 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](http://www.rottneros.com).

### AT THE DISPOSAL OF THE AGM:

Retained earnings	387,775,655
Net income for the year	-10,556,489
Total SEK	377,219,166

### THE BOARD OF DIRECTORS PROPOSES:

To be distributed to shareholders <sup>1,2</sup>	56,451,612
To be carried forward	320,767,554
Total SEK	377,219,166

<sup>1</sup> After adjustment for repurchased shares in treasury.

<sup>2</sup> Ordinary dividend SEK 0.30 per share and extra dividend SEK 0.07 per share.

### STOCKHOLM 19 MARCH 2018

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

**Per Lundeen**  
Chairman of the Board

**Marie S. Arwidson**  
Board Member

**Ulf Carlsson**  
Board Member

**Roger Mattsson**  
Board Member

**Per Skoglund**  
Board member

**Dan Karlsson**  
Board Member,  
employee representative

**Thomas Wasberg**  
Board Member,  
employee representative

**Lennart Eberleh**  
President and CEO

Our audit report was submitted on 19 March 2018  
Ernst & Young AB

**Erik Sandström**  
Authorised Public Accountant

# CONSOLIDATED STATEMENTS OF INCOME

## CONSOLIDATED INCOME STATEMENT 1 JANUARY-31 DECEMBER

Amounts in SEK m	Note	2017	2016
<b>Net turnover</b>	1, 2	1,912	1,730
Change in inventories of finished goods		22	-4
Other operating income	3	47	57
<b>Operating income, total</b>		<b>1,981</b>	<b>1,783</b>
Raw materials and consumables	4	-965	-881
Other expenses	5, 6	-503	-458
Employee benefit expenses	8	-266	-223
Depreciation/amortisation and impairment of property, plant and equipment and intangible assets	11, 12	-91	-51
<b>Operating expenses, total</b>		<b>-1,825</b>	<b>-1,613</b>
<b>OPERATING PROFIT</b>		<b>156</b>	<b>170</b>
Financial income	9	2	2
Financial expenses	9	-11	-9
<b>Total financial items</b>		<b>-9</b>	<b>-7</b>
<b>PROFIT AFTER FINANCIAL ITEMS</b>		<b>147</b>	<b>163</b>
Tax on profit for the year	10	-33	-35
<b>NET INCOME</b>		<b>114</b>	<b>128</b>
Earnings per share, SEK <sup>1</sup>		0.75	0.84
Average number of shares		152,572	152,572

<sup>1</sup> No share-based programmes exist that result in dilution.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 1 JANUARY-31 DECEMBER

Amounts in SEK m	Note	2017	2016
<b>NET INCOME</b>		<b>114</b>	<b>128</b>
<b>Other comprehensive income</b>			
<b>Items that have been or may be transferred to profit or loss for the period</b>			
Change in fair value on cash flow hedges		5	52
Cash-flow hedging, tax effect		-2	-11
Translation differences		0	0
<b>Total other comprehensive income</b>		<b>3</b>	<b>41</b>
<b>COMPREHENSIVE INCOME<sup>2</sup></b>		<b>117</b>	<b>169</b>

<sup>2</sup> The entire comprehensive income is attributable to the parent company's shareholders.

# CONSOLIDATED BALANCE SHEET

## CONSOLIDATED ASSETS, 31 DECEMBER

Amounts in SEK m	Note	2017	2016
<b>Non-current assets</b>			
Intangible assets	11	19	10
Property, plant and equipment	12	1,020	882
Derivative instruments	7	23	–
Other financial assets	13	16	13
<b>Total non-current assets</b>		<b>1,078</b>	<b>905</b>
<b>Current assets</b>			
Inventories	15	279	278
Accounts receivable	16	254	207
Other current receivables	17	57	60
Current tax assets		4	5
Derivative instruments	7	9	18
Cash and cash equivalents	18	326	16
<b>Total current assets</b>		<b>929</b>	<b>584</b>
<b>TOTAL ASSETS</b>		<b>2,007</b>	<b>1,489</b>

## CONSOLIDATED SHAREHOLDERS' EQUITY AND LIABILITIES, 31 DECEMBER

Amounts in SEK m	Note	2017	2016
<b>Shareholders' equity</b>			
	19		
Share capital		153	153
Other injected capital		730	730
Treasury shares		-69	-69
Other reserves		10	7
Retained earnings, incl. net income for the year		383	330
<b>Total shareholders' equity</b>		<b>1,207</b>	<b>1,151</b>
<b>Non-current liabilities</b>			
Interest-bearing liabilities	20	394	–
Deferred tax liability	10	42	8
Other non-interest-bearing liabilities		10	6
<b>Total non-current liabilities</b>		<b>446</b>	<b>14</b>
<b>Current liabilities</b>			
Interest-bearing liabilities	20	–	14
Accounts payable	21	149	152
Derivative instruments	7	8	2
Other non-interest-bearing liabilities	22	197	156
<b>Total current liabilities</b>		<b>354</b>	<b>324</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>2,007</b>	<b>1,489</b>

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY 2016

Amounts in SEK m	Share capital	Other injected capital	Treasury shares	Other reserves		Retained earnings, incl. net income for the year	Total shareholders' equity
				Hedging reserve	Translation difference		
<b>Opening balance, 1 January 2016</b>	153	730	-69	-26	-8	278	1,058
<b>Comprehensive income</b>							
Net income	-	-	-	-	-	128	128
<b>Other comprehensive income</b>							
Cash flow hedging, profit/loss after tax	-	-	-	41	-	-	41
Exchange rate differences	-	-	-	-	0	-	0
<b>Total other comprehensive income</b>	-	-	-	41	0	-	41
<b>Total comprehensive income</b>	-	-	-	41	0	128	169
<b>Transactions with shareholders</b>							
Dividends to shareholders	-	-	-	-	-	-76	-76
<b>CLOSING BALANCE, 31 DECEMBER 2016</b>	153	730	-69	15	-8	330	1,151

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY 2017

Amounts in SEK m	Share capital	Other injected capital	Treasury shares	Other reserves		Retained earnings, incl. net income for the year	Total shareholders' equity
				Hedging reserve	Translation difference		
<b>Opening balance, 1 January 2017</b>	153	730	-69	15	-8	330	1,151
<b>Comprehensive income</b>							
Net income	-	-	-	-	-	114	114
<b>Other comprehensive income</b>							
Cash flow hedging, profit/loss after tax	-	-	-	3	-	-	3
Exchange rate differences	-	-	-	-	0	-	0
<b>Total other comprehensive income</b>	-	-	-	3	0	-	3
<b>Total comprehensive income</b>	-	-	-	3	0	114	117
<b>Transactions with shareholders</b>							
Dividends to shareholders	-	-	-	-	-	-61	-61
<b>CLOSING BALANCE, 31 DECEMBER 2017</b>	153	730	-69	18	-8	383	1,207

# CONSOLIDATED STATEMENT OF CASH FLOWS

## CONSOLIDATED STATEMENT OF CASH FLOWS 1 JANUARY-31 DECEMBER

Amounts in SEK m	Note	2017	2016
<b>Operating profit</b>		<b>156</b>	<b>170</b>
<b>Adjustment for non-cash flow items</b>			
Depreciation/amortisation/impairment losses	11, 12	91	51
Other items not affecting cash flow		0	-13
<b>Operating profit adjusted for non-cash flow affecting items</b>		<b>247</b>	<b>208</b>
Received financial items		1	2
Paid financial items		-16	-6
<b>Cash flow from operating activities before changes in working capital</b>		<b>232</b>	<b>204</b>
<b>Working capital changes</b>			
Change in inventories		-1	-11
Change in current receivables		-52	-46
Change in current liabilities (non-interest-bearing)		43	40
<b>Total changes in working capital</b>		<b>-10</b>	<b>-17</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>222</b>	<b>187</b>
Purchase of intangible assets	11	-10	-9
Purchase of property, plant and equipment	12	-227	-269
<b>CASH USED IN INVESTING ACTIVITIES</b>		<b>-237</b>	<b>-278</b>
Bond issue	20	400	-
Borrowings of bank loans	20	80	-
Amortisation of bank loans	20	-80	-
Change in used bank overdraft facilities	20	-14	14
Dividends paid		-61	-76
<b>CASH PROVIDED BY/USED IN FINANCING ACTIVITIES</b>		<b>325</b>	<b>-62</b>
Net cash flow for the year		310	-153
Cash and cash equivalents at the beginning of the year		16	169
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<b>326</b>	<b>16</b>
Granted and unused credit facilities	20	182	281

# PARENT COMPANY STATEMENTS OF INCOME

## INCOME STATEMENT – PARENT COMPANY 1 JANUARY-31 DECEMBER

Amounts in SEK m	Note	2017	2016
Net turnover	1,2	6	6
Other operating income	3	10	5
<b>Operating income, total</b>		<b>16</b>	<b>11</b>
Other expenses	5,6	-18	-18
Employee benefit expenses	8	-31	-15
Depreciation/amortisation and impairment of property, plant and equipment and intangible assets	11	0	-6
<b>Operating expenses, total</b>		<b>-49</b>	<b>-39</b>
<b>OPERATING LOSS</b>		<b>-33</b>	<b>-28</b>
Profit from participations in Group companies	9	27	166
Financial income	9	1	0
Financial expenses	9	-7	0
<b>Total financial items</b>		<b>21</b>	<b>166</b>
<b>LOSS/PROFIT AFTER FINANCIAL ITEMS</b>		<b>-12</b>	<b>138</b>
Tax on loss/profit for the year	10	1	-30
<b>NET INCOME</b>		<b>-11</b>	<b>108</b>

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

Amounts in SEK m	Note	2017	2016
<b>NET INCOME</b>		<b>-11</b>	<b>108</b>
<b>Other comprehensive income</b>		<b>-</b>	<b>-</b>
<b>Total other comprehensive income</b>		<b>-</b>	<b>-</b>
<b>COMPREHENSIVE INCOME</b>		<b>-11</b>	<b>108</b>

# PARENT COMPANY BALANCE SHEET

## PARENT COMPANY ASSETS, 31 DECEMBER

Amounts in SEK m	Note	2017	2016
<b>Non-current assets</b>			
Intangible assets	11	17	9
Deferred tax assets	10	2	1
Other financial assets	13, 14	284	281
<b>Total non-current assets</b>		<b>303</b>	<b>291</b>
<b>Current assets</b>			
Other current receivables	17	889	887
Cash and cash equivalents	18	311	1
<b>Total current assets</b>		<b>1,200</b>	<b>888</b>
<b>TOTAL ASSETS</b>		<b>1,503</b>	<b>1,179</b>

## PARENT COMPANY SHAREHOLDERS' EQUITY AND LIABILITIES, 31 DECEMBER

Amounts in SEK m	Note	2017	2016
<b>Shareholders' equity</b>			
	19		
Share capital		153	153
Statutory reserve		440	440
Share premium reserve		268	268
Retained earnings, incl. net income for the year		109	181
<b>Total shareholders' equity</b>		<b>970</b>	<b>1,042</b>
<b>Non-current liabilities</b>			
Interest-bearing liabilities	20	394	–
Non-interest-bearing liabilities		10	6
<b>Total non-current liabilities</b>		<b>404</b>	<b>6</b>
<b>Current liabilities</b>			
Interest-bearing liabilities	20	–	11
Accounts payable	21	2	4
Other non-interest-bearing liabilities	22	127	116
<b>Total current liabilities</b>		<b>129</b>	<b>131</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>1,503</b>	<b>1,179</b>



# PARENT COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

## PARENT COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY – 2016

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

## PARENT COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY – 2017

Amounts in SEK m	Share capital	Statutory reserve	Share premium reserve	Retained earnings, incl. net income for the year	Total shareholders' equity
<b>Opening balance, 1 January 2017</b>	<b>153</b>	<b>440</b>	<b>268</b>	<b>181</b>	<b>1,042</b>
Dividends to shareholders	–	–	–	-61	-61
Net income	–	–	–	-11	-11
<b>CLOSING BALANCE, 31 DECEMBER 2017</b>	<b>153</b>	<b>440</b>	<b>268</b>	<b>109</b>	<b>970</b>

# PARENT COMPANY STATEMENT OF CASH FLOWS

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

Amounts in SEK m	Note	2017	2016
<b>Operating profit</b>		<b>-33</b>	<b>-28</b>
Depreciation/amortisation and impairment losses		0	6
Received financial items		1	0
Paid financial items		-12	0
<b>Cash flow from operating activities before changes in working capital</b>		<b>-44</b>	<b>-22</b>
<b>Working capital changes</b>			
Change in current receivables		21	-68
Change in current liabilities (non-interest-bearing)		13	-1
<b>Total changes in working capital</b>		<b>34</b>	<b>-69</b>
<b>CASH USED IN OPERATING ACTIVITIES</b>		<b>-10</b>	<b>-91</b>
Purchase of intangible assets	11	-8	-9
<b>CASH USED IN INVESTING ACTIVITIES</b>		<b>-8</b>	<b>-9</b>
Bond issue	20	400	–
Change in used bank overdraft facilities	20	-11	11
Dividends paid		-61	-76
<b>CASH PROVIDED BY/USED IN FINANCING ACTIVITIES</b>		<b>328</b>	<b>-65</b>
Net cash flow for the year		310	-165
Cash and cash equivalents at the beginning of the year		1	166
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<b>311</b>	<b>1</b>
Granted and unused credit facilities	20	90	79

# 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 2017 and were applied by the Group

The Group has applied the amendments to standards and interpretations applicable for financial years beginning on 1 January 2017 or later for the first time in the 2017 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 2017 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. According to an evaluation of the standard that management has completed, the new standard 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. According to an evaluation of the standard that management has completed, the new standard 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. 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.

## GROUP 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 intragroup 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.

## NOTES

### 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 interestbearing 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 cashgenerating 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 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 carry-forwards. 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 5m (SEK 5m). 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 preliminarily to 154 per cent (149 per cent) at the end of 2017. 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 7. Changes in the hedging reserve in shareholders' equity are shown in Note 19. 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.

## NOTES

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 38-42.

### 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 and valuation of finished goods are areas that involve a high level of judgment on the part of Rottneros and where assumptions and estimates are of material importance for the consolidated accounts.

### VALUATION OF PROPERTY, PLANT AND EQUIPMENT

Significant assumptions and estimates related to property, plant and equipment include judgment of whether amounts are to be expensed as maintenance or capitalised as an asset, 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.

### VALUATION OF FINISHED GOODS

The inventory is measured at the lower of cost and net realizable value. The cost of finished goods also includes a reasonable share of indirect costs, based on normal production capacity. Incorrect assumptions in the calculation model would result in an incorrect cost allocation, affecting the valuation of finished goods and the recorded cost for goods sold.

### 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 38-42) 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.

## NOTE 1. GEOGRAPHICAL DISTRIBUTION OF TURNOVER

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

	2017	%	2016	%
Germany	333	17	347	20
Sweden	303	16	369	21
Norway	206	11	30	2
Other Nordic countries	63	3	40	2
Italy	256	13	356	21
Poland	86	5	77	5
Rest of Europe	176	9	230	13
USA	247	13	218	13
Rest of North America	13	1	9	0
Asia	221	12	43	2
Rest of world	8	0	11	1
<b>Total</b>	<b>1,912</b>	<b>100</b>	<b>1,730</b>	<b>100</b>

In 2017 the Group's largest customer accounted for 11 (12) 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. 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 Munkedals AB

The following table shows the total amount of transactions with the above-mentioned related party that occurred in 2017 and 2016 respectively. Goods are sold on the same terms as for non-related parties.

Related party	Sales 2017	Sales 2016	Accounts receivable 31 Dec 17	Accounts receivable 31 Dec 16
Arctic Paper S.A. Group	150	109	24	16

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 (1) per cent of its operating costs related to purchases from subsidiaries.

## NOTE 3. OTHER OPERATING INCOME

	Group		Parent Company	
	2017	2016	2017	2016
Sale of by-products	36	27	–	–
Foreign currency losses/ gains	-10	12	3	-1
Currency forwards – fair value hedging	0	-8	–	–
Pulp price forwards – cash flow hedging	-9	–	–	–
Sale of green electricity certificates	1	3	–	–
Emission allowances	0	2	–	–
EU grant PULPACKTION	4	1	–	–
Revaluation of shareholding in Söderhamns Stuveri & Hamn AB	–	8	–	–
Other	22	12	7	6
<b>Total</b>	<b>47</b>	<b>57</b>	<b>10</b>	<b>5</b>

## NOTE 4. RAW MATERIALS AND CONSUMABLES

	Group		Parent Company	
	2017	2016	2017	2016
Pulp wood	-646	-580	–	–
Chemicals	-164	-148	–	–
Electricity	-100	-91	–	–
Electricity forwards – cash flow hedging	12	-1	–	–
Fuels	-46	-43	–	–
Other costs for raw materials and consumables	-21	-18	–	–
<b>Total</b>	<b>-965</b>	<b>-881</b>	<b>–</b>	<b>–</b>

## NOTE 5. OPERATING LEASES

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

	Group		Parent Company	
	2017	2016	2017	2016
Due within one year	1	1	–	–
Due later than one year but within five years	0	0	–	–
<b>Total</b>	<b>1</b>	<b>1</b>	<b>–</b>	<b>–</b>

## NOTES

### NOTE 6. AUDIT EXPENSES

	Group		Parent Company	
	2017	2016	2017	2016
Audit engagement (EY)	1.4	1.3	0.9	0.7
Audit-related services in addition to the audit engagement (EY)	0.3	0.1	0.3	0.1
<b>Total</b>	<b>1.7</b>	<b>1.4</b>	<b>1.2</b>	<b>0.8</b>

### NOTE 7. FINANCIAL INSTRUMENTS

#### Financial instruments by category

	2017	2016
<b>Assets</b>		
Non-current financial assets		
Financial assets available for sale	8	8
Derivative instruments		
Derivative instruments used for hedging purposes	32	18
Financial receivables and cash and cash equivalents		
Accounts receivable and other receivables, excluding non-financial assets	299	253
Cash and cash equivalents	326	16
<b>Total assets</b>	<b>665</b>	<b>295</b>
<b>Liabilities</b>		
Financial liabilities		
Interest-bearing liabilities	394	14
Accounts payable and other liabilities, excluding non-financial liabilities	180	165
Derivative instruments		
Derivative instruments used for hedging purposes	8	2
<b>Total liabilities</b>	<b>582</b>	<b>181</b>

#### FINANCIAL INSTRUMENTS THAT ARE MEASURED AT FAIR VALUE

The following table shows 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).

	Fair value		Classification in the fair value hierarchy
	2017	2016	
<b>Assets</b>			
Financial assets available for sale	8	8	Level 3
Derivative instruments used for hedging purposes	32	18	Level 2
<b>Total assets</b>	<b>40</b>	<b>26</b>	
<b>Liabilities</b>			
Derivative instruments used for hedging purposes	8	2	Level 2
<b>Total liabilities</b>	<b>8</b>	<b>2</b>	

#### FINANCIAL INSTRUMENTS THAT ARE MEASURED AT AMORTISED COST

The following table shows fair value for such financial instruments that are measured at amortised cost.

	2017		2016	
	Book value	Fair value	Book value	Fair value
<b>Assets</b>				
Accounts receivable and other receivables, excluding non-financial assets	299	299	253	253
Cash and cash equivalents	326	326	16	16
<b>Total assets</b>	<b>625</b>	<b>625</b>	<b>269</b>	<b>269</b>
<b>Liabilities</b>				
Interest-bearing liabilities	394	410	14	14
Accounts payable and other liabilities, excluding non-financial liabilities	180	180	165	165
<b>Total liabilities</b>	<b>574</b>	<b>590</b>	<b>179</b>	<b>179</b>

#### FINANCIAL RISKS AND RISK MANAGEMENT

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 management. The management continually assesses whether factors such as the USD rate, pulp price or electricity price 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.

A more detailed description of opportunities and risks, together with a sensitivity analysis, can be found on pages 38-48.

##### Pulp price risk

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.

##### Foreign currency risk

Most invoices are issued in USD, EUR and 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.

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

#### Pulp wood price risk

The Group does not hedge against market price fluctuations, but long-term supply agreements provide some stability to prices.

#### Electricity price risk

All external 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 to achieve a predictable electricity price.

#### Interest rate risk

Between 2009 and 2016, Rottneros had a low level of borrowing. In August 2017, Rottneros issued a bond of SEK 400m. The Group's borrowing is shown in Note 20 on page 72. Interest rate risk relates primarily to the variable interest rate of the bond and the return on cash and cash equivalents.

#### Liquidity and refinancing risk

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.

In order to maintain or adjust its capital structure, 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.

#### DERIVATIVE INSTRUMENTS

	2017		2016	
	Assets	Liabilities	Assets	Liabilities
<b>Fair value hedges</b>				
Currency forwards	1	–	0	2
<b>Cash flow hedges</b>				
Pulp forwards	–	8	8	–
Electricity forwards	31	–	10	–
<b>Total</b>	<b>32</b>	<b>8</b>	<b>18</b>	<b>2</b>
Minus non-current portion:				
Electricity forwards	-23	–	0	–
<b>Current portion</b>	<b>9</b>	<b>8</b>	<b>18</b>	<b>2</b>

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 0m (0) 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 2017

Hedging	Hedged volume	Maturity	Hedging level	Fair value
Currency EUR, forward sell	EUR 2.0m	Jan 2018	SEK 9.88/EUR	0
Currency USD, forward sell	USD 9.8m	Jan-Feb 2018	SEK 8.36/USD	1
Pulp, forward sell	42,000 tonnes	Jan-Dec 2018	SEK 7,293/tonne	-8
Electricity, forward buy	950,520 MWh	2018-2021	SEK 0.225/kWh	31
<b>Total fair value</b>				<b>24</b>

#### Fair value for derivatives, 31 December 2016

Hedging	Hedged volume	Maturity	Hedging level	Fair value
Currency EUR, forward sell	EUR 1.0m	Jan 2017	SEK 9.73/EUR	0
Currency USD, forward sell	USD 4.0m	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
<b>Total fair value</b>				<b>16</b>

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.

## NOTE 8. PERSONNEL AND REMUNERATION

	2017		2016	
	Average number of employees	of whom men %	Average number of employees	of whom men %
Parent Company	7	71	6	83
Subsidiaries	294	83	276	86
<b>Group, total</b>	<b>301</b>	<b>83</b>	<b>282</b>	<b>85</b>
Of which				
Sweden	298	83	279	86
Latvia	3	67	3	67
<b>Group, total</b>	<b>301</b>	<b>83</b>	<b>282</b>	<b>85</b>

Pay and other remuneration, and social security contributions:

	2017			2016		
	Pay and other remuneration	Social security contributions	(of which pension expenses) <sup>1</sup>	Pay and other remuneration	Social security contributions	(of which pension expenses) <sup>1</sup>
Parent Company	22	9	4	10	5	3
Subsidiaries	154	81	15	148	60	13
<b>Group, total<sup>1</sup></b>	<b>176</b>	<b>90</b>	<b>19</b>	<b>158</b>	<b>65</b>	<b>16</b>

<sup>1</sup> SEK 2.9m (2.5) of the Group's pension expenses relate to the CEO/MDs and other senior executives.

## NOTES

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

SEK m	2017			2016		
	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 <sup>1</sup>	21	3	1	9	2	1
Subsidiaries	1	0	153	1	0	147
<b>Group, total</b>	<b>22</b>	<b>3</b>	<b>154</b>	<b>10</b>	<b>2</b>	<b>148</b>

<sup>1</sup> SEK 3.6m of the Parent Company's pay and other remuneration relates to a provision for severance pay.

### 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 six people who make up Group management together with the CEO. See page 77 for the composition of Group management.

See page 37 in the Directors' Report for the Board's proposal to the AGM 2018 regarding "Guidelines for remuneration for senior executives".

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

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 2.0m 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.

The CEO and certain other senior executives have chosen to take out a portion of their compensation in the form of capital pension through a so-called salary exchange. The balance sheets for the Group and the Parent Company include a long-term receivable consisting of premiums paid to the insurance company and

a corresponding non-interest bearing liability. The recognised liability is expected to fall due later than 5 years after the balance sheet date.

### 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 three to 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 six and twelve 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.

Remuneration and other benefits in 2017 (SEK m)	Basic salary/ Directors' fees	Variable remuneration	Other benefits	Pension expenses	Other remuneration	Total
Chairman of the Board, Per Lundeen	0.6	–	–	–	–	0.6
Board member, Marie S. Arwidson	0.3	–	–	–	–	0.3
Board member, Ulf Carlson <sup>1</sup>	0.3	–	–	–	0.3	0.6
Board member, Roger Mattsson	0.3	–	–	–	–	0.3
Board member, Per Skoglund	0.3	–	–	–	–	0.3
Board member, Rune Ingvarsson <sup>2</sup>	0.1	–	–	–	–	0.1
Chief Executive Officer, Lennart Eberleh	2.9	1.0	0.1	1.1	0.1	5.2
Other senior executives (six people <sup>3</sup> )	6.8	1.4	0.4	1.8	3.9	14.3
<b>Total</b>	<b>11.6</b>	<b>2.4</b>	<b>0.5</b>	<b>2.9</b>	<b>4.3</b>	<b>21.7</b>

<sup>1</sup> Ulf Carlson has 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.

<sup>2</sup> Board member until 16 May 2017.

<sup>3</sup> A provision of SEK 3.6m for severance pay appears in the table as Other remuneration.

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 <sup>1</sup>	1.7	0.6	0.1	1.5	–	3.9
Board member, Marie S. Arwidson	0.3	–	–	–	–	0.3
Board member, Ulf Carlson <sup>2</sup>	0.2	–	–	–	0.3	0.5
Board member, Rune Ingvarsson <sup>3</sup>	0.5	–	–	–	–	0.5
Board member, Roger Mattsson <sup>4</sup>	0.2	–	–	–	–	0.2
Board Member, Per Skoglund	0.3	–	–	–	–	0.3
Board Member, Roger Asserståhl <sup>5</sup>	0.1	–	–	–	–	0.1
Chief Executive Officer, Lennart Eberleh <sup>6</sup>	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
<b>Total</b>	<b>7.7</b>	<b>1.7</b>	<b>0.5</b>	<b>4.4</b>	<b>2.2</b>	<b>16.5</b>

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> Chairman of the Board until 9 September 2016 and ordinary Board member since 9 September 2016.

<sup>4</sup> Board member since 30 May 2016.

<sup>5</sup> Board member until 30 May 2016.

<sup>6</sup> Chief Executive Officer of the parent company since 1 September 2016.

## COMMENTS ON THE TABLE

- Variable remuneration refers to what is charged to profit/loss for 2017 and 2016 respectively. Variable remuneration for 2017 is paid out in 2018.
- Other benefits refer to company cars and apartments for overnight stay.
- 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 (seven people in total) comprised five men and two women at year-end. The Board of Directors (seven people in total) comprised six men and one woman at year-end. This information applies to both the parent company and the Group.

## NOTE 9. FINANCIAL INCOME AND EXPENSES

	Group		Parent Company	
	2017	2016	2017	2016
<b>Financial income</b>				
Interest income	0	0	1	0
Dividends from external companies	2	2	–	–
Group contributions received/paid, net	–	–	28	166
<b>Total</b>	<b>2</b>	<b>2</b>	<b>29</b>	<b>166</b>

	Group		Parent Company	
	2017	2016	2017	2016
<b>Financial expenses</b>				
Interest expenses	-11	-8	-7	0
Other financial expenses	0	-1	0	0
<b>Total</b>	<b>-11</b>	<b>-9</b>	<b>-7</b>	<b>0</b>

## NOTE 10. TAX ON PROFIT FOR THE YEAR

	Group		Parent Company	
	2017	2016	2017	2016
Deferred tax	-33	-35	1	-30
<b>Total</b>	<b>-33</b>	<b>-35</b>	<b>1</b>	<b>-30</b>

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

	Group		Parent Company	
	2017	2016	2017	2016
<b>Reported profit before taxes</b>	<b>147</b>	<b>163</b>	<b>-11</b>	<b>138</b>
Tax at applicable tax rate	-32	-36	2	-30
Tax effect of non-deductible items	-1	-1	-1	0
Tax effect of non-taxable items	0	2	0	0
<b>Reported tax expense</b>	<b>-33</b>	<b>-35</b>	<b>1</b>	<b>-30</b>

## 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	Non-current liabilities	Total
<b>As of 1 January 2016</b>	<b>31</b>	<b>7</b>	<b>–</b>	<b>–</b>	<b>38</b>
Recognised in income statement	-30	–	-6	1	-35
Recognised in other comprehensive income	–	-11	–	–	-11
<b>As of 31 December 2016</b>	<b>1</b>	<b>-4</b>	<b>-6</b>	<b>1</b>	<b>-8</b>
Recognised in income statement	-1	–	-34	2	-33
Recognised in other comprehensive income	–	-2	–	–	-2
<b>As of 31 December 2017</b>	<b>0</b>	<b>-5</b>	<b>-40</b>	<b>3</b>	<b>-42</b>

The following table presents a summary of deferred tax assets and liabilities. There are no current deferred tax assets or liabilities.

	Group		Parent Company	
	2017	2016	2017	2016
Deferred tax assets, non-current	3	2	2	1
Deferred tax liabilities, non-current	-45	-10	–	–
<b>Total</b>	<b>-42</b>	<b>-8</b>	<b>2</b>	<b>1</b>

Deferred tax assets and 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	
	2017	2016	2017	2016
Deferred tax assets	–	–	2	1
Deferred tax liabilities	-42	-8	–	–
<b>Total</b>	<b>-42</b>	<b>-8</b>	<b>2</b>	<b>1</b>

## NOTES

### NOTE 11. INTANGIBLE ASSETS

Group	2017					2016				
	Software	Trade- marks	Licences	Assets under development	Total	Software	Trade- marks	Licences	Assets under development	Total
Opening cost	38	25	2	16	81	38	25	2	7	72
Acquisitions for the year	–	–	–	9	9	–	–	–	9	9
Items transferred during the year	19	–	–	-19	0	–	–	–	–	–
<b>Closing accumulated cost</b>	<b>57</b>	<b>25</b>	<b>2</b>	<b>6</b>	<b>90</b>	<b>38</b>	<b>25</b>	<b>2</b>	<b>16</b>	<b>81</b>
Opening depreciation/amortisation and impairment losses	-38	-25	-2	-6	-70	-38	-25	-2	–	-65
Depreciation for the year	-1	–	–	–	-1	–	–	–	–	–
Impairment losses for the year	–	–	–	–	–	–	–	–	-6	-6
<b>Closing accumulated depreciation/amortisation and impairment losses</b>	<b>-38</b>	<b>-25</b>	<b>-2</b>	<b>-6</b>	<b>-71</b>	<b>-38</b>	<b>-25</b>	<b>-2</b>	<b>-6</b>	<b>-70</b>
<b>CLOSING RESIDUAL VALUE ACCORDING TO PLAN</b>	<b>19</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>19</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>10</b>	<b>10</b>

Parent Company	2017			2016		
	Software	Assets under development	Total	Software	Assets under development	Total
Opening cost	15	15	30	15	6	21
Acquisitions for the year	–	8	8	–	9	9
Items transferred during the year	17	-17	0	–	–	–
<b>Closing accumulated cost</b>	<b>32</b>	<b>6</b>	<b>38</b>	<b>15</b>	<b>15</b>	<b>30</b>
Opening depreciation/amortisation and impairment losses	-15	-6	-21	-15	–	-15
Depreciation for the year	0	–	0	–	–	–
Impairment losses for the year	–	–	–	–	-6	-6
<b>Closing accumulated depreciation/amortisation and impairment losses</b>	<b>-15</b>	<b>-6</b>	<b>-21</b>	<b>-15</b>	<b>-6</b>	<b>-21</b>
<b>CLOSING RESIDUAL VALUE ACCORDING TO PLAN</b>	<b>17</b>	<b>–</b>	<b>17</b>	<b>–</b>	<b>9</b>	<b>9</b>

## NOTE 12. PROPERTY, PLANT AND EQUIPMENT

Group	2017							2016						
	Land	Land im- prove- ments	Build- ings	Machinery	Equip ment	Const. in prog- ress/ adv.	Total	Land	Land im- prove- ments	Build- ings	Machinery	Equip ment	Const. in prog- ress/ adv.	Total
Opening cost	3	32	136	1,768	55	130	2,124	3	32	94	1,603	55	77	1,864
Purchases/advances	–	9	1	23	8	186	227	–	0	33	123	1	112	269
Sales/disposals	–	–	–	–	-1	–	-1	–	–	–	-4	-4	-1	-9
Items transferred during the year	–	0	1	70	1	-72	0	–	–	9	46	3	-58	0
<b>Closing accumulated cost</b>	<b>3</b>	<b>41</b>	<b>137</b>	<b>1,861</b>	<b>63</b>	<b>244</b>	<b>2,350</b>	<b>3</b>	<b>32</b>	<b>136</b>	<b>1,768</b>	<b>55</b>	<b>130</b>	<b>2,124</b>
Opening depreciation	–	-13	-54	-1,125	-37	–	-1,229	–	-11	-49	-1,045	-43	–	-1,148
Sales/disposals	–	–	–	–	1	–	1	–	–	–	4	4	–	8
Items transferred during the year	–	–	–	–	–	–	–	–	–	–	-4	4	–	0
Reversal of impairment	–	–	–	–	–	–	–	–	–	-1	-23	–	–	-24
Depreciation for the year	–	-2	-8	-76	-3	–	-89	–	-2	-4	-57	-2	–	-65
<b>Closing accumulated depreciation</b>	<b>–</b>	<b>-15</b>	<b>-62</b>	<b>-1,201</b>	<b>-39</b>	<b>–</b>	<b>-1,317</b>	<b>–</b>	<b>-13</b>	<b>-54</b>	<b>-1,125</b>	<b>-37</b>	<b>–</b>	<b>-1,229</b>
Opening impairment loss	–	–	–	-6	-9	2	-13	–	–	-4	-46	-9	2	-57
Reversal of impairment	–	–	–	–	–	–	–	–	–	4	43	–	–	47
Impairment losses for the year	–	–	–	–	–	–	–	–	–	–	-3	–	–	-3
<b>Closing accumulated impairment losses</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>-6</b>	<b>-9</b>	<b>2</b>	<b>-13</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>-6</b>	<b>-9</b>	<b>2</b>	<b>-13</b>
<b>CLOSING RESIDUAL VALUE ACCORDING TO PLAN</b>	<b>3</b>	<b>26</b>	<b>75</b>	<b>654</b>	<b>15</b>	<b>246</b>	<b>1,020</b>	<b>3</b>	<b>19</b>	<b>82</b>	<b>637</b>	<b>9</b>	<b>132</b>	<b>882</b>

## NOTE 13. OTHER FINANCIAL ASSETS

	Group		Parent Company	
	2017	2016	2017	2016
Participating interests in Group companies	–	–	276	276
Shareholding in Söderhamns Stuveri & Hamn AB (16%) <sup>1</sup>	8	8	–	–
Other long-term receivables	8	5	8	5
<b>Total</b>	<b>16</b>	<b>13</b>	<b>284</b>	<b>281</b>

<sup>1</sup> Since 2016, the Group's 16% stake in Söderhamns Stuveri & Hamn AB has been classified in financial assets available for sale, and is therefore measured at fair value. See also note 7.

## NOTES

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	
					2017	2016
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
<b>Total</b>					<b>276</b>	<b>276</b>

Change in the value of financial assets	Parent Company	
	2017	2016
Opening cost	821	821
<b>Closing accumulated cost</b>	<b>821</b>	<b>821</b>
Opening impairment losses	-545	-545
<b>Closing accumulated impairment losses</b>	<b>-545</b>	<b>-545</b>
<b>CLOSING BOOK VALUE</b>	<b>276</b>	<b>276</b>

### NOTE 14. PLEGGED ASSETS

The following table shows assets that are pledged.

	Group		Parent Company	
	2017	2016	2017	2016
Shares in subsidiaries	480	370	270	276

All shares in Rottneros AB's subsidiaries Vallviks Bruk AB, Rottneros Bruk AB, Utansjö Bruk AB and Rottneros Packaging AB are pledged to Danske Bank as security for the Group's bank overdraft facilities of SEK 182m and for the Group's liabilities relating to currency and electricity price derivative contracts where Danske Bank is the counterpart. The value of pledged shares in the table is, in the case of the Group, equal to the total amount of shareholder's equity in subsidiaries, and in the case of the Parent Company, equal to the total book value of shares.

### NOTE 15. INVENTORIES

	Group	
	2017	2016
Raw materials and consumables	109	131
Pulp, valued at production cost	170	138
Pulp, valued at net realisable value	0	9
<b>Inventories</b>	<b>279</b>	<b>278</b>

### NOTE 16. ACCOUNTS RECEIVABLE

	Group		Parent Company	
	2017	2016	2017	2016
Accounts receivable, gross	254	211	-	-
Provision for doubtful accounts receivable	-	-4	-	-
<b>Accounts receivable, net</b>	<b>254</b>	<b>207</b>	<b>-</b>	<b>-</b>

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

	Group		Parent Company	
	2017	2016	2017	2016
Opening balance	-4	-4	-	-
Receivables written off as uncollectable	4	-	-	-
<b>Closing balance</b>	<b>-</b>	<b>-4</b>	<b>-</b>	<b>-</b>

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 22m (30) were due as of 31 December 2017, although there was not deemed to be any impairment. 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 presented on the following page:

	Group		Parent Company	
	2017	2016	2017	2016
Accounts receivable that are not due	232	177	–	–
Less than 3 months from due date	20	30	–	–
3 to 9 months from due date	2	–	–	–
<b>Total</b>	<b>254</b>	<b>207</b>	<b>–</b>	<b>–</b>

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

	Group		Parent Company	
	2017	2016	2017	2016
USD	117	111	–	–
EUR	87	61	–	–
SEK	48	31	–	–
Other currencies	2	4	–	–
<b>Total</b>	<b>254</b>	<b>207</b>	<b>–</b>	<b>–</b>

## NOTE 17. OTHER CURRENT RECEIVABLES

	Group		Parent Company	
	2017	2016	2017	2016
Receivables from Group companies	–	–	889	884
Other receivables	41	41	–	–
Prepaid expenses and accrued income				
Prepaid insurance premiums	5	5	0	1
Other prepaid expenses	5	7	–	–
Accrued income	6	7	0	2
Total prepaid expenses and accrued income	16	19	0	3
<b>Total</b>	<b>57</b>	<b>60</b>	<b>889</b>	<b>887</b>

## NOTE 18. CASH AND CASH EQUIVALENTS

	Group		Parent Company	
	2017	2016	2017	2016
Cash and bank balances	326	16	311	1

Blocked cash and cash equivalents at the Group amounted to SEK 8m (6).

## NOTE 19. SHAREHOLDERS' EQUITY

### Share capital and number of shares

Group and parent company	Number of shares <sup>1</sup>	Share capital
<b>As of 31 December 2017</b>	<b>152,571,925</b>	<b>153</b>
As of 31 december 2016	152,571,925	153

<sup>1</sup> Excluding the parent company's holding of treasury shares.

Average number of shares outstanding, 2017	152,571,925
Average number of shares outstanding, 2016	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 2017 or 31 December 2016.

### DIVIDEND FOR FINANCIAL YEAR 2016

The Annual General Meeting on 16 May 2017 approved an ordinary dividend of SEK 0.30 and an extra dividend of SEK 0.10 to shareholders for the 2016 financial year. The total dividend of SEK 61,028,770 was paid on 23 May 2017.

### PROPOSED APPROPRIATION OF PROFITS

The Annual General Meeting proposes an ordinary dividend of SEK 0.30 and an extra dividend of SEK 0.07 to shareholders for the 2017 financial year.

### At the disposal of the Annual General Meeting:

Retained earnings	387,775,655
Net profit for the year	-10,556,489
Total SEK	377,219,166

### The Board of Directors proposes:

To be distributed to shareholders <sup>1,2</sup>	56,451,612
To be carried forward	320,767,554
Total SEK	377,219,166

<sup>1</sup> After adjustment for repurchased shares in treasury.

<sup>2</sup> Ordinary dividend SEK 0.30 per share and extra dividend SEK 0.07 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](http://www.rottneros.com).

### 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 debt/cash divided by shareholders' equity.

The Group's debt/equity ratio was 6 (0) per cent as of 31 December 2017.

## NOTES

Change in hedging reserve in consolidated equity	2017		2016	
Opening balance		15		-26
Cash flow hedging:				
– changes in fair value cash flow hedges		5		52
– tax on cash flow hedges		-2		-11
<b>Closing balance</b>		<b>18</b>		<b>15</b>

## NOTE 20.

### INTEREST-BEARING LIABILITIES

Interest-bearing liabilities on December 31 consist of the following items:

	Group		Parent Company	
	2017	2016	2017	2016
Non-current:				
Bond	394	–	394	–
Current:				
Used bank overdraft facility	–	14	–	11
<b>Total</b>	<b>394</b>	<b>14</b>	<b>394</b>	<b>11</b>
Due within one year	–	14	–	11
Due later than one year but within five years	394	–	394	–

Changes in interest-bearing liabilities	Group		Parent Company	
	2017	2016	2017	2016
Interest-bearing liabilities at the beginning of the year	14	–	11	–
Changes included in the cash flow from financing activities:				
Long-term loans taken out from banks	80	–	–	–
Bond issue	400	–	400	–
Amortisation of long-term loans from banks	-80	–	–	–
Change in used bank overdraft facilities	-14	14	-11	11
<b>Total changes included in the cash flow from financing activities</b>	<b>386</b>	<b>14</b>	<b>389</b>	<b>11</b>
Other changes:				
Direct costs in connection with the bond issue that are charged to expense over the loan period and included in the cash flow from operating activities	-7	–	-7	–
Direct costs charged to expense	1	–	1	–
<b>Interest-bearing liabilities at the end of the year</b>	<b>394</b>	<b>14</b>	<b>394</b>	<b>11</b>

### BOND 2017

Rottneros AB issued in August 2017 an unsecured bond of SEK 400m with a maturity of 5 years. The bond bears variable interest of STIBOR 3m + 4.15 per cent and must be repaid in September 2022.

The bond has a framework amount of SEK 600m, which allows for an additional bond issue of SEK 200m. The bond is listed on Nasdaq Stockholm.

Direct costs in connection with the issue amounted to approximately SEK 7m and will be reported as interest expense over the bond period.

The bond terms contain standard covenants in the form of net debt to EBITDA of a maximum of 3.5, minimum equity/assets ratio of 50%, and a maximum dividend of 50% of the previous year's net income. These covenants were fulfilled on the balance sheet day.

The fair value of the bond was assessed to be SEK 410m on balance sheet day.

### CREDIT FACILITIES

The Group had used SEK 0m (14) of its bank overdraft facilities on 31 December 2017. The Group had unutilised bank overdraft facilities of SEK 182m (175) on 31 December 2017.

The Parent Company had used SEK 0m (11) of its bank overdraft facilities on 31 December 2017. The Parent Company had unutilised bank overdraft facilities of SEK 90m (79) on 31 December 2017.

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

Per cent	2017			2016		
	SEK	USD	EUR	SEK	USD	EUR
Bank overdraft facilities	1.30	4.10	1.15	1.30	3.60	0.60

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 were as follows:

	2017		2016	
SEK		–		7
EUR		–		6
USD		–		1
<b>Total</b>		<b>–</b>		<b>14</b>

At the end of 2016, the Group also had an unused facility for long-term loans of SEK 120m with two banks. The Group utilised SEK 80m of this facility during 2017 but repaid all amounts after the bond issue in August 2017.

The loans had a variable interest rate based on STIBOR 3m plus a margin. The loan terms included customary covenants such as net debt in relation to EBITDA of a maximum of 2.5, 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 in 2016 and 2017.

The facility was closed down in September 2017.

## NOTE 21.

### ACCOUNTS PAYABLE

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

	Group		Parent Company	
	2017	2016	2017	2016
SEK	130	135	2	4
EUR	17	15	–	–
USD	1	2	–	–
<b>Total</b>	<b>149</b>	<b>152</b>	<b>2</b>	<b>4</b>

The book values of accounts payable are the same as the fair values and correspond to nominal amounts.



## NOTE 22. OTHER NON-INTEREST-BEARING LIABILITIES

	Group		Parent Company	
	2017	2016	2017	2016
Liabilities to subsidiaries	–	–	109	112
Other liabilities	31	13	0	0
Accrued expenses and deferred income:				
Holiday pay liability	25	23	2	2
Social security contributions	11	10	0	0
Payroll liability	8	8	–	–
Raw material cost and input goods	49	44	–	–
Other accrued expenses	62	42	16	2
Other deferred income	11	16	0	0
Total accrued expenses and deferred income	166	143	18	4
<b>Total</b>	<b>197</b>	<b>156</b>	<b>127</b>	<b>116</b>

## NOTE 23. CONTINGENT LIABILITIES

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

In 2016-2017 the Board of Directors decided on investments relating to the long-term industrial plan, Agenda 500. Approximately SEK 130m of these approved investments will be carried out in 2018. Around half of these investments are already procured and contracted.

In addition to Agenda 500, the Board has in 2017 also decided on investments of approximately SEK 120m that will be carried out in 2018. These investments mainly relate to the weak gas system at Vallvik Mill, a new factory for Rottneros Packaging, and normal replacement investments at the mills. Around half of these investments are already procured and contracted.

## NOTE 24. EVENTS AFTER THE END OF THE PERIOD AND OTHER DISCLOSURES

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 38-42 for disclosures about risks faced by the company.

# AUDITOR'S REPORT

To the general meeting of the shareholders of Rottneros AB (publ), corporate identity number 565013-5872.

## REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

### Opinions

We have audited the annual accounts and consolidated accounts of Rottneros AB (publ) except for the corporate governance statement on pages 46-50 and the statutory sustainability report on pages 43-45 for the year 2017. The annual accounts and consolidated accounts of the company are included on pages 35-73 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 2017 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 2017 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. Our opinions do not cover the corporate governance statement on pages 46-50 and the statutory sustainability report on pages 43-45. 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.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

### 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. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

### Investments in fixed assets

#### Description

Rottneros' fixed assets are recorded at SEK 1,020m in the consolidated financial statements as of 31 December 2017. As described in note 12 of the annual report, the group's capitalised investments in 2017 amount to SEK 227m 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 Group accounting principles. The accounting involves several assumptions, including judgements regarding capitalisation or expensing of costs, 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.

### How our audit addressed this 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 capitalised amounts against the established criteria's for capitalisation versus expensing. We have reviewed finalised 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

#### Description

As described in note 15 of the annual report, the inventory of finished goods is recorded at SEK 170m in the consolidated financial statements as of 31 December 2017. The inventory is measured at the lower of cost and net realisable 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 realisable 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 Group accounting principles.

### How our audit addressed this key audit matter

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 realisable 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 1-34 and 75-83. 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 intend to liquidate the company, to cease operations, or have 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

## 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 2017 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 fulfil 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.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

### The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 46-50 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 ISAs 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.

### The auditor's opinion regarding the statutory sustainability report

The Board of Directors is responsible for the statutory sustainability report on pages 43-45, and that it is prepared in accordance with the Annual Accounts Act.

Our examination has been conducted in accordance with FAR's auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

A statutory sustainability report has been prepared.

Ernst & Young AB, Jakobsbergsgatan 24, 111 44, Stockholm, was appointed auditor of Rottneros AB (publ) by the general meeting of the shareholders on 16 May 2017 and has been the company's auditor since 22 March 2013.

Stockholm, 19 March 2018  
Ernst & Young AB

Erik Sandström  
Authorized Public Accountant

## OTHER INFORMATION

# ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) will be held on Wednesday, 16 May 2018 at 2:00 p.m. in "Spegelsalen" at Rottneros Park in Sunne.

### 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, 9 May 2018, and
- notify the company of their intention to attend the AGM no later than Friday, 11 May 2018. The notification can be made via Rottneros' website, [www.rottneros.com](http://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, 9 May 2018, 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 Friday, 11 May 2018. Proxy forms are available on the company's home page, [www.rottneros.com](http://www.rottneros.com).

# COMPOSITION OF THE BOARD



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

## PER LUNDEEN

(1955) M.Sc. (Engineering). Board member 2013-2015, and from the spring of 2016. Chairman of the Board of Directors since 2016. Chairman of the Remuneration Committee and member of the Audit Committee. President and CEO 2014- 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. Not independent of the company and its management, and of Arctic Paper S.A. Shareholding: 250,000 shares.

## ROGER MATTSSON

(1973) M.Sc. (Business and Economics). Board member since 2016. Member of the Audit Committee. CFO for Nemus Holding AB. Board member of Arctic Paper S.A. and Munkedal Skog AB. Independent of the company and its management, but not independent of Arctic Paper S.A. Shareholding: None.

## GUN-MARIE NILSSON

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

## MARIE S. ARWIDSON

(1951) M.Sc. (Business and Economics). 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. Independent of both the company and its management and of the company's largest shareholders. Shareholding: None.

## PER SKOGLUND

(1960) Board member since 2014. Member of the Remuneration Committee. CEO and member of the management team, Arctic Paper S.A. Independent of the company and its management, but not independent of Arctic Paper S.A. Shareholding: 10,000 shares.

## MIKA PALMU

(1975) Production coordinator, Vallviks Bruk AB. Employee representative since 2016. Deputy board member. Chairman of Unionen local 23. Shareholding: None.

## ULF CARLSSON

(1950) M.Sc. (Chemical Engineering). Board member since 2016. Member of the Remuneration Committee and the Audit Committee. Vice Chairman of Troedssonstiftelsen. Member of IVA, the Royal Swedish Academy of Engineering Sciences. Independent of both the company and its management and of the company's largest shareholders. Shareholding: 1,070 shares.

## DAN KARLSSON

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

## THOMAS WASBERG

(1962) Operator, Vallviks Bruk AB. Employee representative since 2009. Board member since 2016. Shareholding: None.

## AUDITORS

Ernst & Young AB

**Auditor in charge:**  
Erik Sandström (1975),  
Authorised Public Accountant.

# SENIOR EXECUTIVES



Ingemar Eliasson, Monica Pasanen, Kasper Skuthålla, Lennart Eberleh, Ida Mörtzell, Ragnar Lundberg, Michael Berggren.

## **LENNART EBERLEH**

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

## **RAGNAR LUNDBERG**

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

## **INGEMAR ELIASSON**

(1956) M.Sc. (Forestry).  
Purchasing Director.  
Deputy board member of VMF  
Qbera Economic Association.  
Employed since 1987.  
Shareholding: None.

## **MONICA PASANEN**

(1963) M.Sc. (Business and  
Economics) and MBA. CFO.  
Employed since 2017.  
Shareholding: 10,000 shares.

## **KASPER SKUTHÅLLA**

(1978) M.Sc. (Business and  
Economics). Sales & Business  
Development Director,  
MD Rottneros Packaging AB.  
Employed since 2017.  
Shareholding: None.

## **IDA MÖRTSELL**

(1984) Director HR & Safety.  
Employed since 2014.  
Shareholding: None.

## **MICHAEL BERGGREN**

(1966) M.Sc. (Chemical  
Engineering).  
Mill Director, Vallvik Mill.  
Employed since 2017.  
Shareholding: None.

# THE ROTTNEROS SHARE 2017

The Rottneros share is listed on Nasdaq Stockholm. Rottneros had a market value of approximately SEK 1,100m (1,235) and its share price was SEK 7.15 (8.05) as of 31 December 2017.

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 1,100m (1,235) at the end of 2017 and the company had 11,344 (10,092) shareholders. Foreign shareholdings in Rottneros amounted to 60.2 (59.5) per cent of the capital. Rottneros' share price was SEK 7.15 (8.05) as of 31 December 2017.

The Stockholm Stock Exchange, Nasdaq Stockholm, had a positive development of approximately 6 (6) per cent (OMXSPI index) in 2017. The Rottneros share peaked at SEK 8.50 (8.05) on 8 May, while the lowest price of SEK 6.20 (5.45) was listed on 22 September. The average price during the year was SEK 7.53 (6.74), an improvement of 12 per cent.

#### THE SHARE'S TURNOVER

A total of 70 (117) million shares were traded in 2017 at a value of SEK 529m (792). This represents a turnover velocity for share stock of 46 (77) per cent for the year. Total turnover velocity among companies in the Small Cap segment on the stock exchange in Stockholm was 67 (60) per cent, while the average for the Stockholm Stock Exchange as a whole was 63 (67) per cent. An average of 209 (260) 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 153.4m (153.4) 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 0.10 as an extra dividend for the 2016 financial year. The Board of Directors proposes a dividend of SEK 0.30 per share as an ordinary dividend and SEK 0.07 per share as an extra dividend for the 2017 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.

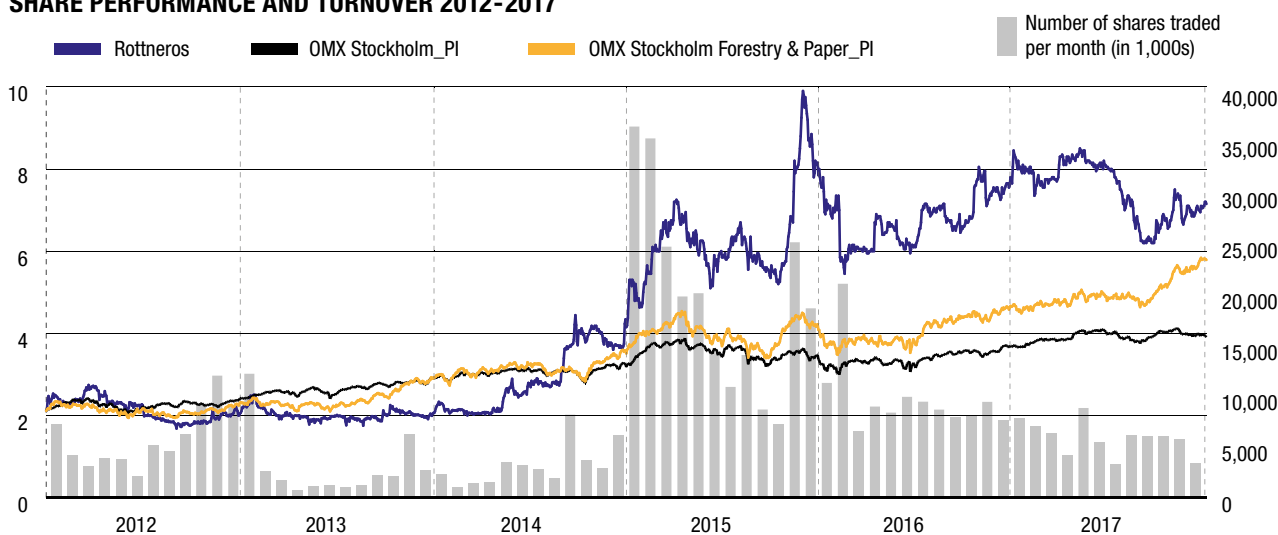
#### SHARES HELD BY THE BOARD OF DIRECTORS AND SENIOR EXECUTIVES

The own holdings of the Board of Directors and senior executives and those of related parties amounted to a total of 337,070 (573,261) shares in Rottneros AB as of 31 December 2017. No subscription warrants were issued as of 31 December 2017.

#### 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](http://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 2012-2017



Source: SIX Financial Information

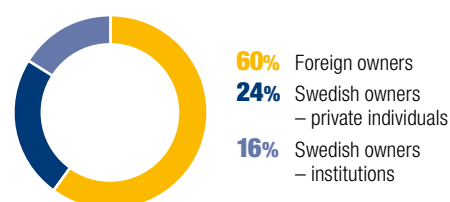
## OWNERSHIP STRUCTURE AS OF 31 DEC 2017

Shareholders	Number of shares (= votes)	Per cent of capital
Arctic Paper S.A.	78,230,883	51.0
PROAD AB	8,190,000	5.3
Försäkringsbolaget Avanza Pension	3,946,724	2.6
Nordnet Pensionsförsäkring AB	1,860,572	1.2
Clearstream Banking S.A., W8IMY	1,788,469	1.2
Försäkrings AB Skandia	1,550,703	1.0
SSB Client Omnibus AC OM07 (15 PCT)	1,470,023	1.0
Borell, Joakim	1,438,110	0.9
S3 / IICS Clients	1,413,538	0.9
SEB Investment Management	1,169,784	0.8
<b>Total for 10 largest owners – by size of holding</b>	<b>101,058,806</b>	<b>65.9</b>
Other shareholders	51,513,119	33.6
Rottneros AB (treasury shares)	821,965	0.5
<b>Total</b>	<b>153,393,890</b>	<b>100.0</b>

## SHAREHOLDER SPREAD AS OF 31 DEC 2017

Number of shares	Number of shareholders	Per cent of capital
1–500	5,729	0.5
501–1,000	1,556	0.8
1,001–5,000	2,571	4.3
5,001–10,000	730	3.7
10,001–15,000	216	1.8
15,001–20,000	135	1.7
20,001–	407	87.2
<b>Total</b>	<b>11,344</b>	<b>100.0</b>

## DISTRIBUTION OF OWNERSHIP BY CATEGORY

SHARE DATA<sup>1</sup>

		2017	2016	2015	2014	2013	2012
Shares, opening <sup>2</sup>	Number	152,572	152,572	152,572	152,572	152,572	152,572
Shares, closing <sup>2</sup>	Number	152,572	152,572	152,572	152,572	152,572	152,572
Average number of shares <sup>2</sup>	Number	152,572	152,572	152,572	152,572	152,572	152,572
Holdings of treasury shares <sup>2</sup>	Number	822	822	822	822	822	822
Earnings per share	SEK	0.75	0.84	1.46	0.87	-1.04	-0.09
Cash flow after investments/share <sup>3</sup>	SEK	-0.10	-0.60	1.52	0.29	0.16	-0.07
Equity per share	SEK	7.91	7.54	6.93	6.39	5.41	6.51
Dividend per share <sup>4</sup>							
Ordinary dividend	SEK	0.30	0.30	0.30	0.20	–	–
Extra dividend	SEK	0.07	0.10	0.20	0.60	–	–
Total	SEK	0.37	0.40	0.50	0.80	–	–
Dividend/equity per share	%	4.7	5.3	7.2	12.5	–	–
Share price at end of period	SEK	7.15	8.05	8.15	3.74	1.99	2.00
Market price/equity/share	times	0.9	1.1	1.2	0.6	0.4	0.3
P/E ratio	times	9.5	9.6	5.6	4.3	Neg.	Neg.
Dividend yield <sup>5</sup>	%	5.2	5.0	6.1	21.4	–	–

<sup>1</sup> None of the key ratios are affected by any dilution effect.

<sup>2</sup> The number of shares is in thousands, excluding Rottneros' treasury shares.

<sup>3</sup> Cash flow from operating activities less investments in non-current assets, divided by the number of shares.

<sup>4</sup> Proposed dividend for 2017.

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

# SIX-YEAR REVIEW

## SIX-YEAR REVIEW

GROUP PERFORMANCE IN SUMMARY	2017	2016	2015	2014	2013	2012
<b>INCOME STATEMENT, SEK M</b>						
Net turnover	1,912	1,730	1,795	1,547	1,389	1,437
Profit/loss before depreciation/amortisation and impairment losses (EBITDA)	247	221	321	177	-11	61
Depreciation/amortisation and impairment losses	-91	-51	-58	-59	-142	-55
Operating profit/loss	156	170	263	118	-154	6
Financial items (net financial items)	-9	-7	-4	-4	-4	0
Profit/loss after financial items	147	163	259	114	-158	6
Tax on profit for the year	-33	-35	-36	19	0	-19
Net income	114	128	223	133	-158	-13
<b>STATEMENT OF CASH FLOWS, SEK M</b>						
Cash flow from operating activities	222	187	335	104	62	41
Investments in non-current assets	-237	-278	-103	-59	-37	-51
Cash flow after investments	-15	-91	232	45	25	-10
Sale of non-current assets	0	0	0	39	2	1
Cash provided by/used in financing activities	325	-62	-152	-30	-18	14
Net cash flow	310	-153	80	54	9	5
<b>BALANCE SHEET ITEMS (SEK M)</b>						
Non-current assets	1,078	905	706	691	706	809
Inventories	279	278	267	255	246	240
Current receivables	324	290	244	226	175	219
Cash and cash equivalents	326	16	169	89	35	26
Net debt (+) / net cash (-)	68	-2	-169	-59	25	52
Shareholders' equity	1,207	1,151	1,058	975	825	993
Long-term interest-bearing liabilities	394	-	-	30	0	0
Long-term non-interest-bearing liabilities	52	14	18	9	13	15
Current interest-bearing liabilities	-	14	-	0	60	78
Current non-interest-bearing liabilities	354	310	310	247	264	208
Capital employed	1,275	1,149	889	916	849	1,045
Total shareholders' equity and liabilities	2,007	1,489	1,386	1,261	1,161	1,294
<b>KEY RATIOS</b>						
Operating margin, %	8.2	9.8	14.7	7.6	-11.1	0.4
Profit margin, %	7.7	9.4	14.4	7.3	-11.4	0.4
Return on equity, %	9.6	11.6	21.9	13.6	Neg.	Neg.
Return on capital employed, %	12.9	16.7	29.1	13.4	Neg.	0.6
Equity/assets ratio, %	60	77	76	77	71	77
Debt/equity ratio, %	6	0	-16	-6	3	5
<b>OTHER</b>						
Average no. of employees	301	282	264	251	256	275
Pulp production, 1,000 tonnes	401.2	374.1	373.3	345.0	333.4	330.4
Pulp deliveries, 1,000 tonnes	395.9	374.1	372.2	344.2	332.1	331.4
List price of NBSK pulp, USD per tonne <sup>1</sup>	882	802	857	925	857	814
SEK/USD <sup>2</sup>	8.54	8.56	8.44	6.86	6.51	6.78
List price of NBSK pulp, SEK per tonne	7,530	6,867	7,228	6,345	5,582	5,519

<sup>1</sup> Source: Market listing once a week. Annual average based on weekly quotations.

<sup>2</sup> Source: The Riksbank's yearly average.



## QUARTERLY DATA, GROUP

	2017				2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Income statement, SEK m</b>												
Net turnover	496	472	472	472	441	444	413	432	429	455	456	454
Profit before depreciation/amortisation and impairment losses (EBITDA)	21	66	83	77	1	61	73	86	18	95	90	118
Depreciation/amortisation and impairment losses	-28	-22	-21	-20	-5	-15	-16	-15	-15	-14	-14	-14
Operating profit/loss	-7	44	62	57	-4	46	57	71	3	81	76	104
Financial items (net financial items)	-5	-3	0	-1	-3	-1	-1	-2	-2	-1	-1	-1
Profit/loss after financial items	-12	41	62	56	-7	45	56	69	1	80	75	103
Tax on income for the period	2	-9	-13	-13	1	-11	-10	-15	0	-18	6	-23
Net income	-10	32	49	43	-6	34	46	54	1	62	81	80
<b>Per share</b>												
Earnings per share, SEK	-0.06	0.21	0.32	0.28	-0.04	0.23	0.30	0.35	0.01	0.41	0.53	0.52
<b>Other</b>												
Pulp production, 1,000 tonnes	94	103	101	103	87	92	100	95	89	95	96	94
Pulp deliveries, 1,000 tonnes	100	96	99	101	93	96	93	93	91	95	95	91
List price of NBSK pulp, SEK per tonne	7,949	7,279	7,572	7,290	7,313	6,912	6,541	6,699	6,970	7,173	7,199	7,560

## ALTERNATIVE PERFORMANCE MEASURES

Alternative performance measures (APM) are financial measures that are not defined in IFRS and are presented outside the financial statements. Rottneros uses the following APMs: EBITDA, Cash flow after investments, Net debt/net cash, Capital employed, Return on capital employed, Return on

equity, Equity/assets ratio and Debt/equity 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 key indicators P/E ratio and

Direct yield, which the Company believes are relevant for investors and other readers. APMs 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 as a percentage of net turnover.

**EBITDA**

Operating profit before depreciation/amortisation and impairment losses.

**PROFIT MARGIN**

Profit 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 in non-current assets.

**NET DEBT/NET CASH**

Interest-bearing liabilities minus cash and cash equivalents.

**CAPITAL EMPLOYED**

Shareholders' equity plus interest-bearing liabilities minus cash and cash equivalents.

**RETURN ON CAPITAL EMPLOYED**

Operating profit as a percentage of average capital employed (average of capital employed at the beginning of the year and at the end of the year).

**RETURN ON EQUITY**

Net income as a percentage of average shareholders' equity (average of shareholders' equity at the beginning of the year and at the end of 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.

**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 cm<sup>3</sup>/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.

**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/m<sup>2</sup>.

## ADDRESSES

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## ABOUT THE ANNUAL REPORT

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