

# YOUR PULP COMPANY





**p. 6**  
Comments  
by the CEO



**p. 16**  
Products and areas  
of application



**p. 28**  
Sustainability  
report

## Contents

### OPERATIONS

- 3** The year in brief
- 4** Rottneros in brief
- 6** Comments by the CEO
- ▶ **8** Value generation at Rottneros
- 10** Investments
- 11** Financial goals
- 12** Market
- 16** Products and areas of application
- 22** Our operations
- ▶ **26** The supply of raw materials
- ▶ **28** Sustainability report
  - Introduction
  - Employees
  - Environment
- 36** Letter from the Chairman

### DIRECTORS' REPORT

- 37** Sales, earnings, investments and financial position
- ▶ **40** Opportunities and risks
- 45** Corporate governance report
- 50** Appropriation of profits and signatures
  - ▶ Sustainability information

### FINANCIAL REPORTING

- 51** Consolidated statements of income
- 52** Consolidated balance sheet
- 53** Consolidated statement of changes in shareholders' equity
- 54** Consolidated statement of cash flows
- 55** Parent company statements of income
- 56** Parent company balance sheet
- 57** Parent company statement of changes in shareholders' equity
- 58** Parent company statement of cash flows
- 59** Supplementary disclosures and notes
- 74** Auditor's report

### OTHER INFORMATION

- 75** Annual General Meeting
- 76** Board of directors, auditors and management team
- 78** The Rottneros share
- 80** Multi-year review
- 81** Alternative performance measures and definitions of key ratios
- 82** Glossary
- 83** Addresses

## Significantly improved performance

To sum up, 2018 was a strong year for Rottneros, where the Group continues to deliver good profitability at the same time that the upgrade of our two pulp mills was completed under the Agenda 500 investment programme. We continue our structured and systematic work with constant improvements in the core business, while developing new products that contribute to a fossil-free society.

## Goal

### THE GROUP SHALL ACHIEVE SUSTAINED PROFITABILITY OVER A BUSINESS CYCLE

We will accomplish this objective by focusing on selected niche products, providing the best service and always putting safety first.

#### ➔ SAFETY FIRST

The safety of our employees takes priority over everything else and we emphasise safety in every situation. Our goal is to have zero personal injuries due to inadequate safety.

#### ➔ SELECTED NICHE PRODUCTS

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

#### ➔ CUSTOMER FOCUS

We will work closely with our customers and learn about their products in order to develop the best type of pulp for their specific application.

#### ➔ ROTTNEROS PACKAGING

In 2018 we continued to develop Rottneros Packaging where we manufacture packaging trays, which are mainly used for food.

# 2018 IN BRIEF

## FINANCIAL RESULTS

SEKm	2018	2017	Change, %
Net turnover	2,260	1,912	18
EBITDA	394	247	60
EBIT	295	156	89
Profit after financial items	276	147	88
Net income	221	114	94
Earnings per share, SEK	1.45	0.75	93

## RECORD-BREAKING PERFORMANCE

**TURNOVER INCREASED** by 18% to SEK 2,260m (1,912) and operating profit (EBIT) was SEK 295m (156), which is a record in the Group's current structure.

## AGENDA 500 COMPLETED

**THE AGENDA 500 LONG-TERM INVESTMENT PROGRAMME** was successfully completed in 2018. Now we are dedicating our energy to consolidating and optimising what we have built up in terms of modern facilities, efficient organisation and products from climate-smart raw materials from the forest.

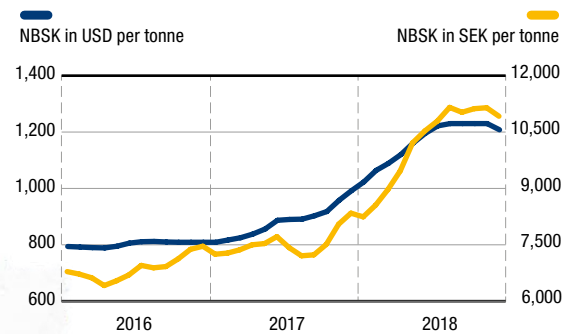
## HIGHER DIVIDEND

**AFTER A STRONG YEAR**, the Board of Directors proposes an increase in the ordinary dividend to SEK 0.40 per share (0.30) and an extra dividend of SEK 0.30 per share (0.07). As a result, 48% of net income for 2018 will be paid as dividends.

## RISING WOOD COSTS

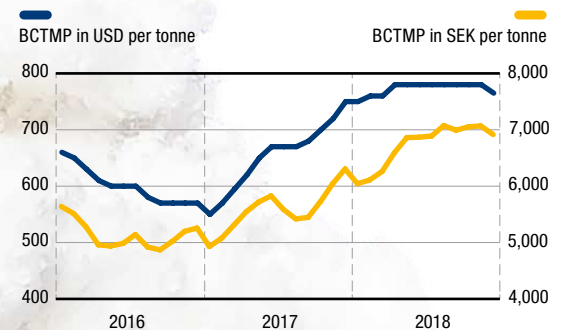
**WOOD COSTS FOR 2018** were about SEK 160m higher than in 2017. Despite the challenges faced by the timber market during of the year, Rottneros was able to ensure deliveries to customers by importing more wood.

## PULP PRICES NBSK IN USD AND SEK



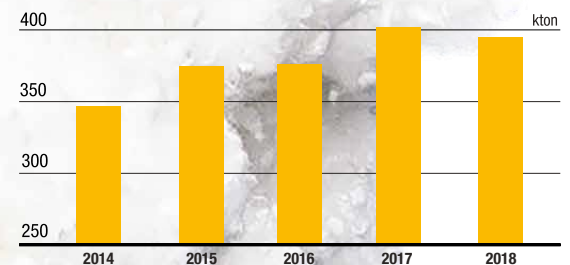
NBSK is proxy for "chemical pulp". Sources: NBSK Europe list price (FOEX), exchange rates (Riksbanken, monthly average).

## PULP PRICES BCTMP IN USD AND SEK



BCTMP is proxy for "mechanical pulp". Sources: BCTMP (RISI), exchange rates (Riksbanken, monthly average).

## PRODUCTION, KTONNE

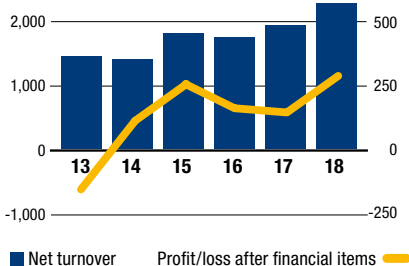


# INDEPENDENT PRODUCER OF MARKET PULP

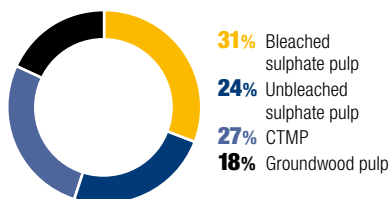
**2,260** Turnover, SEKm  
**303** Employees

**393,600** Pulp production, tonnes

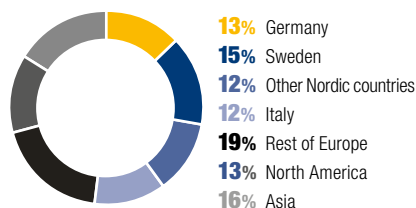
## NET TURNOVER AND RESULTS, SEKm



## THE GROUP'S PRODUCTS, DELIVERY VOLUME DISTRIBUTION



## GEOGRAPHICAL DISTRIBUTION OF TURNOVER



## ROTTNEROS IN FIGURES

SEKm	2018	2017	2016	2015	2014	2013
Net turnover	2,260	1,912	1,730	1,795	1,547	1,389
EBITDA	394	247	221	321	177	-11
EBIT	295	156	170	263	118	-154
Profit/loss after financial items	276	147	163	259	114	-158
Investments in non-current assets	255	237	278	103	59	37
Average no. of employees	303	301	282	264	251	256
Production per employee, kilotonne	1.3	1.3	1.3	1.4	1.4	1.3

## RATIOS, %

Equity/assets ratio	61	60	77	76	77	71
Return on capital employed	20.4	12.9	16.7	29.1	13.4	Neg.
Return on equity	16.6	9.6	11.6	21.9	13.6	Neg.
EBIT margin	13.1	8.2	9.8	14.7	7.6	-11.1

## SEK PER SHARE

Share price, 31 December	8.24	7.15	8.05	8.15	3.74	1.99
Equity per share	9.57	7.91	7.54	6.93	6.39	5.41
Earnings per share	1.45	0.75	0.84	1.46	0.87	-1.04
Cash flow after investments/share	-0.21	-0.10	-0.60	1.52	0.29	0.16
Dividend <sup>1</sup>						
Ordinary dividend	0.40	0.30	0.30	0.30	0.20	-
Extra dividend	0.30	0.07	0.10	0.20	0.60	-
Total	0.70	0.37	0.40	0.50	0.80	-

<sup>1</sup>) Proposed dividend for 2018.

## CHEMICAL PULP

Long-fibre sulphate pulp is manufactured at Vallvik Mill, including Elemental Chlorine Free (ECF) fully bleached sulphate pulp, and Unbleached Kraft Pulp (UKP), an unbleached sulphate pulp, both in the same production line.



Analysis at the operational analysis laboratory.

## MECHANICAL PULP

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



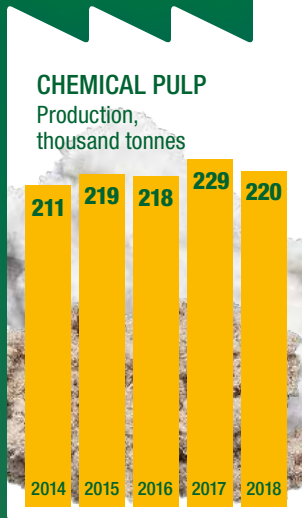
Pulp bale on the baling line.

## ROTTNEROS PACKAGING

Rottneros Packaging develops trays that are mainly intended for food. Our fibre tray initiative is aimed at developing a third focus area for the Group in the future.



# CHEMICAL PULP



## LONG-FIBRE SULPHATE



### Bleached



Board



Printing and writing paper



Tissue paper



Filters

### Production, tonnes

2018

**123,800**

2017

**148,100**

**-16%**

### Unbleached



Kraft paper



Filters



Electrotechnical applications

### Production, tonnes

2018

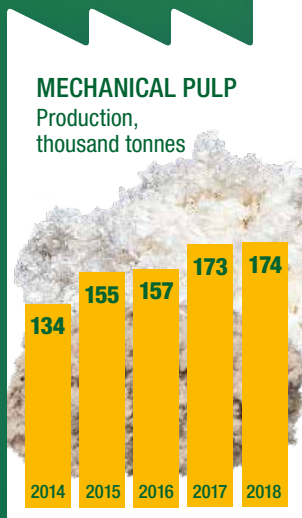
**95,800**

2017

**80,500**

**+19%**

# MECHANICAL PULP



## GROUND-WOOD



### Bleached/unbleached



Board



Printing and writing paper



Tissue paper

### Production, tonnes

2018

**72,000**

2017

**71,300**

**+1%**

## CTMP



### Bleached/unbleached



Board



Printing and writing paper



Tissue paper



Filters

### Production, tonnes

2018

**102,000**

2017

**101,300**

**+1%**

## CTMP



### Bleached



Board



Printing and writing paper



Fine paper

# FIBRE TRAYS



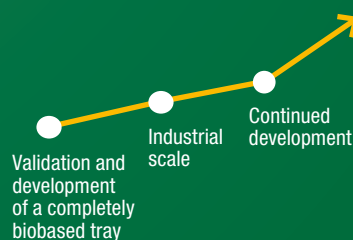
## MECHANICAL PULP

### Product



Food trays and protective packaging

### Development





# STRONG ROTTNEROS READY FOR THE FUTURE

Rottneros can now look back on five successful years. We are strong and resilient, ready to take on the challenges that lie ahead. Now we are dedicating our energy to consolidating and optimising what we at Rottneros have built up in terms of modern facilities, efficient organisation and products from climate-smart raw materials from the forest.

## 2018 IN BRIEF

Looking back on 2018, there are a number of bright spots of which we at Rottneros should be proud. Our close focus on efficiency, sustainability – environmental, social and financial – and the Agenda 500 investment programme are clearly having an impact.

One goal for the year was increased profitability through improvements in the steps and processes we can influence. Despite a turbulent year with many challenges, including the extreme weather of both the winter and summer of 2018, we succeeded with the task.

Turnover increased by 18 per cent and

was SEK 2,260m (1,912) and operating profit almost doubled to SEK 295m (156). These results are extremely encouraging and with a continued strong balance sheet, they provide breathing space and create opportunities.

Rottneros Mill set a new production record. Meanwhile, Vallvik Mill was affected by unplanned shutdowns, which led to a total production slightly below the previous year's production.

Overall, we can see that our structured and systematic efforts to improve capacity utilisation produced results. The total production capacity in the two mills since the autumn of 2018 is 440,000 tonnes and

we are constantly working to map, minimise and eliminate risks that could lead to unplanned production shutdowns, so that capacity is fully utilised. This is a demanding job that takes time.

## CLIMATE-SMART AND SUSTAINABLE

A growing middle class in Asia is increasing its consumption, and the global phenomenon e-commerce demands ecological packaging.

At the same time, strong environmental forces are working to replace fossil-based materials. Few people have not heard, for example, of vast islands of plastic floating in the oceans.

**” We are strong and resilient, ready to take on the challenges that lie ahead.**

At Rottneros, we are convinced that the forest and its products are part of the solution in the effort to combat the effects of climate change that we are all experiencing. The growing forest and our products bind carbon dioxide, and our products of renewable raw material are green.

Over the course of the year Rottneros Packaging moved in to new premises in Sunne and production has begun there in early 2019. There is a strong interest from the market for this type of moulded fibre packaging based on renewable raw materials.

Step by step, we are moving towards completely fossil-fuel free production. Bark and woodchips are replacing oil in production. The Lignol project that we have together with Preem and RenFuel is a strong example of how the forest industry can contribute to a fossil-free society. If the project is successful and an investment decision is made, the residual product lignin from Vallvik Mill will be delivered to RenFuel, where lignin oil is produced which in turn is refined into renewable petrol and diesel.

Rottneros Mill commissioned a new biological water treatment plant during the year. The facility meets new environmental requirements, at the same time that its production of methane gas means that we further reduce the need for fossil fuels. At Vallvik Mill we have invested in a weak gas

system to further improve the environment and to meet requirements associated with our environmental permit.

#### **THE WAY FORWARD WITH “ONE ROTTNEROS”**

The Board of Directors has set a long-term goal for continued profitable sustainable growth and continuous development in the right direction.

An organisation with clear areas of responsibility is an important piece of the puzzle in the construction of “One Rottneros”, where we leverage the collective expertise of all employees in order to lead the Group forward, together.

“One Rottneros” develops common core values and a dedicated leadership, and it clarifies our brand. Safety, education and competence enhancements are important areas on which we have focused.

#### **UNCERTAIN MARKET**

The market is at the end of a long economic upswing, where the slowdown is significant and prices are beginning to fall. However, there are underlying structural trends related to sustainability and increased use of renewable material that support demand for our products.

One bright note is that no announcements have been made regarding capacity increases in the pulp industry, which could provide continued balance between supply

and demand. But uncertainty is growing after the recent price increases for pulp wood, chemicals and other input goods.

Our performance in 2018 is an acknowledgement in every way of our strong teamwork.

#### **WELCOME TO SUNNE**

I would like to thank all of our employees who wholeheartedly, constructively and professionally handle changes and changing conditions. Our employees are directly responsible for our achievements and are crucial to our efforts to develop a sustainable Rottneros.

I would also like to thank our customers, shareholders, suppliers and lenders for their inspiring cooperation and discussions. Yet another thank you to the Board of Directors for all guidance they provide in our endeavour to build a stronger Rottneros.

Holding the Annual General Meeting at our facilities and close to our owners is part of our effort to facilitate communication with owners and investors. Last year’s well-attended AGM was held in Sunne, with a tour of Rottneros Mill. This year we would like to invite everyone back to Sunne and the Group’s roots in Värmland at Rottneros.

**Lennart Eberleh, CEO**

# ROTTNEROS GENERATES VALUE

Rottneros has considerable significance for many stakeholders. The company creates shareholder value by producing and selling specialised products. During the process Rottneros also generates jobs, contributes to regional development, offers business opportunities for suppliers and ultimately, specialised products that enable our customers to be competitive in a global market. The products that Rottneros manufactures and sells are based on a renewable raw material and are part of a sustainable cycle.

## RESOURCES AND ASSETS

### Production facilities

▶ Two specialised pulp mills and one new facility for production of fibre trays.

### Input goods

▶ Our products are made with raw material from the forest. Chemicals, water and electricity are also required.

### Human capital

▶ About 300 dedicated employees help to develop and produce high-quality goods within our product niches.

### Financial capital

▶ Capital from lenders and shareholders is essential for our operation.

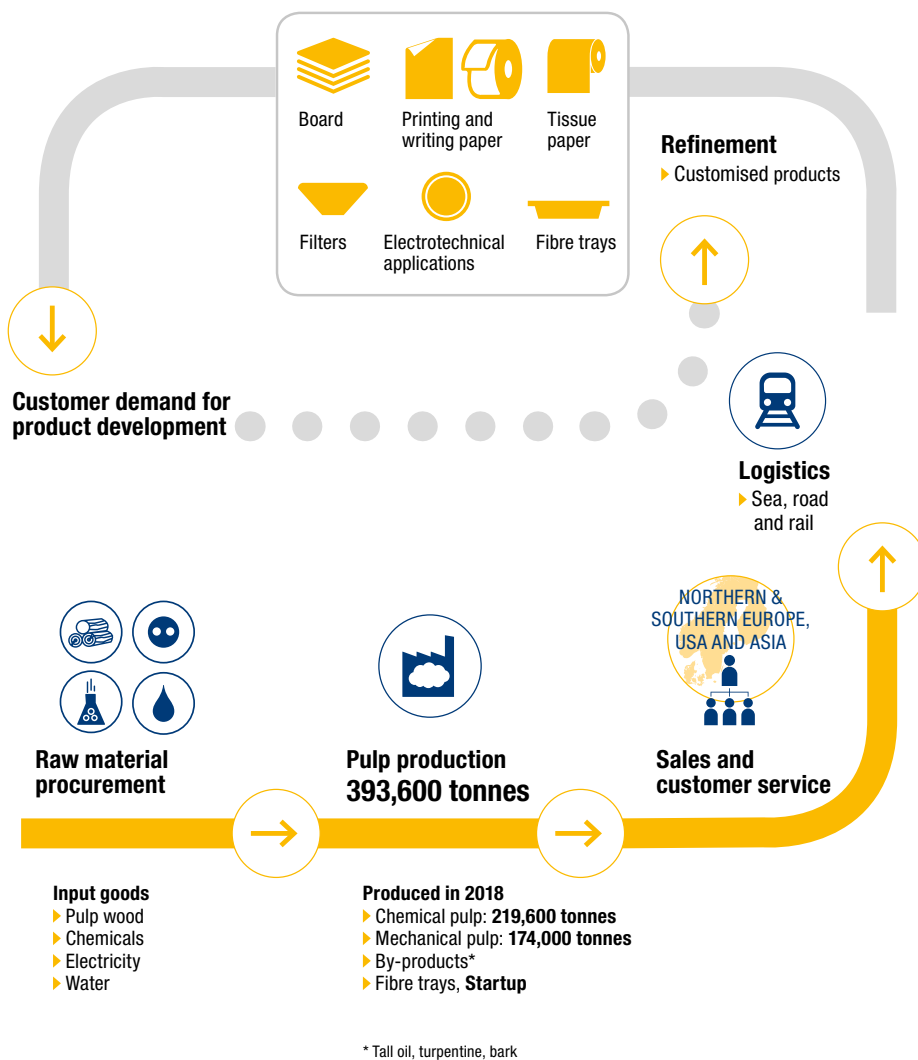
### Relationships

▶ Trusting, long-term relationships with customers, suppliers, partners and society.



## ROTTNEROS' OPERATIONS

### Areas of application for the market pulp



## EXTERNAL FACTORS

- ▶ Strong demand for pulp for production of paper, packaging and special products.
- ▶ Growing trend for renewable options.

## STAKEHOLDERS

- ▶ Customers
- ▶ Suppliers
- ▶ Shareholders
- ▶ Lenders
- ▶ Employees
- ▶ Society



## VISION

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

## BUSINESS CONCEPT

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

## OBJECTIVES AND 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:

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

### VALUE FOR STAKEHOLDERS

#### Shareholders

- ▶ Return on capital and dividends create conditions for new investments.

#### Lenders

- ▶ An opportunity to contribute to a sustainable business through a capital investment with a reliable yield and repayment.

#### Employees

- ▶ Our employees value a safe workplace with opportunities for growth.

#### Customers

- ▶ Customised, innovative and sustainable products support the long-term aspirations and objectives of our customers.

#### Suppliers

- ▶ Cooperation with our suppliers help to develop business, new innovations and high-quality products.

#### Society

- ▶ Our operations help local communities to grow, providing direct employment for 300 people, while indirectly employing many more. This contributes to sustainable growth.

### FINANCIAL VALUE

■ Net income\*  
SEK 221m

■ Salaries, social fees and other personnel costs  
SEK 262m

■ Raw materials and necessities  
SEK 1,211m

■ Other external costs  
SEK 604m

■ Interest expense  
SEK 20m

■ Income taxes  
SEK 55m

\* Of which SEK 107m proposed as a dividend to shareholders.





The biological water treatment plant at Rottneros Mill was completed during the year.

# SIGNIFICANT ENVIRONMENTAL INVESTMENTS IN 2018

Rottneros produces several specialised types of pulp that are market leaders. In 2018 Rottneros successfully completed its multi-year Agenda 500 investment programme, which primarily focused on increasing the company's production capacity, as well as on producing more specialised products for the market. In addition, the Group made extensive environment-related investments in 2018 and also began to invest in a new production line for fibre trays.

The Agenda 500 strategic action plan was set up in 2015 to stabilise sustained profitability and return over the medium and long term for Rottneros and its shareholders through safety, increased productivity and elevated capacity. The investment programme, which is now completed, comprised a total of approximately SEK 800m for the two pulp mills during 2015-2018.

A long-term goal was set to increase production capacity from a level of 345,000 tonnes to 460,000-500,000 tonnes. In order to fully utilise available production capacity, the company is focusing on increasing availability in the pulp lines. This effort, which has been underway for a few years, is a top priority. Moreover, the investment for each additional tonne has been substantially lower for Rottneros' pulp mills compared

with new pulp factories under construction internationally. Therefore, these investments make Rottneros more competitive.

The largest investments that were installed and commissioned in 2018 were a weak gas system at Vallvik Mill, an expanded water treatment plant at Rottneros Mill, and further expansion of production capacity for the CTMP line at Rottneros Mill.

**VALLVIK MILL**

Vallvik Mill has invested in expanding production capacity in previous years. In 2018, investments have focused on the environment, safety and availability.

On 1 October 2018, a new EU directive came into force on Best Available Techniques to handle weak gases, which are process gases with a moderate sulphur content. The directive and the agreed limit value are binding for all pulp mills.

The court had previously imposed a limit value for sulphur emissions on Vallvik Mill in an environment ruling. To further improve the environment and to meet the environmental requirements Vallvik Mill installed a weak gas system to collect sulphur-containing gases from various sources. The collected gases are then transferred to a recovery boiler where they are burned. Since Vallvik Mill commissioned the new system after 1 October 2018, the mill applied for and received a waiver to meet the requirements beginning at year-end 2018/2019.

The weak gas system is an extensive system with a total cost of about SEK 70m.

In order to increase production at the mill and ensure safe operation, the safety system of the recovery boiler was

investigated. The investigation included an assessment of all vital safety systems. Appropriate measures were then taken during the year, including replacing the control systems and safety systems for the burners and installing a new black liquor preheater. The total cost for the recovery boiler safety system is about SEK 40m.

Vallvik Mill also carried out a number of replacement investments to replace worn out equipment in order to avoid serious disruptions. Backwater tanks, a bleaching chemical reactor and the stand for a baler were replaced with new equipment during the year.

**ROTTNEROS MILL**

At Rottneros Mill, production capacity of the CTMP line was expanded in 2018 by removing a number of limiting process elements. In the CTMP project, approximately SEK 45m was primarily invested in a refiner (mill) which follows the large refiner in a second step at low concentration to provide final treatment of the fibres. Other measures taken are an upgrade of a press for the pulp bales and a system for entering with higher concentration into the final dewatering process. After fine-tuning, these measures will give the CTMP line a capacity of 118,000 tonnes/year begin-

ning in 2020, which is an increase of 18,000 tonnes/year compared with the capacity prior to the investment.

To meet the new environmental requirements for the expanded production, the mill invested about SEK 85m in expanded capacity for biological water treatment. The technology chosen, anaerobic treatment, provides a by-product in the form of methane gas which in the long term can be used to dry pulp.

**ROTTNEROS PACKAGING**

Rottneros Packaging, a new area of development for the Group, is completing a production plant for fibre trays based on pulp from Rottneros Mill. The facility is located in Sunne in its own factory building. The first phase of the investment will total about SEK 30m. The factory will be commissioned in the first quarter of 2019.

## DIVIDEND POLICY AND LONG-TERM GOALS

As part of its review of the company's strategies, the Board of Directors of Rottneros AB has updated the company's dividend policy and set specific long-term financial and sustainability goals for the Group.

**DIVIDEND POLICY**

- ➔ Under the updated dividend policy, Rottneros will pay 30-50 per cent of net income, in accordance with current covenants.
- ➔ In addition to the updated dividend policy, the Board has set the following long-term financial goals for Rottneros:

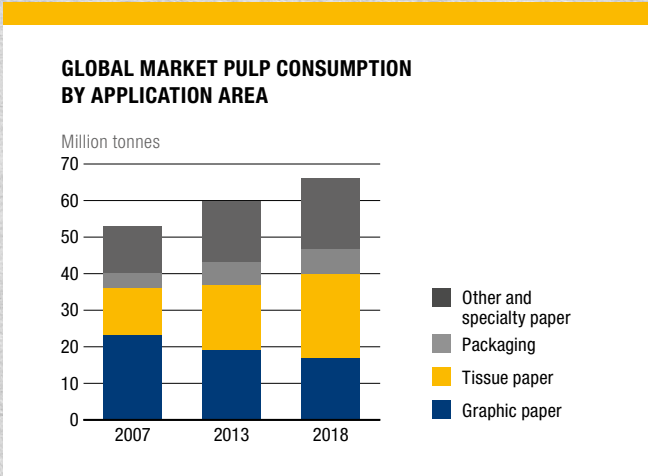
Financial goals	Target	Outcome 2018
Average growth, produced tonnes pulp	3%	3% on average during past 3 years
Share of alternative revenue sources in net turnover	At least 10% in 2023	5.5%
Equity/assets ratio	Over 50%	61%

- ➔ The Board has also set the following long-term sustainability goals for Rottneros:

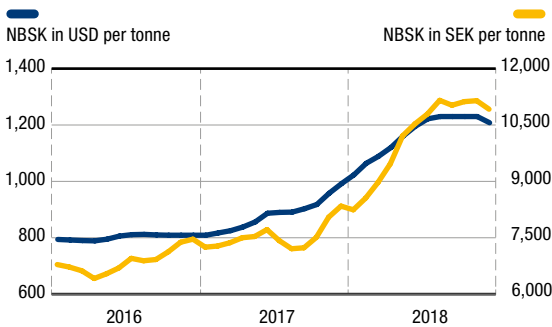
Sustainability goals	Target	Outcome 2018
Accidents leading to sick leave	Zero target	6
Share of female employees	At least 30% in 2025	18%
Share of employees who have completed training in Rottneros' revised Code of Conduct	100%	Training begins 2019

# MARKET FACTS

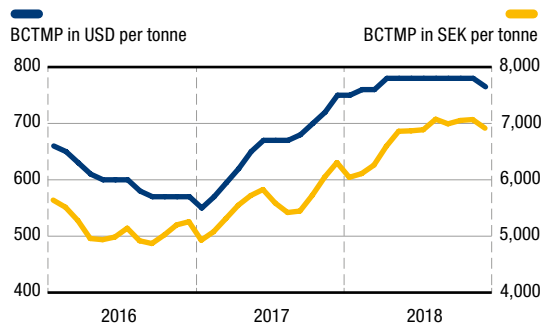
**Tissue paper is the largest application area with 35% of global consumption.**



PULP PRICES NBSK IN USD AND SEK



PULP PRICES BCTMP IN USD AND SEK



NBSK is proxy for "chemical pulp", BCTMP is proxy for "mechanical pulp". Sources: NBSK Europe list price (FOEX), BCTMP (RISI), exchange rates (Riksbanken, monthly average).

# ROTTNEROS AND THE MARKET

The Rottneros Group is an independent and flexible producer of both chemical and mechanical pulp. The Group operates in the open pulp market, where the pulp produced is sold to customers throughout the world. The majority of Rottneros' sales take place in Europe, the United States and a few Asian markets.

## ROTTNEROS AND THE MARKET

More than 175 million tonnes of pulp are produced worldwide every year. Just over 60 per cent of this volume is made by integrated paper and board mills. The remainder, about 65 million tonnes per year, consists of market pulp, almost 40 per cent of which is long-fibre pulp made from softwood.

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

Rottneros strives to be a market-leading producer in a few selected niches. For example, pulp from Rottneros is used for production of various types of filters, as well as for "E-pulp", which is used in products for electrical insulation such as

in transformers and high voltage cables for underwater use. 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 impose high requirements for stiffness and surfaces for printing.

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

Combined pulp production for the Rottneros Group amounted to 393,600 tonnes in 2018.

## MARKET OVERVIEW

### The global market

The global economy was strong in 2018, but the cyclical peak has passed and, in large parts of the world, economic growth slowed towards the end of the year. During the fourth quarter, demand for market pulp slowed, especially in China. A total

## ROTTNEROS ON THE MARKET



**13%**  
North America

**71%**  
Europe

**16%**  
Asia

### Rottneros' deliveries 2018

**382,500** TONNES

#### THE GROUP'S CUSTOMER SEGMENTS, PROPORTION OF TOTAL DELIVERIES



**29%** Board and packaging  
**23%** Printing and writing paper  
**17%** Filters  
**13%** Special applications  
**10%** Electrotechnical applications  
**8%** Tissue paper

of nearly 66 million tonnes of pulp were delivered in 2018, a slightly lower level compared with 2017.

Consumption of pulp for graphic paper continued to decline during the year as a result of the ongoing structural changes, in which digital media are taking market share from printed products. However, the decline in graphic paper was offset by increased demand from the hygiene and packaging segments.

In terms of products, the market is dominated by chemical pulp, primarily bleached sulphate pulp made from softwood or hardwood. Mechanical pulp and unbleached sulphate pulp account for a small component of the market, around 10 per cent.

#### Europe

Europe's consumption of about 20 million tonnes corresponds to barely 30 per cent of global market pulp consumption. Demand was robust in 2018; deliveries to the region increased by 2 per cent.

#### Asia and the US

The non-European markets account for one quarter of sales for the Rottneros Group,

comprising mechanical pulp for Asia, and chemical pulp for the northeastern US.

More than half of all market pulp worldwide, about 35 million tonnes, is consumed in Asia. Deliveries to the region declined sharply in the fourth quarter, and were on the same level of 2017 for the full year.

The North American market, which is dominated by hygiene products and specialty paper, amounts to 7.5 million tonnes. Demand for market pulp fell during the year. Despite large domestic production, there is a need for the special pulp that Rottneros delivers.

#### LONG-TERM DRIVERS AND TRENDS

The markets for global pulp producers are currently shifting, both in terms of products and geographically. There is a trend towards increasing production of pulp for tissue paper, packaging and specialty paper, and decreasing pulp production for graphic paper. Meanwhile, there is a shift of both production and consumption from the mature economies in the west towards the emerging markets in Asia, where rapid industrial expansion and improving living standards also entail increased consumption

of pulp.

Global demand for market pulp has increased about 2 per cent annually over the past five years, though this growth has been unevenly distributed among markets and regions. The mature industrial countries show stagnating or only weakly growing demand, while consumption in the Asian emerging markets has surged. Asia has accounted for 90 per cent of the global increase in consumption of market pulp over the past five years. At more than 23 million tonnes, China is the world's largest buyer of market pulp and the country has increased its share of the global market from 22 to 35 per cent since 2010. For a long time, graphic paper was the predominant area of use for market pulp. Ten years ago, more than 40 per cent of the world's market pulp for production of this type of paper. The ongoing structural shift in media has forced the paper industry to restructure and adapt production to lower demand. Nevertheless, graphic paper is still a significant application, but its share of global consumption is now estimated to have fallen to 25 per cent. For pulp producers, this trend will lead to conti-

## MARKET

nued readjustments and a search for new customer segments and product niches in the coming years.

The application area that is showing fastest growth is tissue paper. As living standards rise on the emerging markets, capacity for private consumption is also increasing, including for hygiene products. Demand for tissue paper is high and stable on the mature markets, and strongly increasing on the emerging markets. In 2018, China passed the US as the world's largest tissue market. Tissue is mainly produced in non-integrated paper mills and the expansion has largely been based on market pulp. In 2008, tissue paper accounted for about 25 per cent of all market pulp consumption; in 2018, the share was estimated to have increased to 35 per cent.

### DEVELOPMENT OF DEMAND

Demand for graphic paper will continue to decrease in the years to come, while demand for tissue paper is expected to be stable in the developed countries while increasing in the emerging markets. Board manufacturing will increase, primarily in the rapidly developing Asian markets. For the Rottneros Group this entails adapting 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 leverage its expertise, in terms of both technology and production, to take a strong market position within selected niches. A close relationship with customers and a solid understanding of their needs and operations will be required to accomplish this objective.

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

### PRICE TRENDS

Average capacity utilisation of long-fibre pulp in 2018 was 87 per cent. The level of utilisation of short-fibre pulp was somewhat lower, but with major differences among the various short-fibre qualities.

Prices for pulp in Europe increased during the first half of the year and were

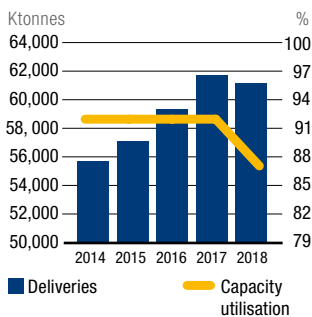
then stable until December, when they were subjected to downward pressure. The price of long-fibre pulp rose in 2018 by USD 200 and was USD 1,200 at year-end. The increase in the price of short-fibre pulp was less than for long-fibre. The price gap between long-fibre and short-fibre pulp, which has historically been around USD 90 per tonne, therefore increased during the year from USD 50 to USD 170. As a result of the widened price gap a substitution has occurred during the year, shifting from long-fibre to short-fibre pulp, especially in China. Prices on the Chinese market were subjected to downward pressure during the fourth quarter.

### MARKET ADAPTATION

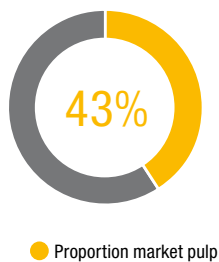
The Rottneros Group is mainly dependent on trends in the European market, where 70 per cent of Rottneros' sales take place. The main focus of our sales organisation is consequently on meeting the demands of this market. In 2018, Rottneros strengthened its own sales organisation in Europe with a seller for Central Europe, replacing the previous agency in Germany in order to offer better service and to develop a closer customer relationship. Other agencies remain in place.

## CHEMICAL PULP

### GLOBAL DEMAND AND CAPACITY UTILISATION 2014-2018, MARKET PULP

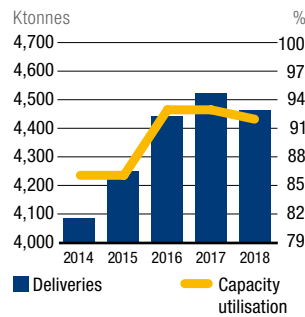


### PULP CAPACITY WORLDWIDE

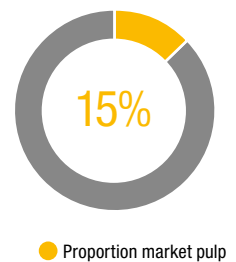


## MECHANICAL PULP

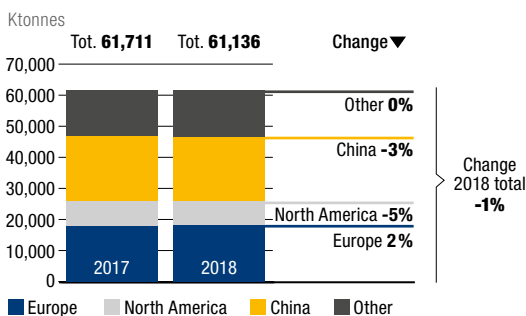
### GLOBAL DEMAND AND CAPACITY UTILISATION 2014-2018, MARKET PULP



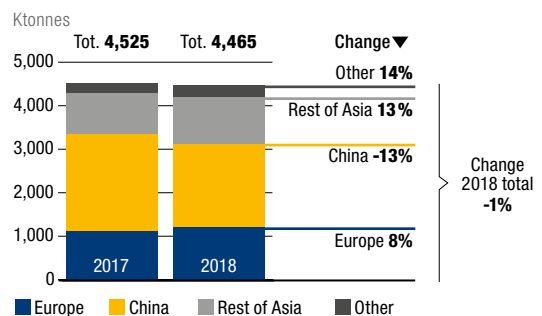
### PULP CAPACITY WORLDWIDE



### DELIVERIES OF CHEMICAL MARKET PULP, WORLDWIDE



### DELIVERIES OF MECHANICAL MARKET PULP, WORLDWIDE



# From forest to end product

Few other manufacturing industries have the advantage of working with a renewable raw material. Rottneros uses raw material from the forest, primarily from Sweden, which is part of a natural cycle – without beginning or end. Demand for products that use natural resources responsibly is growing. Using this as a point of departure, we can proudly produce a variety of customised product ranges for the global market.



## Types of pulp



**Unbleached  
chemical pulp**



**Bleached  
chemical pulp**



**CTMP, bleached  
and unbleached**



**Groundwood pulp,  
bleached and unbleached**



## End products



**Board and  
packaging**



**Filters**



**Electrotechnical  
applications**



**Tissue paper**



**Printing and  
writing paper**



**Special  
products**



**Fibre trays**



Continuous adaptation and technology development to meet the needs and wishes of our customers are central for our operations.

## FOCUS ON NICHEs AND SPECIALISATION

The Rottneros Group is a world-leading pulp producer in our selected market niches. The aim is to further expand business in existing niches and to be open to new business opportunities in segments with high market growth. Continuous adaptation and technology development to meet the needs and wishes of our customers are central for our operations.

Extensive knowledge about a variety of end-use areas can be found at Rottneros. Such knowledge encompasses specifically adapted pulp that is used by various producers and converters for purposes such as filter production, board, or electrotechnical applications, as well as for specialised products for food with high demands for purity.

In this context, conscientious development and a high level of service are important aspects of the Group's strategy to position its mills as the first choice for a high proportion of extremely specialised customers.

It also opens opportunities for cooperation with customers where we can offer tailored solutions.

The combination of our two specialised mills, production of both chemical and mechanical pulp and the high level of specialised knowledge within the company enable us to provide joint product development with a high customer focus.

The business environment and customer behaviour are changing at an increasingly rapid pace. Through consistent business intelligence monitoring and curiosity, we ensure our ability to grow within current niches, as well as to find new segments with good market growth.

With the unique breadth of its range of products, along with the increasing demand from customer markets for environmentally sustainable alternatives, Rottneros is well positioned for the future.



Photo: Arla

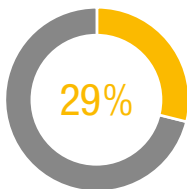
Board and packaging

# A SUSTAINABLE CHOICE IN THE STORE

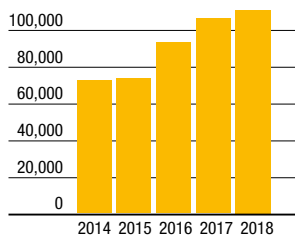
“ Pulp for board is deemed to be a segment with long-term market growth.



**PROPORTION OF ROTTNEROS' TOTAL DELIVERIES**



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



**Stable packaging optimised based on your needs**

Board is a generic name for thicker grades of paper used in the manufacture of packaging for food or other products. Rottneros has extensive experience of working closely with customers and end users to develop products that can meet the needs of end users for sustainable and energy-efficient applications.

**Growing niche with multiple driving forces**

Pulp for board is considered to be a segment with long-term market growth potential and is therefore an important area of focus for Rottneros. With increased prosperity around the world, global trade has increased, both online and in physical stores, which means more goods must be packed and sent to the customer. These conditions, combined with the lack of recycled pulp, are driving demand for pulp. Demand for paper packaging is also growing in countries such as Sweden, driven by an awareness of the sustainability issue and a desire to move away from plastic packaging.



**Our specialists optimise your end products**

At both Rottneros Mill and Vallvik Mill several types of pulp are produced that are suitable for board manufacturing. For example, the mechanical pulp Bulk Booster makes it possible to produce a thicker, and thus stiffer, board using the same quantity of raw material. The sulphate pulp Robur Flash is also an excellent choice for increasing strength and thus also convertibility. Both our CTMP and our sulphate pulps are extremely pure, which makes them particularly suitable for liquid packaging board, such as milk or juice containers, which place high demands on properties relating to taste and odour.

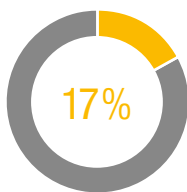


Filters

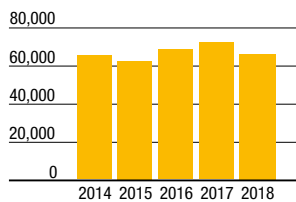
# CLEANER AIR WITH THE RIGHT FILTER

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

PROPORTION OF ROTTNEROS' TOTAL DELIVERIES



ROTTNEROS' DELIVERIES OF PULP FOR FILTERS, TONNES



### Long-term relationships in an important niche

One important niche area for Rottneros is pulp for manufacturing different filters. With two mills that produce specially developed pulp qualities for filter products, the Group has an extensive range for manufacturers of both air and liquid filters. The Group maintains long-term relationships with its filter customers, who appreciate the consistent and high quality of the pulp, combined with reliable service, technical customer support, warehousing and logistics solutions. In addition, the Group has high credibility through its constant market presence, regardless of the current economic situation.

### Filters for the automotive industry

The Rottneros Group has several types of pulp that are used to manufacture both air and liquid filters for the automotive industry. A combination of properties must be achieved for the various industrial filters. These properties are pressure drops in the filter (total capacity), purification efficiency (how much is filtered out for different particle sizes) and purification capacity (how many dirt particles can be taken up by the filter before the total capacity becomes too low). The Rottneros Group's different filter pulps can provide a spectrum of desirable properties. This is the reason that Rottneros is a world-leading supplier of cellulose fibre for the automotive industry.



### A taste experience in every home

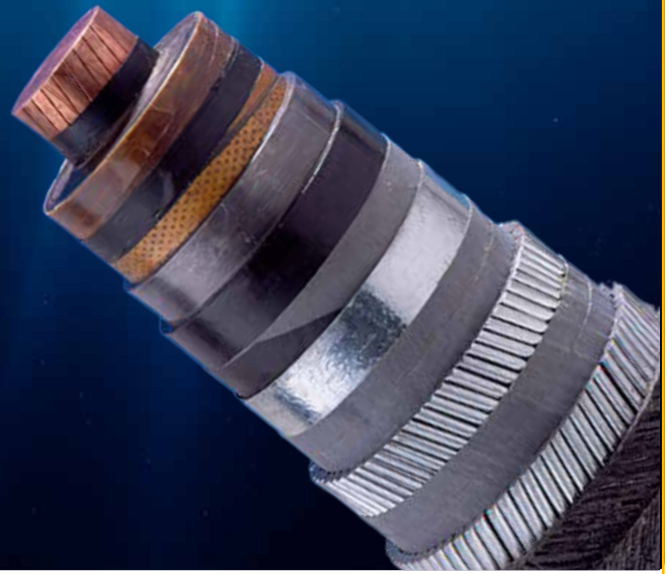
A completely different type of filter for which Rottneros pulp is used is coffee filters. The Group's pulp qualities offer advantages such as high porosity and strength for production of both coffee filters and automotive filters. Coffee filters also require the highest quality for purity and filtering capacity – all for a balanced and aromatic taste experience.



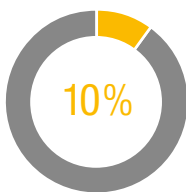
Electrotechnical applications

# INSULATION THAT LASTS ON THE SEABED

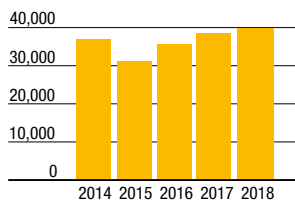
” Rottneros’ world-leading E-pulp has unique insulating properties that have been continuously developed for more than 20 years.



PROPORTION OF ROTTNEROS’ TOTAL DELIVERIES



ROTTNEROS’ DELIVERIES OF E-PULP, TONNES



**World-leading niche product**

Rottneros is a world leader in E-pulp developed for use in electrical insulation materials, transformer boards and condenser paper. E-pulp is available in a variety of designs, the purest of which is marketed under the name Robur Flash UKP E-grade and is used for purposes such as insulation in marine high voltage cables.

**Keeps electrons in place in extreme environments**

Over the past 20 years, E-pulp has been under continuous development to achieve today’s uniquely low conductivity. The advanced production process and the extensive washing guarantee a quality that can be used in the most demanding electrotechnical insulation materials. The end products are often used in applications that demand high and consistent quality, where the strength properties of the E-pulp are as important as its electrical properties.

**Market with smaller fluctuations**

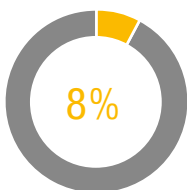
E-pulp is produced at Vallvik Mill. The market is characterised by stability and long-term customer relationships. Only a few suppliers are in this market, which makes it less exposed to pulp market fluctuations.

Tissue paper

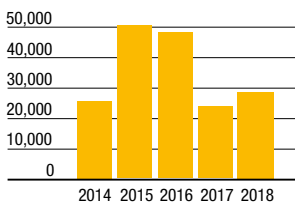
# ABSORPTION CAPACITY IN DEMAND AROUND THE WORLD



PROPORTION OF ROTTNEROS' TOTAL DELIVERIES



ROTTNEROS' DELIVERIES OF PULP FOR TISSUE PAPER, TONNES



**Paper products that make daily life easier in a growing number of 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 cyclical fluctuations. As the standard of living improves in many emerging markets, demand continues to increase sharply.



**Our specialists help customers tailor their own paper**

Groundwood pulp, CTMP 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 obtain the right properties.



**Absorption and a feel that lasts**

The requirements for tissue paper are often numerous and stringent. 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 leading products in the field is Absorption Express which, as the name suggests, offers superior absorption, as well as high bulk.



## FOR PAPER WITH THAT EXTRA SOMETHING

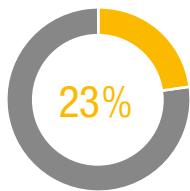
### From standard to exclusive niche products

In mature industrial countries, graphic paper has had to step aside for digital media in recent years, a trend that has been felt by several industries. Demand is shifting from ordinary writing paper to more exclusive products, which suits Rottneros well. The Group's broad product portfolio creates opportunities to find relevant and continued significant business opportunities in a shrinking market.

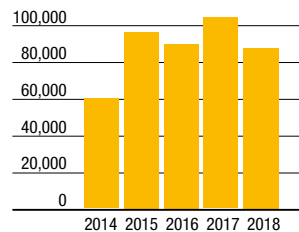
### Purity and opacity for an attractive finish

Depending on whether the product to be manufactured is a magazine, a book, gift wrap, or a gift card, different properties are required. For thin packaging and printing paper grades, as well as a number of special applications, opacity and bulk are important properties. Similarly, the purity of the pulp (low shives content) is important when manufacturing thin paper. Rottneros has a clear competitive advantage with its pure and high-quality pulps. A type of pulp that is perfect for this application is Opacity Extreme.

PROPORTION OF ROTTNEROS' TOTAL DELIVERIES



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



## PULP FOR EVERY OCCASION

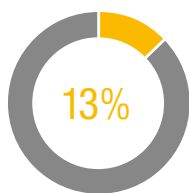
### Customised pulps for a wealth of products

The possibilities for applications for Rottneros' mechanical and chemical pulps are many. In addition to the product areas mentioned previously, applications for pulps from Rottneros include wallpaper, laminate flooring, greaseproof paper, fibre cement, absorption material and moulded fibre.

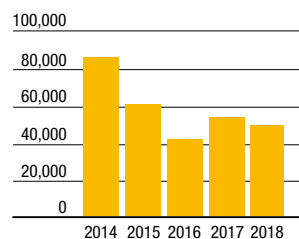
### Eco-friendly materials in homes

Baking paper and greaseproof paper can be found in most homes and make cooking easier, while improving hygiene. The most important properties are resistance to fat and oil. Our high-quality, specially developed pulp Robur Flash is an excellent choice for a strong and reliable grease-resistant paper. The tailor-made pulp blends have also proven to be good basic materials for labels for many leading denim manufacturers. Here, the fibre structure of the sulphate pulp, long fibres that guarantee excellent strength and absorption, is attractive to customers. Rottneros also has a type of pulp that is suitable for production of laminate flooring and wallpaper.

PROPORTION OF ROTTNEROS' TOTAL DELIVERIES



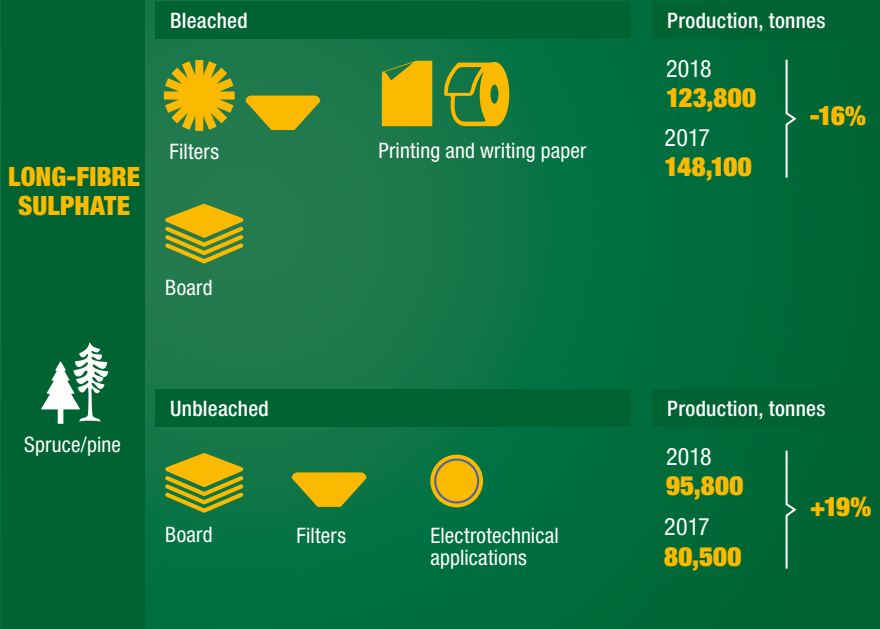
ROTTNEROS' DELIVERIES OF PULP FOR SPECIAL APPLICATIONS, TONNES



# CHEMICAL PULP



Vallvik Mill produces chemical pulp by boiling woodchips in a special cooking liquor. Chemicals in the cooking liquor dissolve the wood to release the fibres. Both bleached and unbleached pulp are manufactured in the same production line.



## PRODUCTS

The long-fibre chemical sulphate pulp is produced at Vallvik Mill and marketed under the name Robur Flash. The properties of the chemical long-fibre pulp primarily contribute to the strength of different grades of paper, which with the slow-growing northern Scandinavian spruce and pine fibre that Rottneros uses are ideal in this respect.

At Vallvik Mill the pulp is dried in flash dryers, causing the fibres to have an open structure that provides the pulp with important properties in the production of absorbent products and filters.

The bleached long-fibre sulphate pulp is generally called Northern Bleached Softwood Kraft (NBSK), which is a quality labelling of pulp and used in official pulp price indices such as PIX.

Both bleached (ECF) and unbleached (UKP) sulphate pulp are produced in the same production line at Vallvik Mill.

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

UKP (Unbleached Kraft Pulp) is made in different qualities with special requirements for mechanical and chemical purity. The highest quality, called E-pulp, is an extremely well-washed and pure pulp. Vallvik Mill is a world-leading supplier of pulp that can be used for manufacturing

electrical insulating materials, such as transformer boards, condenser paper and winding insulation in transformers, or high voltage cables located on, for example, the seabed.

## PRODUCTION PROCESS

Vallvik Mill uses the most common process to produce chemical pulp, the sulphate process. Cooking is the central component of the sulphate process, where wood chips are heated together with white liquor in a digester, thereby releasing the wood fibres. The lignin, which binds the wood fibres in the chips, remains in the cooking liquor and is recovered to become fuel for the mill's recovery boiler. The pulp is washed and screened before being bleached to the desired brightness, if ECF is produced, via the oxygen stage and additional bleaching stages in the bleaching plant. The pulp is then screened and dried before it is pressed into pulp bales. For UKP, most of the bleaching plant's equipment is used to achieve the desired properties for the pulp.

## PRODUCTION

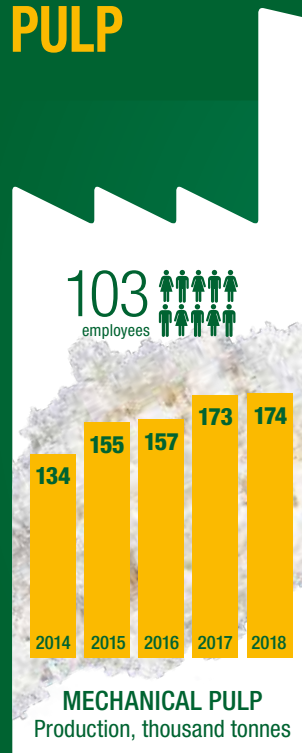
Vallvik Mill has a production capacity of about 240,000 tonnes per year with the current product mix of unbleached and bleached pulp. In 2018 production totalled 219,600 tonnes. Because the production process is designed as an advanced cycle, the environmental impact of the mill is

extremely limited. Washing liquid and black liquor from the digester are converted into white liquor in the recovery cycle to be used again for cooking of wood chips. The lignin in the wood chips becomes fuel in the recovery boiler, where steam is generated for the mill's processes and for electricity production in a back-pressure turbine. In all, 99 per cent of energy that is used is renewable and the self-sufficiency rate for electricity is high.

## INVESTMENTS

During the annual maintenance shutdown in the fourth quarter of 2018, a new weak gas system was installed. An extensive environmental project involved connecting 16 collection points, which will further reduce sulphur emissions. The various safety systems of the recovery boiler were also upgraded, including new equipment for e.g. firing liquor. The investment included more energy-efficient equipment for two of the recovery boiler's flue gas fans.

# MECHANICAL PULP



Two categories of mechanical pulp are manufactured at Rottneros Mill: CTMP and groundwood pulp, both bleached and unbleached. These pulps, which are available in about 25 product variants with different qualities, account for approximately 44 per cent of the Group's production.

Category	Raw Material	Product Types	Production, tonnes	Change
GROUNDWOOD	Spruce	Bleached/unbleached Board, Printing and writing paper, Tissue paper	2018	+1%
			2017	
CTMP	Spruce/pine	Bleached/unbleached Board, Printing and writing paper, Tissue paper, Filters	2018	+1%
			2017	
CTMP	Aspen/birch	Bleached Board, Printing and writing paper, Fine paper	2018	+1%
			2017	

## PRODUCTS

The Group produces two types of mechanical pulp: Chemi-Thermo-Mechanical Pulp (CTMP) and groundwood pulp. The pulp is produced in two separate lines at Rottneros Mill and is available in about 25 different versions of the product with a variety of properties. Rottneros has the most complete mechanical pulp product portfolio on the global market and the offering can often be adapted to meet customer requirements.

## RANGE OF APPLICATIONS

CTMP and groundwood pulp are used in several areas, primarily for the production 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 where the mill will continue to grow.

Three products that were launched in recent years, Absorption Express for tissue paper, Bulk Booster for board and Opacity Extreme for thin paper are well established on the market and help to create added value for our customers.

Absorption Express has an extremely high absorption capacity, which makes it competitive as an input for tissue products.

Bulk Booster is a niche board product and increases the thickness so that the stiffness of the board can be improved without increasing the weight. Alternatively, lighter packaging

can be achieved with unchanged stiffness.

With its combination of good strength properties, high purity and superior opacity, Opacity Extreme is extremely competitive on the market for thin packaging and printing paper. Rottneros will continue to expand its broad product offering of mechanical pulps with more niche applications moving forward.

## PRODUCTION PROCESSES

Both product categories are characterised by an extremely sustainable production process through both high utilisation of the raw material and low chemical consumption. CTMP accounts for up to 95 per cent of the supplied wood and for groundwood pulp, a full 98 per cent. Production is energy intensive, however, which means that Rottneros Mill is vulnerable to variations in electricity prices.

To produce CTMP, the wood is chipped and then pre-treated with chemicals at an elevated temperature before the mechanical processing begins, the chips are ground and the fibres are separated between rotating grinding discs into finished pulp. In contrast, groundwood pulp is produced by directly processing the wood, forcing it against special stone rollers.

The wood is primarily locally sourced, which provides both environmental and cost advantages. It is usually sourced within about a 100-km radius of Rottneros Mill.

In 2018 a total of 174,000 tonnes were produced, which is an increase of almost two per cent over the previous year.

## INVESTMENTS

In 2018, fossil fuel use dropped by about 40 per cent as a result of the 2017 investment in the new energy and emissions efficient biomass boiler at Rottneros Mill. Energy from the boiler is used to dry the pulp. The new boiler, which has replaced an oil-based boiler, uses bark and chips as fuel.

In May 2018, the new wastewater treatment plant was taken into operation. This new anaerobic step has helped to reduce outgoing load on oxygen consuming substances (Chemical Oxygen Demand, COD). Biogas is recovered from the anaerobic step, which in the long term will be used as biofuel to heat the air in the mill's pulp dryers. An investment has also been made in the CTMP line to increase capacity by 18,000 tonnes. It was taken into operation in conjunction with the maintenance shutdown in September 2018. The fine-tuning and optimisation work carried out after startup has shown good results. For 2019, production is expected to increase to 188,000 tonnes as part of the investment, which will reach its full effect at the beginning of 2020. As a result of the most recent investments, the Group is now one of the largest producers of mechanical market pulp in Europe.

## ROTTNEROS PACKAGING

Rottneros Packaging develops and produces fibre trays that are mainly intended for food. The aim of the Rottneros Packaging initiative is to provide the Group with a third focus area in the future.



# ROTTNEROS PACKAGING – NEW AREA OF OPERATION

A flexible, safe, lightweight and degradable packaging solution primarily intended for food – that summarises Rottneros' fibre packaging initiative.

To achieve this objective, we use our own cellulose pulp to create moulded trays for hot and cold foods.

The result is a product that meets customer demand for tailored packaging solutions with substantially better environmental properties than existing options, which are mainly plastic. We note that there is significant demand for packaging with improved environmental properties.

Rottneros Packaging focuses on high-quality food packaging, where products must have properties that meet extremely high standards. Requirements regarding hygiene, barrier properties to achieve durability, surface quality and traceability are particularly high. Moulded trays from Rottneros are ideal for freezing food and reheating it in the microwave or conventional oven.

The market for fibre-moulded products is characterised by products with a high proportion of plastic content or plates and serving bowls made from residual products from sugar cane. China is a major producer on the global market.

With our extensive experience and expertise in the field, we have the opportunity to take a leading position to drive development in a strongly growing market fuelled by both regulatory requirements and ever-increasing consumer demand for new sustainable alternatives to plastic.

### NEW PRODUCTION PLANT

Rottneros Packaging moved into new dedicated premises in 2018, when installation and fine-tuning of the production equipment began. In parallel with the production startup, product and process development will continue in order to optimise both the products and the production line.





The new production plant for fibre trays in Sunne.

” The products can withstand high heat and are ideal for ready-to-eat food – both hot and cold dishes.

Rottneros is the only Swedish industry partner participating in the EU’s PULPACKTION innovation project. The goal is to develop a completely renewable bio-based packaging solution at a competitive price in order to contribute to more sustainable development in the packaging industry as a whole. The project runs until 2020 and Rottneros is also coordinator for the project.

The moulded packaging trays that Rottneros currently produces has a 80-95 per cent renewable raw material rate.



# CHALLENGING RAW MATERIAL SITUATION IN 2018

The challenges faced by the timber market during much of the year caused raw material prices to increase for the Group. Rottneros ensured production by increasing the share of imports.



## PULP WOOD SUPPLY

It has been a challenging year with respect to access to pulp wood supply. The weather has had a pronounced negative effect on conditions for our pulp wood flows. Extremely heavy rains in the autumn of 2017 had a negative impact on both fellings and transportation. The snowy winter also interfered with felling. The extremely dry spring then culminated in the large forest fires in the summer. Many harvesters stood still because of the fire risk.

Rottneros compensated for the reduced local volumes by increasing imports, mainly from Latvia and Poland. Imports and a generally higher demand increased raw material costs and Rottneros saw much higher costs for its raw materials.

Increased demand from the pulp industry, with new timber flows as a result, influences the market and drives up Scandinavian and Baltic pulp wood prices.

Rottneros has its own organisation to purchase wood in Sweden, as well as a

wood procurement company in Latvia: SIA Rottneros Baltic. Wood is purchased in the form of pulp wood or as wood chips from different sawmills.

The Group's strategy is to have a small and efficient organisation to procure pulp wood. Rottneros does not have its own forest, nor does it have a field organisation that buys wood directly from forest owners. The Company captures its raw materials mainly in the local timber market around each mill. While Rottneros Mill has more suppliers in relative terms, Vallvik Mill has fewer but larger suppliers. The state-owned Sveaskog and the forestry owners' association Mellanskog are the largest suppliers. In addition, a certain volume is imported, which provides increased flexibility in the pulp wood supply.

SIA Rottneros Baltic is a strategic part of the raw material organisation, which was particularly appreciated in the summer of 2018 when Rottneros could substantially increase imports of raw materials when

domestic suppliers were unable to meet their obligations because of the weather. Wood chips imported from Latvian sawmills comprise most of the Group's imports and primarily go to Vallvik Mill, which has its own harbour. Imports to Rottneros Mill mainly come from nearby Norway and can be viewed as normal border trade. Deliveries from Norway have increased as a result of the closures of the Norwegian forest industry.

The two Rottneros mills together used over 1.5 million cubic metres of pulp wood and chips in 2018, corresponding to 38,000 truckloads. The goal is for the mills to have sufficient inventory of raw materials to last for two to three weeks of production. Certain special raw materials or qualities of pulp at Rottneros Mill require somewhat larger inventories. Parts of the raw materials are traded with other industries in order to reduce transportation distances. This results in both environmental and financial savings. Seasonal variations,

## CERTIFIED PULP WOOD



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



In a normal year for the Rottneros Group, the percentage of fibre raw material imported through Rottneros Baltic is about 10 per cent. In 2018, the proportion was 17 per cent, which meant that the cost of raw material rose, but the fact that the Group was able to maintain full production and deliveries to customers was very valuable.

## SUPPLY OF RAW MATERIALS



### WOOD

- Purchased as pulp wood or wood chips.
- State-owned Sveaskog and the forestry owners' association Mellanskog are the largest suppliers.
- A certain volume is imported for greater flexibility.



### CHEMICALS

- Rising market prices for chemicals in 2018.
- Rottneros has contacts with a wide selection of suppliers.



### ELECTRICITY

- The Group's consumption of electricity: 443 GWh.
- Vallvik Mill produced 72 per cent of its electricity consumption needs, a total of 172 GWh in 2018.

pricing and weather conditions are factors that affect the flow of wood supplies. To maintain a stock level that is required for production, good communication and long-term relationships with suppliers are essential. The Rottneros Group is traceability-certified according to two systems: FSC® (Forest Stewardship Council) and 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 felling or timber from key biotopes), which can be traced back in the supply chain. Demand for certified pulp is increasing. However, up until now there has been an adequate supply of certified raw materials.

### THE PULP WOOD MARKET

Rottneros' average cost for raw materials increased in 2018 due to challenging weather conditions and high production throughout the forest industry. Total costs

increased to SEK 861m (2017: SEK 646m), driven mainly by higher wood prices and increased imports, corresponding to 44 per cent (37) of the Group's costs. Pulp wood inventories were balanced in 2018, but at the end of the year the inventories were larger than usual.

The raw material balance is primarily affected by the forest owners' interest in harvesting and selling their wood, the price of pulp wood and competitive conditions. Demand for raw materials has increased as a result of expansions in the forest industry in Sweden and Finland. Since chips from sawmills comprise a substantial portion of our raw materials, the trading conditions and production at the sawmills is important. The inflow of raw materials from Norway to Sweden helps to strengthen the Swedish timber balance. In 2018 imports from the Baltics were 17 per cent of the Group's wood purchases, to be compared with a normal year, when the level is around 10 per cent.

### CHEMICALS

The market prices of the chemicals that the Group uses for production increased in 2018. Rottneros has a wide selection of suppliers to secure both production and competitive prices.

### ELECTRICAL ENERGY

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 market price. To achieve stable electricity costs future prices are hedged according to an adopted strategy. By the end of 2018 Rottneros had hedged 85 per cent of electricity consumption for 2019-2020 and 55 per cent of electricity consumption for 2021.

# ROTTNEROS TAKES RESPONSIBILITY FOR SUSTAINABLE DEVELOPMENT



For Rottneros, sustainability entails responsibly building and developing the Group for the long term. Employee safety, environmentally friendly products and responsibility for both the internal and external environment are a few of the most important components of our sustainability management programme. The aim is to continually reduce the environmental impact of the group, and for employees to be able to develop in a safe workplace.

### SUSTAINABILITY REPORTING

Rottneros' sustainability work is reported annually as an integral part of the Annual Report and is also presented on Rottneros' website. The Sustainability Report complies with the requirements in the Swedish Annual Accounts Act and covers all units in the Rottneros Group.

### BUSINESS MODEL

Rottneros is an independent, flexible supplier of customised and high-quality market pulp. See the details of the Rottneros business model and how it generates value on pages 8-9 in this Annual Report.

### STAKEHOLDERS

It is important for Rottneros to have 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.

Rottneros has a Sustainability Policy and a Code of Conduct that describe the company's responsibilities in relation to its shareholders, customers, suppliers, the environment, society, employees and the work environment, human rights, competition law and anti-corruption.

### PRIORITIES

Different stakeholders can at times have different interests or specific expectations. The company regularly conducts an analysis based on discussions with its primary

stakeholders, weighs and balances various interests and any impact on the business, and then updates priorities as needed.

See pages 40-44 for a description of material risks and risk management at Rottneros.

### MARKET

#### Customers

Rottneros helps its customers in their sustainability initiatives through customised, renewable and recyclable pulp products that strengthen the profitability and market position of the customers. By providing new knowledge and further developing the products, Rottneros creates added value for its customers.

The company keeps an ongoing dialogue with customers through regular meetings at which product and quality issues are discussed. Customer surveys are carried out regularly to gain better insight into how customers perceive Rottneros and how the cooperation can be developed. Rottneros also aims to develop new applications for its sustainable products. One of the Group's financial targets is to increase the

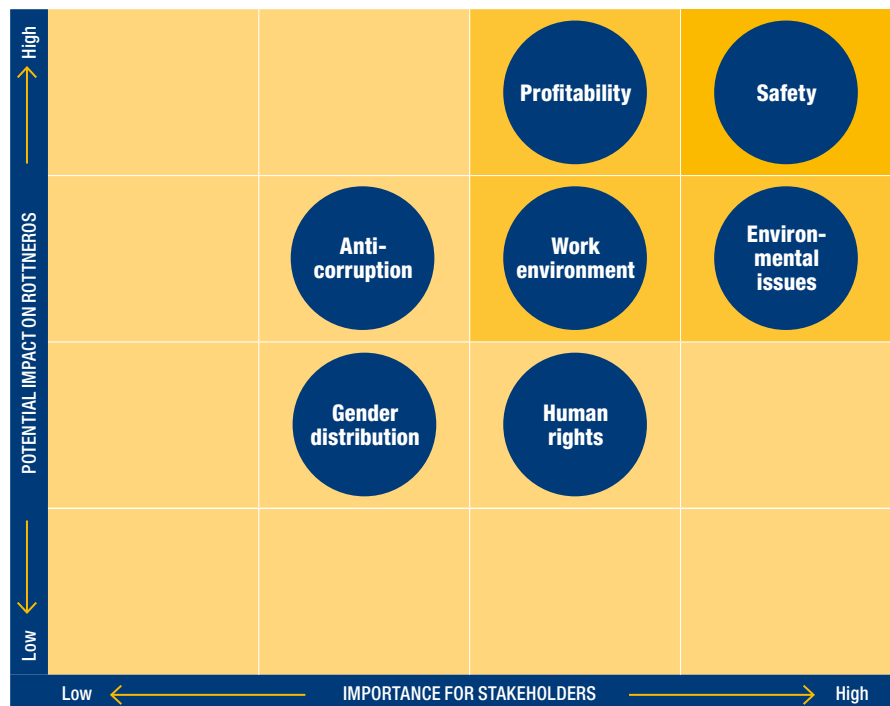
proportion of alternative revenue flows to at least 10 per cent of turnover by 2023. In 2018, this proportion was 5,5 per cent. Rottneros' fibre trays and other new products that contribute to a fossil-free society are important for achieving this goal.

Rottneros supports and strives to achieve fair competition in all of its operations. The company has a special competition policy that is intended to counteract and prevent unlawful anti-competitive behaviour.

#### Suppliers

Rottneros also has a responsibility in relation to its suppliers and partners. Accordingly, Rottneros representatives may never use improper means to derive any undue competitive advantage for the company or for their own personal gain. Rottneros does not do business with companies or people who deliberately and systematically violate laws, rules, human rights or other ethical norms.

When choosing suppliers and contractors, as well as during procurement, Rottneros strives to choose sustainable options over others, provided that they



meet the company’s criteria for quality and profitability.

In conjunction with the procurement of annual contracts for input goods, meetings are held with suppliers to discuss supply commitments. In addition to these meetings, Rottneros maintains regular contacts with its suppliers.

See also the pulp wood supply description on pages 26–27.

**SHAREHOLDERS AND LENDERS**

**Stock and capital market**

Rottneros shall demonstrate sustained profitability over an economic cycle by running the business sustainably and responsibly and by making financial, environmental and socially sustainable investments.

Rottneros’ capital market activities are characterised by transparency and honesty. The company complies with the laws, regulations and ethical guidelines that apply to the capital markets. Rottneros aims to reduce the Group’s risk exposure and pay steady dividends to its shareholders. Press releases, quarterly financial statements, meetings with analysts and participation at Capital Market Days are the primary ways in which we contact existing and potential shareholders.

See also Rottneros’ financial targets on page 11.

**INTERNAL**

**Employees and work environment**

Employee well-being and safety are a key components of Rottneros’ successes.

By promoting health, environment and safety at our workplaces, Rottneros shows its responsibility in relation to its employees. The company offers desirable employment terms, as well as good opportunities for personal growth. Rottneros works 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 are of equal value and must be treated fairly and with respect.

The group has a Work Environment Policy that applies to the company’s employees, as well as the employees of subcontractors, outside consultants and other individuals when work at or they visit Rottneros’ premises. The central objective of occupational health and safety initiatives at Rottneros is a ‘vision zero’ approach to occupational injuries. In 2018, six accidents that led to sick leave occurred, compared with seven in 2017.

Another sustainability goal is to increase the proportion of female employees to at least 30 per cent by 2025. In 2018 this proportion was 18 per cent. Rottneros works purposefully to raise interest among the entire future skills base to encourage them to join the industry. This effort involves various collaborative initiatives with schools and municipalities.

Rottneros regularly conducts employee

satisfaction surveys. The surveys in recent years have all shown higher results than the benchmark, both within the industry and in general.

The Group also has a Code of Conduct that describes how Rottneros and the company’s employees act in relation to the world around it and to one another. The purpose is to define Rottneros’ social responsibility, ethical commitment and position in gender equality issues, as well as how Rottneros’ employees should act in issues that involve principles. In 2019 Rottneros will organise training in the updated Code of Conduct, with the objective that all employees complete the training during the year.

See also Rottneros’ initiatives concerning personnel on page 31.

**Trade unions**

The right to organise is self-evident at Rottneros. All employees within the Rottneros Group are covered by collective union agreements. The company has collective agreements 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 the major employer in the area. For Rottneros it is important to take responsibility in the local communities and cooperate with the municipalities in which the company is active, including by offering apprenticeships and study visits.

Rottneros will always comply with applicable laws, rules and ethical norms. Rottneros respects and promotes human rights and works against all forms of corruption. The company’s Sustainability Policy, Work Environment Policy and Code of Conduct describe how Rottneros and the company’s employees should act to promote human rights. The company has a separate Anti-Corruption Policy to effectively counteract and prevent conflicts of interest, bribery and other forms of corruption. Rottneros complies with the Business Code by the Swedish Anti-Corruption Institute.

Rottneros also has a whistle-blower service where anyone can anonymously report suspicions of bribery, corruption, judicial disqualification, violation of human rights or other breach of policy. The service can be reached via the Rottneros website.

Rottneros’ operations and its sustainability efforts contribute to many of the UN’s 17 global goals for sustainable development. The following goals are especially important for Rottneros:

- Goal 8: Decent Work and Economic Growth.
- Goal 12: Responsible Consumption and Production.

- Goal 13: Climate Action.
- Goal 15: Life on Land.

**Environment**

Rottneros accepts 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 and the company engages in ongoing discussions with stakeholders about the environmental impact of the products and the business. The production units work to constantly improve the production processes and the goal is that all investments in the mills will also lead to positive results for the environment.

An extensive description of Rottneros accountability in relation to the environment, along with the Group’s Energy and Environmental and Energy Policy, significant environmental events in 2018, as well as follow up of environment-related key figures are presented on pages 32–35.

According to Rottneros’ Environmental and Energy Policy, the key environmental goal is to reduce emissions to levels that are financially feasible and environmentally motivated. For energy consumption, the same applies to the choice of energy sources. Major steps have been taken to reduce the Group’s CO2 footprint in recent years. As a result, about 97 per cent of fuel used at the mills is fossil-free. Carbon dioxide emissions from fossil fuels have decreased in 2018 by 9 per cent, compared with 2017 and a full 26 per cent compared with 2016.

**THE AUDITOR’S OPINION REGARDING THE STATUTORY SUSTAINABILITY REPORT**

To the general meeting of the shareholders of Rottneros AB (publ), corporate identity number 556013-5872.

**Roles and responsibilities**

The Board of Directors and the Managing Director are responsible for the statutory sustainability report on pages 28–35, and that it is prepared in accordance with the Swedish Annual Accounts Act.

**Objective and scope of the audit**

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 International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

**Opinion**

A sustainability report has been prepared. Stockholm, 19 March 2019

**KPMG AB**

**Jan Malm**  
Authorized Public  
Accountant  
Auditor in charge

**Sven Cristea**  
Authorized Public  
Accountant

## SUSTAINABILITY – EMPLOYEES



Ann-Louise Johansson, project manager Vallvik Mill and Per-Arne Nilsson, technology manager Vallvik Mill.



Thomas Wasberg, operator at Vallvik Mill.



Elisabeth Danielsson, trainee, thereafter employed as laboratory engineer, Rottneros Mill.

# SAFETY FIRST AT OUR WORKPLACES

Several initiatives and projects concerning skills development were carried out in 2018. At Rottneros this issue is important since the company is facing a generational shift. Our work with safety continues and has top priority.

## SAFETY

Initiatives related to safety and the work environment are our top priority. Rules and procedures are not sufficient to build a culture that puts safety first. We want a culture where people care about one another. Our commitment shall inspire each individual to take responsibility for their own safety and well-being, as well as that of their coworkers. All employees should go home from work healthy and uninjured, every day. That is why we constantly work to run our workplaces safely and responsibly. Our goal is injury-free and healthy workplaces. The key to a safe environment is to systematically identify risks, implement preventive measures and then follow up on them. If the measures produce results we ensure that they apply to all employees and take these matters seriously. We want to involve everyone who works at our workplaces in safety initiatives – including temporary staff and contractors – and create behaviour focused on safety in each and every individual.

In 2018 we implemented a major change in Safe Shutdowns, which is a working method that will prevent maintenance-related accidents. We want to discover risks before anything has happened in order to reduce or eliminate them. During the year we saw a pronounced increase in the number of reported risk observations compared with the year before, which we consider to be evidence of increased awareness of safety among our employees.

Rottneros continuously monitors and reports incidents and accidents. At Vallvik Mill 3 (4) accidents occurred that resulted in a total of 45 (23) sick days in 2018. The corresponding figures at Rottneros Mill were 3 (3) accidents with absence for a total of 51 (103) days.

## SKILLS AND EXPERTISE

Rottneros is undergoing a generational shift and is deliberately working on ensuring that the right skills are available to meet both current and future needs.

## OPERATORS

Vallvik Mill, Rottneros Mill and Rottneros Packaging all have local apprenticeship

programmes to ensure a supply of skilled operators. The programmes are at the upper secondary school level and are aimed at individuals with an upper secondary school education. They are arranged together with the municipalities in the communities where we have operations.

Approximately 70 per cent of the programme is based in the workplace and 30 per cent consists of theoretical upper secondary courses. As an employer, we help to design the courses to be included in the programme in order to obtain exactly the skills that we need. During the training period the student has a supervisor who provides ongoing support in order to achieve the best introduction possible. Operators at Rottneros are generally highly skilled. By sitting with their supervisors and learning directly from them, participants gain a high level of knowledge and a strong sense of responsibility and pride of accomplishment.

The most recent programmes began in September 2018 at Rottneros Mill and Rottneros Packaging. Four participants who started at that time are women, which is particularly rewarding.

Two groups have completed the programme at Vallvik Mill. All ten participants were offered employment; all accepted jobs at the company.

## ENGINEERS

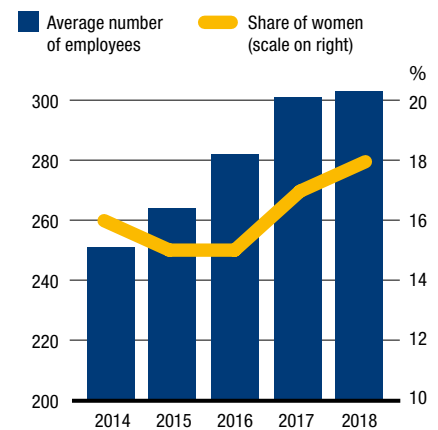
During the autumn, Rottneros Mill participated in a trainee programme aimed at people with a college degree through the Chamber of Commerce in Värmland. Under the programme, trainees are hired for one year and have the opportunity to learn several different aspects of the operation, which provides a good start to working life in the process industry. Vallvik Mill has started a programme based on the same concept in early 2019 through the Mid Sweden Chamber of Commerce (Dalarna/Gävleborg).

## INTEREST IN INDUSTRY

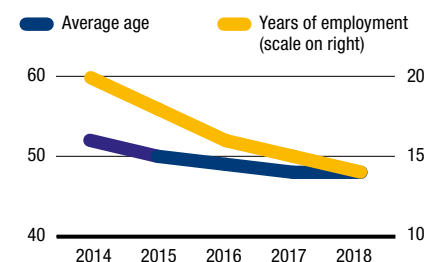
We believe there is much we can do as a company to raise interest among young people and encourage them to look for jobs in the industry. In 2018 Vallvik Mill parti-


cipated in a project to promote working in the industry among young people. Grade 9 students with an interest in mathematics and science spent five days at the company. We have had the opportunity to show parts of our operation and the students have been given assignments to carry out between sessions. For example, they had to calculate how much timber is needed to produce a tonne of pulp. In Sunne municipality we are participating on the programme council for the industrial programme at the upper secondary school level to contribute our expertise about current needs in our company and in the industry.

## AVERAGE NUMBER OF EMPLOYEES AND SHARE OF WOMEN 2014-2018



## AVERAGE AGE AND YEARS OF EMPLOYMENT 2014-2018





” Two new trees are planted for every tree that is harvested. That is why stocks of Swedish timber have steadily increased for many decades.

## FOCUS ON THE ENVIRONMENT FROM FOREST TO END PRODUCT

Few other manufacturing industries have the advantage of working with a renewable raw material. Rottneros uses raw materials from the forest, primarily from Sweden, which is part of a natural cycle – without beginning or end. Demand for products that use natural resources responsibly is growing. Using this as a point of departure, we can produce a variety of customised product ranges for the global market. We place great value on reducing our environmental impact and the ambition is to conduct business in a long-term sustainable manner.

Our business begins in the forest, from which we obtain our raw materials. 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 timber exchanges, we can reduce the distance that our raw materials are transported. For Rottneros Mill, wood is usually sourced within a 100 km radius from the mill. This enables us to reduce our transports while contributing to the local economy.

In 2018 the wood supply for Swedish mills was impacted by a wet autumn in 2017 and a winter of heavy snows, which prevented felling in certain areas. The dry spring and summer, along with the extensive forest fires, resulted in a decline in timber deliveries. Rottneros was able to offset this shortage by importing more

from the Baltic region through its subsidiary in Latvia. This wood was delivered by ship to Vallvik Mill, which is also an environmentally friendly method of transportation.

The main raw material at our mills is wood, which is a natural and renewable input. In Sweden, two new trees are planted for each tree that is felled. Generally, we strive to reduce consumption of input goods and to optimise the use of our resources.

At Rottneros Mill CTMP and ground-wood pulp are manufactured in two separate lines. Both processes are environmentally friendly because of the high utilisation rate of raw material (90-95 per cent and 95-98 per cent respectively), and their low rate of chemical consumption.



## 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 justifiable. The same applies to energy consumption when choosing energy sources. The primary raw material used in production – wood – is renewable and should come from sustainable sources in accordance with the Rottneros Group's traceability certification.
- All employees should have the necessary expertise regarding the environment and energy, be aware of the Environmental and Energy Policy, and work proactively to ensure compliance with the policy.
- The energy and environmental targets are monitored regularly together with the financial reporting.
- A dialogue is conducted with stakeholders on the impact of the operations and the products on the environment and energy consumption.
- One target for product and process development is to limit environmental impact and reduce energy consumption in both the production and the use of the Group's products. Product development should also lead to new applications that contribute to a more sustainable development in society.

## Environmental facts

97%

of fuel used at the mills is biofuel.

97%

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

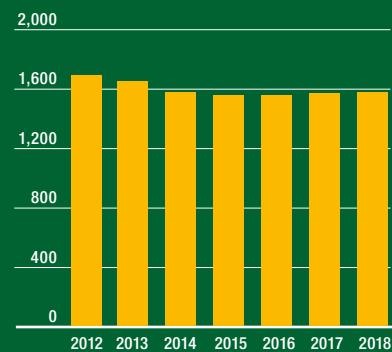
Over 70%

of electricity at Vallvik Mill is generated at the mill.

38%

reduction in carbon dioxide emissions from fossil fuels in Rottneros Mill during 2018.

**ELECTRICITY CONSUMPTION  
ROTTNEROS MILL, kWh/tonne**



### NEW EQUIPMENT REDUCES ELECTRICITY CONSUMPTION AND PROVIDES SUPPLEMENTAL ENERGY AT ROTTNEROS MILL

For several years, Rottneros Mill has successfully reduced its electricity consumption in production, calculated per tonne pulp, by optimising the design of the grinding segments in the refiners. In addition, the product mix has changed so that average electricity consumption per tonne of pulp has further declined.

This year's investment in a new refiner in the CTMP line has reduced electricity consumption by 25-50 kWh/tonne of pulp, which corresponds to 2-4 per cent.

In addition to reducing emissions from the plant, the investment in the anaerobic

step in the biological water treatment process has also provided an energy supplement in the form of methane gas. In the long term, this gas will be used to preheat the air to the flash dryers where the pulp is dried.

In the fall of 2017, Rottneros Mill commissioned a solid fuel boiler which is fuelled by bark and chips. The boiler is being fine-tuned and has not yet reached its planned capacity. When it is in full operation the boiler will essentially eliminate the need for fossil oil at Rottneros Mill.

The mill's long-term plan also includes using sludge from its own biological water treatment plant as fuel in the solid fuel boiler, which reduces the mill's environmental impact.

### ALMOST FOSSIL-FREE AT VALLVIK MILL

Chemical pulp is produced at Vallvik Mill and the majority of the chemicals used are recovered through an integrated recovery process. About half of the wood becomes pulp that is sold on the global market. The other half of the wood becomes energy, as a first step to produce electricity. The remaining steam after power generation is used to drive the production process.

Renewable energy is used for 99 per cent of the production process at the mill. The remainder consists of fossil fuel, which is necessary when the factory starts up after the annual maintenance and repair shutdown. The forest industry is currently the largest producer and user of biofuel and one of Sweden's largest producers of green

## SUSTAINABILITY – ENVIRONMENT

electricity (electricity produced using biofuels).

### ROTTNEROS PACKAGING – ECO-FRIENDLY FIBRE TRAYS

Trays used primarily for food purposes are made of a number of different materials, including paper, plastic and aluminium. Rottneros Packaging uses pulp fibre to make trays, using a thin plastic film as a sealing barrier. This plastic film will ultimately be replaced by a bio-based degradable film.

These fibre trays, which will be made in larger quantities in the new factory

in Sunne, are in line with Rottneros' business concept to produce eco-friendly products. A measure of the environmental impact of the fibre trays is the quantity of plastic, where Rottneros' products only contain 6-7 per cent of the plastic found in conventional plastic trays. Rottneros' fibre trays do not contain PFAS (perfluorinated alkylated substances).

### INVESTMENTS SUPPORT OUR ENVIRONMENTAL INITIATIVES

Sustainability is an integral aspect of our business model and a crucial component of the development of the Group. Conse-

quently, the investments we made have also helped to reduce our environmental impact. We strive to carry out measures that increase both production and quality at the same time that we reduce our environmental impact. Of course, we meet the environmental requirements imposed by the authorities on the Company. Environmentally sustainable production is not only good for nature, it also plays an increasingly important role when customers choose a pulp supplier.

## ENVIRONMENTAL EVENTS AT THE MILLS IN 2018

### VALLVIK MILL

Efforts to further reduce emissions to air and water continued in 2018. The most noteworthy investment is a new weak gas system that was commissioned during the maintenance shutdown in October 2018. The weak gas system, which cost about SEK 70m, reduces the mill's sulphur emissions, as well as the odour in the area.

During the year the mill also continued with further investigations to be able to propose final terms and conditions to the Land and Environmental Court regarding the new environmental permit that was granted in 2016.

” Reduced sulphur emissions and less odour.

### ROTTNEROS MILL

At mid-year 2018, the mill commissioned an anaerobic step in the biological water treatment process. Its purpose is to manage both the increased production and the new EU emissions requirements. Methane gas is formed as a by-product in the anaerobic treatment step. In the future, this biofuel will be harnessed and used as a support fuel instead of oil for the flash dryers.

During the year, the mill continued to fine-tune the new biofuel boiler that was installed in 2017. When the boiler is in full operation, essentially no fossil oil will be used to dry the pulp, which means a reduction of 6,000 m<sup>3</sup> oil annually. Before the biomass boiler was commissioned, 40 per cent of drying energy for the pulp was fossil fuel-based.

Instead of oil, the new boiler will be powered by bark, fuel chips, and in the future, sludge from the mill's biological water treatment process. The biomass boiler also entails significantly less emissions of carbon dioxide, nitrogen oxides and dust into the air.

At full operation of both the anaerobic step and the biomass boiler, oil consumption and carbon dioxide from fossil fuels will completely disappear. The mill continues to work on reducing electricity consumption in production.

” Reduced carbon dioxide emissions and dust.

## BREAKDOWN OF TRANSPORT WORK WITHIN THE ROTTNEROS GROUP

M TONNE-KM		Road	Rail	Sea	Proportion of total transport work, %
2018	Pulp wood, %	40	3	57	<b>23</b>
	Other input goods, %	100	–	–	<b>1</b>
	Pulp, %	21	16	63	<b>76</b>
	<b>Proportion of total transport work, %</b>	<b>25</b>	<b>13</b>	<b>62</b>	<b>100</b>
2017	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>

The concept "Other input goods" includes process chemicals, bale wrapping paper, steel wire, fossil fuels, etc. The distance applies from supplier to mill.

## ENERGY CONSUMPTION

GWh	Rottneros Mill	Vallvik Mill	Total		
2018	Biofuels incl. black liquor	77	1,609	1,686	
	Fossil fuels	33	27	59	
	<b>Total energy consumption excl. electricity</b>	<b>109</b>	<b>1,636</b>	<b>1,745</b>	
	– Proportion of biofuels, %	71	98	97	
	Electricity generated at mills	–	124	124	
	– Of which green electricity	–	122	122	
	Electricity purchased	271	48	319	
	<b>Total electricity consumption</b>	<b>271</b>	<b>172</b>	<b>443</b>	
	– Proportion produced at mills, %	–	72	28	
	2017	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, %		55	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 mills, %		–	77	31	

## CARBON DIOXIDE EMISSIONS

Tonnes/year	Rottneros Mill	Vallvik Mill	Total	
2018	Fossil fuels*	8,941	7,353	16,294
	Biofuels	31,053	619,198	650,251
	Biofuels, %	78	99	98
2017	Fossil fuels*	14,361	3,477	17,838
	Biofuels	35,415	628,886	664,301
	Biofuels, %	71	99	97

\* Only fossil fuels contribute to the greenhouse effect.

## EMISSIONS TO WATER AND AIR

	Rottneros Mill	Vallvik Mill		
2018	Production, tonnes	174,000	219,600	
	Sulphur, tonnes/year	27	90	
	Permit, tonnes/year	–	190	
	NOx, tonnes/year	22	344	
	Permit, tonnes/year	–	420	
	Suspended substances	163 tonnes/year	1.3 tonnes/day	
	Permit	375 tonnes/year	2.5 tonnes/day	
				ECF UKP
	COD	3,903 tonnes/year	12.3 tonnes/day	5.9 tonnes/day
	Permit	4,000 tonnes/year	15 tonnes/day	6.5 tonnes/day
	BOD7	818 tonnes/year	1.9 tonnes/day	
	Permit	–	–	
	AOX, kg/tonne ECF	–	0.1	
	Permit	–	0.25	
	Phosphorus	1.4 tonnes/year	17 kg/day	
Permit	2.2 tonnes/year	25 kg/day		
Nitrogen	29 tonnes/year	90 kg/day		
Permit	42 tonnes/year	175 kg/day		
Chlorate kg/tonne ECF	–	0.4		
Permit	–	0.6		
2017	Production, tonnes	172,600	228,600	
	Sulphur, tonnes/year	22	22	
	Permit, tonnes/year	–	80	
	NOx, tonnes/year	31	368	
	Permit, tonnes/year	–	420	
	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 ECF	–	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 kg/tonne ECF	–	0.3		
Permit	–	0.6		

## EMISSION ALLOWANCES FOR CARBON DIOXIDE

Tonnes/year	Allocation/year 2013-2020	Emissions 2018	Emissions 2017
Rottneros Mill	19,668*	8,941	14,361
Vallvik Mill	11,355*	7,353	3,477
<b>Total</b>	<b>31,023*</b>	<b>16,294</b>	<b>17,838</b>

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



# BETTER EQUIPPED FOR THE FUTURE

The Rottneros Group is currently a world-leading producer of market pulp within several selected niches. This is a position we have created based on a defined strategy and which has been achieved thanks to consistent work focused on close partnerships with customers and end users. The comprehensive Agenda 500 investment programme, which reached its goal in 2018, has played a significant role in this context. By upgrading our two pulp mills, replacing earlier technology with new and improved production capabilities, we now have units which are better equipped to face the future; we have also improved capacity by approximately 30 per cent compared with 2014.

The task for the Board of Directors and myself is to create conditions for long-term sustainable growth and profitability. Good value development for our shareholders depends on many factors and the Board of Directors plays an important role in long-term strategic efforts.

The overarching trends we see which have an impact on Rottneros' strategy and path forward are clear. Among other things, they involve conscious consumers worldwide demanding solutions and products that are part of a natural cycle and that reduce the carbon footprint.

The Rottneros Group uses a renewable raw material from responsibly managed forests which, properly handled, will not

run out. In addition, we are closing our process cycle to a greater extent by recovering bioenergy created in the process for our own use.

We can also see the growing need for packaging as a result of increased e-commerce, among other things, which means that Rottneros' grades of pulp adapted for this segment continue to be important for both profitability and growth. Furthermore, different substitution products for plastic are highly interesting.

It is in this light that we can view our investment in the new subsidiary Rottneros Packaging, which is in the start-up phase. This unit will offer fibre trays for food, for example, with significantly better environmental properties than most products currently dominating this market. The initiative means that we move up in the value chain within the framework of our niche strategy. Close cooperation with customers and production of fibre trays give us valuable information about the market and potential new areas of use for our different pulp grades.

After the comprehensive Agenda 500 investment programme, we are now entering a phase of consolidation and fine-tuning to further improve our processes and profitability.

The Board of Directors and I are optimistic about the future. Our strategy, with a focus on selected product segments, has produced results and will continue to do so. Rottneros continues to have an important role in delivering fibre-based products

to customers on our different markets.

If we summarize the performance for the financial year, where external circumstances such as market price and the USD exchange rate contributed positively, the Board will propose to the AGM a much higher dividend to our shareholders.

On behalf of the Board, I would like to thank our CEO for his continued professional leadership and persistent focus on operational efficiency. I would also like to thank the management team and all Rottneros employees for their hard work and dedication. Finally, I would especially like to thank you, our dear shareholders, for your continued support. With a clearly defined strategy, we continue to focus on leveraging Rottneros' opportunities and generating an attractive total return.

**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 2018.

Rottneros summarises a strong 2018. The Group delivered good profitability at the same time as the upgrade of its two pulp mills was completed under the Agenda 500 investment program. EBIT (operating profit) increased to SEK 295m (156), which is a record in the Group's current structure.

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

# SIGNIFICANT IMPROVEMENT IN RESULTS

#### SUMMARY CONSOLIDATED INCOME STATEMENT

SEK m	2018	2017
Net turnover	2,260	1,912
EBIT	295	156
Profit after financial items	276	147
<b>Net income</b>	<b>221</b>	<b>114</b>

#### RESULTS ANALYSIS

SEK m	2018	2017
NBSK PIX, USD	1,167	882
SEK/USD	8.69	8.54
NBSK, SEK	10,144	7,530
<b>EBIT</b>	<b>295</b>	<b>156</b>

<b>Total difference in net turnover</b>	<b>348</b>
Variable production costs, incl. change in inventories	-190
Shipping and commissions	-17
Depreciation/amortisation	-10
Maintenance costs	+12
Employee benefit expenses	+4
Other fixed costs	+5
Other operating income	-13
<b>Total difference in EBIT</b>	<b>139</b>

#### SALES AND RESULTS

##### Sales

Net turnover for the Group amounted to SEK 2,260m for 2018 (1,912), an increase of 18 per cent. Turnover increased thanks to higher price levels for Rottneros' deliveries.

Production for the year amounted to 393,600 (401,200) tonnes, slightly below the previous year's volume, due to some major interruptions at the beginning of the year and the planned longer maintenance shutdown in Vallvik Mill. Rottneros Mill set a new annual production record. The Group's delivery volume decreased by 3 per cent compared to 2017.

The average price of long-fibre sulphate pulp (NBSK) in SEK increased by 35 per cent compared with the previous year.

Net turnover for 2018 also includes sales of wood raw material of SEK 84m (8), revenues of SEK 40m from by-products and a loss of SEK -131m from pulp price hedging. See also Note 1 in the Annual Report.

##### EBIT (Operating profit)

The Group's EBIT rose with 89 per cent to SEK 295m (156) for 2018. Profit was affected positively by the higher price level for Rottneros' products and nega-

tively by the higher pulp wood costs as well as by pulp price hedges.

##### Expenses

The cost of raw materials and consumables increased by 25 per cent compared with the previous year, mainly due to higher prices of pulp wood which, together with higher imported volumes, had a negative effect of some SEK 160m compared with 2017. The cost of raw materials and consumables was also impacted by higher usage of fuel and electricity in connection with production disruptions in Vallvik Mill during the year. In Rottneros Mill, the new biofuel boiler has resulted in more efficient energy supply and lower energy costs compared to 2017.

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 0.46 (0.30) per kWh in 2018, a price increase of 53 per cent. Thanks to the high level of hedging, the cost of electricity after price hedges was only SEK 4m higher than in 2017, despite a 5 per cent higher consumption during the year. Income from electricity price hedges was SEK 59m (12) in 2018.

Other expenses increased by 1 per cent on a net basis compared to the previous

## SALES, EARNINGS, INVESTMENTS AND FINANCIAL POSITION

year. Sales and delivery expenses as well as depreciation/amortization increased. At the same time, the cost of maintenance, personnel expenses and other fixed costs decreased compared to the previous year, thanks to ongoing efficiency measures.

### Other items

Other operating income decreased compared to the previous year, primarily due to revenue from by-products that is included in net turnover as of 2018. See also Note 1 in the Annual Report.

Net financial expenses increased to SEK 19m (9), due to the bond of SEK 400m that Rottneros issued in August 2017.

### Profit after financial items

The Group's profit after financial items rose by 88 per cent to SEK 276m (147).

### Income taxes

The income tax expense for 2018 was SEK 55m (33) and the effective tax rate was 20 (22) per cent. The effective tax rate was lower than in the previous year, thanks to the lower enacted tax rate for 2019-2021, which had a positive effect of SEK 6m in the tax expense for the year through a lower deferred tax liability.

### Net income

Consolidated net income increased by 94 percent to SEK 221m (114) and earnings per share increased to SEK 1.45 (0.75).

### INVESTMENTS

Group investments in non-current assets amounted to SEK 255m (237) in 2018. The investments relate both to equipment to increase capacity and efficiency, and to environmental investments.

The largest investments that were commissioned in 2018 were a weak gas system (some SEK 70m) and a new security system for the recovery boiler (some SEK 40m) in Vallvik Mill, as well as the extended biological treatment of process water (some SEK 85m) and the additional capacity increase on the CTMP line (some

SEK 45m) in Rottneros Mill, increasing the mill's capacity by 18,000 tonnes per year, with full effect from 2020.

During 2018, the Group has completed Agenda 500, the long-term strategic action plan to strengthen and develop Rottneros. The annual capacity after the investments is estimated to be about 440,000 tonnes. To be fully able to benefit from the increased production capacity, the focus is now on investments that increase capacity utilisation on the pulp production lines. Together with environmental and other investments, the programme has amounted to some SEK 870m over four years and has enabled an upgrade of the pulp mills in Vallvik and Rottneros, as well as a new factory in industrial scale for Rottneros Packaging.

The annual level of investments is expected to be reduced to some SEK 150m in 2019 and to some SEK 50-100m per year thereafter. In addition to replacement investments, the focus will be on eliminating bottlenecks and increasing efficiency.

### FINANCIAL POSITION

Non-current assets amounted to SEK 1,290m (1,078) on 31 December 2018, a 20 per cent increase compared with the previous year mainly due to investments in property, plant and equipment as well as a higher value for the non-current portion of unrealized electricity price hedges. Property, plant and equipment comprise 91 (95) per cent of the Group's non-current assets.

Current assets, excluding cash and cash equivalents, amounted to SEK 873m (603) on 31 December 2018 and comprise of 45 (46) per cent inventories and 55 (54) per cent receivables. Current assets increased by 45 per cent compared with the end of 2017, mainly due to higher prices of wood and pulp, as well as a higher value for the current portion of unrealized electricity price hedges.

Group cash and cash equivalents amounted to SEK 238m (326) at the end of the year.

To complete financing of the strategic plan Agenda 500, and to optimize the Group's capital structure in the long term, Rottneros AB issued an unsecured bond of SEK 400m in August 2017 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.

Net debt at the end of 2018 amounted to SEK 157m (68). Granted and unused credit facilities amounted to SEK 182m (182) on 31 December 2018.

The equity/assets ratio at year-end was 61 (60) per cent. Equity per share amounted to SEK 9.57 (7.91).

### CASH FLOW

Cash flow from operating activities for 2018 amounted to SEK 223m (222). Cash flow was higher thanks to higher EBIT but was held back by an increase in working capital due to higher wood and pulp prices. Cash flow after investments in non-current assets for 2018 was SEK -32m (-15).

Cash used in financing activities amounted to SEK -56m (cash of 325m provided). Shareholders were paid dividends totalling SEK 56m (61) during the year.

Net cash flow for the year was SEK -88m (310).

### PARENT COMPANY

The parent company's turnover for 2018 amounted to SEK 6m (6). The parent company's sales comprise revenues from administrative and operational management services. The parent company's profit after financial items amounted to SEK 6m

### SUMMARY CONSOLIDATED BALANCE SHEET

SEK m	2018	2017
Non-current assets	1,290	1,078
Current assets	873	603
Cash and cash equivalents	238	326
<b>TOTAL ASSETS</b>	<b>2,401</b>	<b>2,007</b>
Shareholders' equity	1,460	1,207
Interest-bearing liabilities	395	394
Non-interest-bearing liabilities	546	406
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>2,401</b>	<b>2,007</b>

### SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS

SEK m	2018	2017
Cash flow from operating activities	223	222
Cash used in investing activities	-255	-237
<b>Cash flow after investments</b>	<b>-32</b>	<b>-15</b>
Change in interest-bearing liabilities	-	386
Dividend paid	-56	-61
<b>NET CASH FLOW FOR THE YEAR</b>	<b>-88</b>	<b>310</b>

(loss -12) for 2018. This figure includes group contributions received/paid of SEK 49m (28).

### FUTURE TRENDS

The pulp market is at the end of a long economic upswing, where the slowdown is significant and prices are beginning to fall.

However, there are underlying structural trends related to sustainability and increased use of renewable material that support demand for Rottneros' products. Additionally, no announcements have been made regarding capacity increases in the pulp industry, which could provide continued balance between supply and demand.

Uncertainty related to costs is growing after the recent price increases for pulp wood, chemicals and other input goods.

See also pages 40-44 for a description of opportunities and risks that can impact Rottneros' operations, results and financial position.

### CHANGES IN MANAGEMENT

Kristin Israelsson started as Mill Director of Rottneros Mill at the beginning of September 2018. She has earlier worked at BillerudKorsnäs, most recently as section head in the pulp mill of Gruvön.

### NUMBER OF EMPLOYEES

The average number of employees was 303 (301) in 2018.

The average term of employment is about 14 (15) years, and the average age of employees is approximately 48 (48) years.

### SUSTAINABILITY REPORT

Rottneros' Sustainability Report in accordance with the Swedish Annual Accounts Act is presented outside the Directors' Report, on pages 28-35 in this Annual Report. Additional sustainability information that is integrated in the Annual Report is highlighted in the table of contents on page 2.

### 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.

### REMUNERATION 2018

Pay and remuneration for the company's senior executives in 2018 was compatible with the guidelines determined at the 2018 AGM. Pay and remuneration for the CEO and other senior executives in 2018 can be found in Note 8 of the annual report.

Variable remuneration in 2018 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.

### GUIDELINES 2019 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 2019 AGM are stated below.

Other senior executives currently refers to the eight 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 2018 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 shall be 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 program 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 stakeholders.

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 Remuneration Committee. Remuneration principles and other employment conditions for the executive management as well as remuneration for the CEO shall be decided by the Board of Directors.

If the company in a particular case assigns an individual Board member tasks on behalf of the company over and above their regular board and committee duties,

the Board shall determine the level of remuneration, which must be reasonable and in line with market rates.

The Board will conduct an annual evaluation of whether 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.

The earlier decided "stay on bonus" of a maximum of SEK 2.0m to the CEO, to be paid after three years of completed service, will become payable on 1 August 2019.

# 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 insurances. 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, 2018**

Type of risk	Change	Effect on annual profit after financial items (SEK m)		Sensitivity
		2018	2017	
Pulp prices	USD 50/tonne	110	110	High
USD	SEK 0.50/USD	65	55	High
Electricity prices	SEK 0.10/kWh	30	30	High
Pulp wood prices	SEK 20/m <sup>3</sup>	30	30	High
Interest rate risk	1 percentage point	4	4	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 or fixed-price contracts 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.

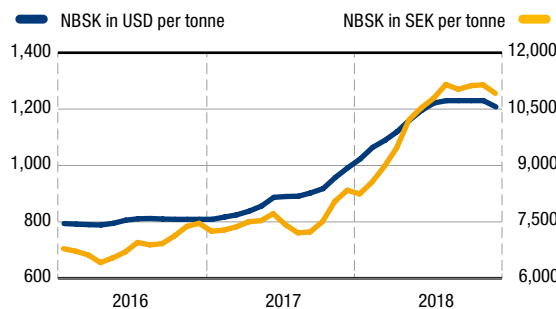
The setting of prices in the pulp market is governed by international price levels that depend on demand and the global economy. Pulp hedging is used when the price levels in long-term contracts are economically advantageous or when the market price is so low that further reductions may threaten the 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 2018**

Before the beginning of year 2018 the Group had entered into 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. The realised result from these pulp price hedges was a loss of SEK 131m in 2018. As of 31 December 2018, the Group had pulp price hedges of 12,000 tonnes, with due dates between January 2019 up to and including December 2019 at an average price of SEK 9,800 per tonne.

**PULP PRICES NBSK IN USD AND SEK**

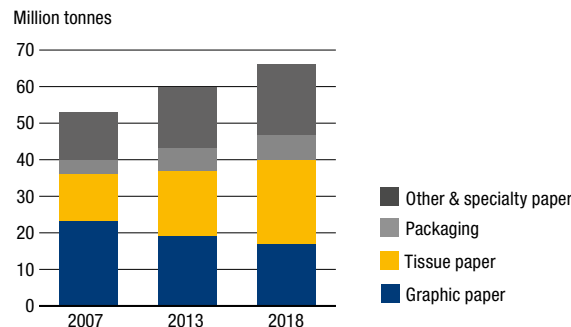


**B STRUCTURAL CHANGE** **PROBABILITY: 5 IMPACT: 2**

Digitalisation, globalisation and increased trade reduce demand for certain types of pulp and drive 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 good, long-term relationships 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 6 and 24 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 2018**

The weather has had a negative effect on conditions for the pulp wood flows. Extremely heavy rains in the autumn of 2017 had a negative impact on both felling and transportation. The snowy winter also interfered with felling. The extremely dry spring then culminated in the large forest fires in the summer. Many felling machines stood still because of the fire risk.

Rottneros compensated for the reduced local volumes by increasing imports, mainly from Latvia and Poland. Imports and a generally higher demand increased raw material costs significantly. Increased demand from the pulp industry, with new timber flows as a result, influences the market and drives Scandinavian and Baltic timber prices.

## OPPORTUNITIES AND RISKS – OPERATIONAL

### RISK AREA

### RISK MANAGEMENT

#### **C2** RAW MATERIAL PRICES

PROBABILITY: 3 IMPACT: 4

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 20 per m<sup>3</sup> will affect the Group's annual profit by approximately SEK 30m.

#### COMMENTS ON OUTCOME FOR 2018

The average cost of Rottneros' wood supplies increased during 2018, due to the challenging weather conditions as well as a high level of production in the whole forest industry. Higher pulp wood prices and the increased import volumes had a total negative effect of SEK 160m on the results for the year, as compared to 2017.

#### **D** ELECTRICITY PRICES

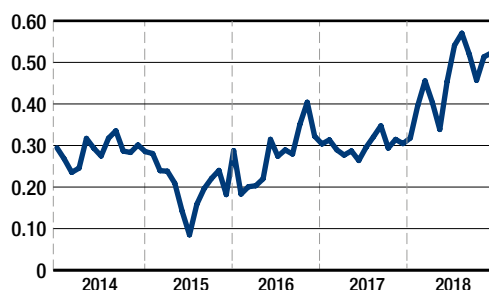
PROBABILITY: 3 IMPACT: 3

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. A price change of SEK 0.10 per kWh will affect the Group's annual profit by approximately SEK 30m, in the absence of any electricity price hedges. Future electricity prices are hedged in advance 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 2018

The average price level for electricity on the Nord Pool exchange (area SE3) amounted to SEK 0.46 (0.30) per kWh for 2018. Thanks to the high level of hedging, the higher electricity price only had a marginal effect on profit in comparison with 2017, despite a 5 per cent higher electricity consumption during the year. The Group's cost of electricity, adjusted for the hedging result, amounted to SEK 92m (88) in 2018.

At the end of 2018, electricity prices were hedged as specified in the table. The table shows the hedged proportion of forecasted consumption and the average hedged price in SEK/kWh.

Year	Proportion hedged, %	SEK/kWh
2019	85	0.225
2020	85	0.218
2021	55	0.240

#### **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.

In Rottneros view 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 Sweden, Norway, Germany and Italy 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 deductible.

#### COMMENTS ON OUTCOME FOR 2018

The Group has approximately 150 customers and the maximum credit risk on outstanding accounts receivable amounted to SEK 37m (33) at the end of 2018 (10-15 per cent deductible + any uninsured receivables).

99 (97) per cent of total outstanding accounts receivable were insured on 31 December 2018. Historically, the Group has only incurred small credit losses.

In 2018, the Group's largest customer accounted for 11 (11) 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 large 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;"><b>PROBABILITY: 3    IMPACT: 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>In spite of significant investments in 2015-2018, 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 1,179m (1,020) at the end of 2018. The replacement cost is much higher.</p> <p><b>COMMENTS ON OUTCOME FOR 2018</b></p> <p>In 2018, maintenance shutdowns were carried out during the third quarter at Rottneros Mill and during the fourth quarter at Vallvik Mill. During the first half-year, Vallvik Mill had two unplanned shutdowns, resulting in a production loss of approximately 10,000 tonnes. Insurance is reviewed and procured regularly.</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;"><b>PROBABILITY: 1    IMPACT: 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 one 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 28-35.</p>	<p style="text-align: right;"><b>PROBABILITY: 3    IMPACT: 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 2018</b></p> <p>Rottneros continues to develop new areas of application for its products that contribute to more sustainable development in society. Rottneros Packaging will start an expanded and commercial production of recyclable and decomposable fibre trays during 2019. 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 agreed 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 has started smaller deliveries of lignin from Vallvik Mill for RenFuel's testing and pilot plant in Bäckhammar, Värmland county.</p> <p>In 2018, six (seven) accidents occurred that resulted in a total of 96 (126) 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 32-35.</p>	<p style="text-align: right;"><b>PROBABILITY: 3    IMPACT: 4</b></p> <p>Good management of environmental issues represents a fundamental and important issue for the Board of Directors and management, which is why debriefing takes place monthly.</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 2018</b></p> <p>Efforts to further reduce emissions to air and water continued in 2018. The most noteworthy investment at Vallvik Mill is a new weak gas system that was commissioned during the maintenance shutdown in October 2018. The weak gas system, which cost about SEK 70m, reduces the mill's sulphur emissions, as well as the odour in the area.</p> <p>At mid-year 2018, the Rottneros Mill commissioned an anaerobic step in the biological water treatment process. Its purpose is to deal with both the increased production and the new EU emissions requirements. Methane gas is formed as a by-product in the anaerobic step. In the future this biofuel will be harnessed and used as a support fuel for the flash dryers instead of oil.</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 of the Annual Report.

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 currency 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 currency risk exposure that arises on outstanding accounts receivable can be hedged 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 2018</b></p> <p>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 40 per cent of turnover. 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 2018 Rottneros held currency hedges of USD 11.0m and EUR 2.5m.</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 presented in Note 20 of the Annual Report. 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 2018</b></p> <p>The bond of SEK 400m that Rottneros issued in August 2017 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.</p> <p>Cash and cash equivalents amounted to SEK 238m (326) as of 31 December 2018. Approximately SEK 100m of cash and cash equivalents are placed on an interest-yielding savings account. The rest of cash and cash equivalents yield a zero interest.</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 2018</b></p> <p>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 2017 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 2018 amounted to 19 (27) per cent of turnover, while the target is "at least ten per cent".</p> <p>The Group's net debt at the end of 2018 amounted to SEK 157m (68). Debt/equity ratio amounted to 11 (6) per cent at the end of 2018.</p>

# 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 2018.

## 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 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.

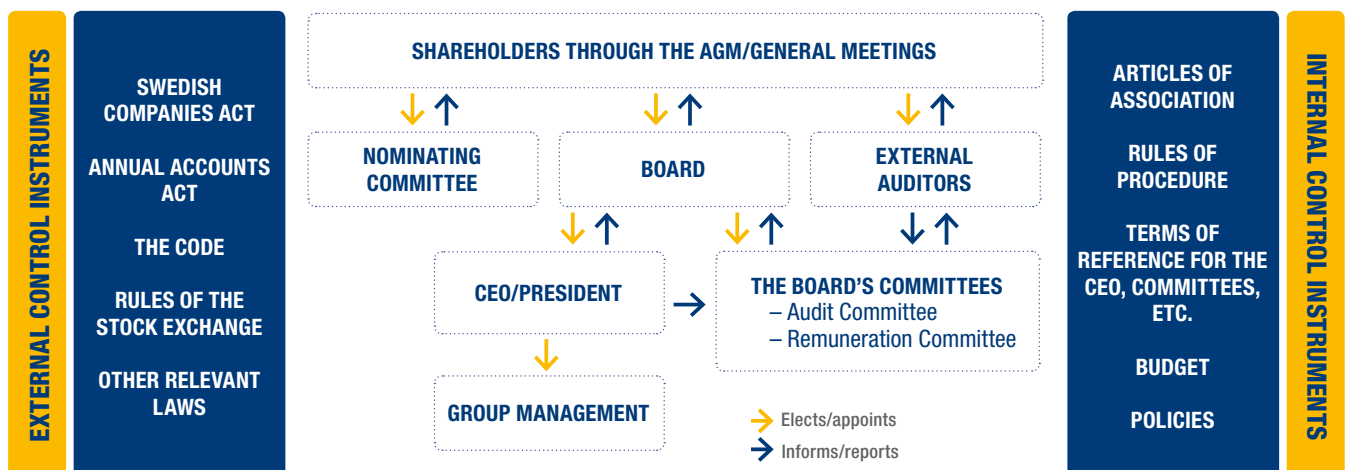
Each shareholder has the right to participate in the AGM, either in person or through an authorised proxy. Each shareholder has the right to raise issues to be addressed at the AGM.

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 10,649 shareholders on 31 December 2018. 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

## STRUCTURE FOR CORPORATE GOVERNANCE



## CORPORATE GOVERNANCE REPORT

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 2018. Otherwise, none of the shareholders had a direct or indirect shareholding representing at least one tenth of votes attached to all shares in Rottneros.

Rottneros' holding of treasury shares amounts to 821,965, corresponding to around 0.54 per cent of the total number of shares. See pages 78-79 for additional information about the share, shareholders, etc. Information is also available on the company's home page.

### 2018 ANNUAL GENERAL MEETING

Rottneros' 2018 AGM was held on 16 May 2018 in Sunne. Forty-eight of the company's shareholders attended the meeting, representing 57.9 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 2017 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 0.07 per share as an extra dividend (total of SEK 0.37 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. Additionally, a fee of SEK 10,000 should be paid to each of the members of Board committees. 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.
- The chartered auditing firm KPMG was new-elected as auditors until the end of the 2019 AGM, with Jan Malm 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 Remuneration 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 2018 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 largest shareholder and the other shall be appointed by one of the company's other four largest share-

holders. 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 2019 AGM. The composition of the Nominating Committee at any given time shall 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 19 October 2018 and has been held available on Rottneros' home page. Julia Onstad (appointed by Arctic Paper S.A.) was appointed Chairwoman 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 2019 AGM as regards election of the Chairman for the AGM, number of Board members and deputies, election of Board Chairman and other Board members, fees for the Board and committee work, election of and fees for the auditors, and where appropriate, changes in the instruction for the Nominating Committee.

The Board has in 2018 adopted a specific Diversity Policy Concerning Board Composition. The policy is available on the Rottneros homepage.

### COMPOSITION OF THE BOARD AND ATTENDANCE 2018

Amounts in SEK thousand		Dependence	Attendance in 2018			
			Total fees, 2018/19 <sup>3)</sup>	Total fees, 2017/18	Board meetings	Committee meetings
Per Lundeen <sup>1)2)</sup>	Chairman of the Board	X	570	550	100%	100%
Marie S. Arwidson			285	275	100%	83%
Ulf Carlson			295	275	100%	89%
Roger Mattsson <sup>2)</sup>		X	285	275	100%	100%
Per Skoglund <sup>2)</sup>		X	285	275	100%	100%
Dan Karlsson	employee representative		28	28	92%	–
Thomas Wasberg	employee representative		28	28	92%	–
Gun-Marie Nilsson	employee representative/deputy		28	28	100%	–
Mika Palmu	employee representative/deputy		28	28	85%	–

<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> Including fees for the committee work.

## AUDITORS

Rottneros' auditors are elected at the AGM. At the 2018 AGM, KPMG AB was elected as the company's auditor up until the end of the 2019 AGM, with authorised public accountant Jan Malm 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 have attended certain meetings of the Audit Committee and the 2018 AGM. The auditor attends the AGM to present the auditor's report.

Fees for the auditor for 2018 are presented in Note 6 of the 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 Group Controller serves as secretary of the Board. The table on page 46 shows the composition of the Board in 2018 as well as remuneration paid to Board members for 2018 and 2017 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.

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 2018, 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 replacements in 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 2018 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 2018 13 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 public 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 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.

## 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 reports, interim reports, annual reports, press releases with economic content and presentation materials 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.

## CORPORATE GOVERNANCE 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 Remuneration 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.
- Monitor and give recommendations and proposals to ensure the accuracy of the reporting concerning e.g. 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 and evaluating audit work.
- Establishing guidelines for the purchasing of permitted services other than auditing from the company's auditors, and if appropriate approving 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 2018 AGM the Committee has consisted of Board members Marie S. Arwidson, Ulf Carlson, Per Lundeen and Roger Mattsson. Marie S. Arwidson is Chairwoman of the Committee.

The Audit Committee held six meetings in 2018 and minutes are forwarded to the

Board on an ongoing basis. The auditors attended five 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 Remuneration Committee within frameworks established by the Board and AGM.

Since the 2018 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 three meetings in 2018 and the Board has received minutes from the Remuneration 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.

#### GROUP MANAGEMENT

The CEO leads the work of Group management and makes decisions in consultation with the other members of the management team. In 2018 this team comprised the CEO and eight additional individuals: three factory directors, the CFO and four heads of Group staff. Information about the CEO and Group management is shown on page 77 of the Annual Report. Group management has regular operational reviews led by the CEO.

#### FURTHER INFORMATION IS AVAILABLE AT WWW.ROTTNEROS.COM

- Articles of Association
- Information from past AGMs (notices, minutes, resolutions, CEO statements)
- Information about the Nominating Committee
- Corporate governance reports from 2008 to 2018 (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, information and communication, risk assessment, control activities 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.

#### **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 and CFO 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. The CFO also visits the subsidiaries several times a month. These meetings are regularly supplemented with Finance meetings at which the CFO, financial manager of each subsidiary, the Group Controller and other controllers 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.

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 is 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.

# PROPOSED APPROPRIATION OF PROFITS

The consolidated income statement and balance sheet will be submitted to the AGM on 2 May 2019 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	320,770,480
Net income for the year	4,251,466
Total SEK	325,021,946

## THE BOARD OF DIRECTORS PROPOSES:

To be distributed to shareholders <sup>1,2</sup>	106,800,348
To be carried forward	218,221,598
Total SEK	325,021,946

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

<sup>2</sup> Increased ordinary dividend SEK 0.40 per share and extra dividend SEK 0.30 per share.

**STOCKHOLM 19 MARCH 2019**

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

**Per Lundeen**  
Chairman of the Board

**Marie S. Arwidson**  
Board Member

**Ulf Carlson**  
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 2019  
KPMG AB

**Jan Malm**  
Authorised Public Accountant  
Auditor in charge

**Sven Cristea**  
Authorised Public Accountant

# CONSOLIDATED STATEMENTS OF INCOME

## CONSOLIDATED INCOME STATEMENT 1 JANUARY-31 DECEMBER

Amounts in SEK m	Note	2018	2017
<b>NET TURNOVER</b>	1, 2	<b>2,260</b>	<b>1,912</b>
Change in inventories of finished goods		78	22
Other operating income	3	34	47
<b>Operating income, total</b>		<b>2,372</b>	<b>1,981</b>
Raw materials and consumables	4	-1,211	-965
Other external expenses	5, 6	-505	-503
Employee benefit expenses	8	-262	-266
<b>EBITDA (operating profit before depreciation, amortisation and impairment)</b>		<b>394</b>	<b>247</b>
Depreciation/amortisation and impairment	11, 12	-99	-91
<b>EBIT (operating profit)</b>		<b>295</b>	<b>156</b>
Financial income	9	1	2
Financial expenses	9	-20	-11
<b>Total financial items</b>		<b>-19</b>	<b>-9</b>
<b>PROFIT AFTER FINANCIAL ITEMS</b>		<b>276</b>	<b>147</b>
Tax on profit for the year	10	-55	-33
<b>NET INCOME</b>		<b>221</b>	<b>114</b>
Average number of shares outstanding (thousand shares) <sup>1</sup>		152,572	152,572
<b>EARNINGS PER SHARE (SEK)<sup>1</sup></b>		<b>1.45</b>	<b>0.75</b>

<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	2018	2017
<b>NET INCOME</b>		<b>221</b>	<b>114</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Items that have been or may be transferred to profit or loss for the period</b>			
Changes in fair value of cash flow hedges		39	8
Cash flow hedges transferred to profit or loss		72	-3
Income tax effect on changes in fair value		-23	-2
Translation differences		0	0
<b>TOTAL OTHER COMPREHENSIVE INCOME</b>		<b>88</b>	<b>3</b>
<b>COMPREHENSIVE INCOME<sup>2</sup></b>		<b>309</b>	<b>117</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	2018	2017
<b>Non-current assets</b>			
Intangible assets	11	17	19
Property, plant and equipment	12	1,179	1,020
Derivative instruments	7	69	23
Other financial assets	13	25	16
<b>Total non-current assets</b>		<b>1,290</b>	<b>1,078</b>
<b>Current assets</b>			
Inventories	15	389	279
Accounts receivable	16	334	254
Current tax assets		4	4
Derivative instruments	7	73	9
Other current receivables	17	73	57
Cash and cash equivalents	18	238	326
<b>Total current assets</b>		<b>1,111</b>	<b>929</b>
<b>TOTAL ASSETS</b>		<b>2,401</b>	<b>2,007</b>

## CONSOLIDATED SHAREHOLDERS' EQUITY AND LIABILITIES, 31 DECEMBER

Amounts in SEK m	Note	2018	2017
<b>Shareholders' equity</b>			
Share capital	19	153	153
Other injected capital		730	730
Treasury shares		-69	-69
Other reserves		98	10
Retained earnings, incl. net income for the year		548	383
<b>Total shareholders' equity</b>		<b>1,460</b>	<b>1,207</b>
<b>Non-current liabilities</b>			
Interest-bearing liabilities	20	395	394
Deferred tax liability	10	119	42
Other non-interest-bearing liabilities		18	10
<b>Total non-current liabilities</b>		<b>532</b>	<b>446</b>
<b>Current liabilities</b>			
Accounts payable	21	174	149
Derivative instruments	7	8	8
Other non-interest-bearing liabilities	22	227	197
<b>Total current liabilities</b>		<b>409</b>	<b>354</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>2,401</b>	<b>2,007</b>

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

## 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, net of 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 CHANGES IN SHAREHOLDERS' EQUITY 2018

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 2018</b>	153	730	-69	18	-8	383	1,207
<b>Comprehensive income</b>							
Net income	-	-	-	-	-	221	221
<b>Other comprehensive income</b>							
Cash flow hedging, net of tax	-	-	-	88	-	-	88
Exchange rate differences	-	-	-	-	0	-	0
<b>Total other comprehensive income</b>	-	-	-	88	0	-	88
<b>Total comprehensive income</b>	-	-	-	88	0	221	309
<b>Transactions with shareholders</b>							
Dividends to shareholders	-	-	-	-	-	-56	-56
<b>CLOSING BALANCE, 31 DECEMBER 2018</b>	153	730	-69	106	-8	548	1,460

# CONSOLIDATED STATEMENT OF CASH FLOWS

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

Amounts in SEK m	Note	2018	2017
<b>EBIT (operating profit)</b>		<b>295</b>	<b>156</b>
<b>Adjustment for non-cash flow items</b>			
Depreciation/amortisation/impairment losses	11, 12	99	91
Other items not affecting cash flow		0	0
<b>EBIT adjusted for non-cash flow affecting items</b>		<b>394</b>	<b>247</b>
Received dividend payments		1	1
Paid interest expenses		-19	-16
<b>Cash flow from operating activities before changes in working capital</b>		<b>376</b>	<b>232</b>
<b>Working capital changes</b>			
Change in inventories		-109	-1
Change in current receivables		-172	-52
Change in current liabilities (non-interest-bearing)		128	43
<b>Total changes in working capital</b>		<b>-153</b>	<b>-10</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>223</b>	<b>222</b>
Purchase of intangible assets	11	-2	-10
Purchase of property, plant and equipment	12	-253	-227
<b>CASH USED IN INVESTING ACTIVITIES</b>		<b>-255</b>	<b>-237</b>
Bond issue	20	-	400
Borrowings of long-term bank loans	20	-	80
Amortisation of long-term bank loans	20	-	-80
Change in used bank overdraft facilities	20	-	-14
Dividends paid		-56	-61
<b>CASH USED IN/PROVIDED BY FINANCING ACTIVITIES</b>		<b>-56</b>	<b>325</b>
<b>NET CASH FLOW FOR THE YEAR</b>		<b>-88</b>	<b>310</b>
Cash and cash equivalents at the beginning of the year		326	16
<b>Cash and cash equivalents at the end of the year</b>	18	<b>238</b>	<b>326</b>
Granted and unused credit facilities	20	182	182

# PARENT COMPANY STATEMENTS OF INCOME

## PARENT COMPANY INCOME STATEMENT 1 JANUARY-31 DECEMBER

Amounts in SEK m	Note	2018	2017
<b>NET TURNOVER</b>	1, 2	<b>6</b>	<b>6</b>
Other operating income	3	9	10
<b>Operating income, total</b>		<b>15</b>	<b>16</b>
External expenses	5, 6	-17	-18
Employee benefit expenses	8	-22	-31
<b>EBITDA (operating loss before depreciation, amortisation and impairment)</b>		<b>-24</b>	<b>-33</b>
Depreciation/amortisation and impairment	11, 12	-3	0
<b>EBIT (operating loss)</b>		<b>-27</b>	<b>-33</b>
Profit from participations in Group companies	9	49	27
Financial income	9	4	1
Financial expenses	9	-20	-7
<b>Total financial items</b>		<b>33</b>	<b>21</b>
<b>PROFIT/LOSS AFTER FINANCIAL ITEMS</b>		<b>6</b>	<b>-12</b>
Tax on profit/loss for the year	10	-2	1
<b>NET INCOME</b>		<b>4</b>	<b>-11</b>

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

Amounts in SEK m	Note	2018	2017
<b>NET INCOME</b>		<b>4</b>	<b>-11</b>
Other comprehensive income		–	–
<b>TOTAL OTHER COMPREHENSIVE INCOME</b>		<b>4</b>	<b>-11</b>

# PARENT COMPANY BALANCE SHEET

## PARENT COMPANY ASSETS, 31 DECEMBER

Amounts in SEK m	Note	2018	2017
<b>Non-current assets</b>			
Intangible assets	11	14	17
Deferred tax assets	10	0	2
Other financial assets	13, 14	293	284
<b>Total non-current assets</b>		<b>307</b>	<b>303</b>
<b>Current assets</b>			
Other current receivables	17	955	889
Cash and cash equivalents	18	218	311
<b>Total current assets</b>		<b>1,173</b>	<b>1,200</b>
<b>TOTAL ASSETS</b>		<b>1,480</b>	<b>1,503</b>

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

Amounts in SEK m	Note	2018	2017
<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		57	109
<b>Total shareholders' equity</b>		<b>918</b>	<b>970</b>
<b>Non-current liabilities</b>			
Interest-bearing liabilities	20	395	394
Non-interest-bearing liabilities		18	10
<b>Total non-current liabilities</b>		<b>413</b>	<b>404</b>
<b>Current liabilities</b>			
Accounts payable	21	2	2
Other non-interest-bearing liabilities	22	147	127
<b>Total current liabilities</b>		<b>149</b>	<b>129</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>1,480</b>	<b>1,503</b>



# PARENT COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

## 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>
Net income	–	–	–	-11	-11
Dividends to shareholders	–	–	–	-61	-61
<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 CHANGES IN SHAREHOLDERS' EQUITY 2018

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 2018</b>	<b>153</b>	<b>440</b>	<b>268</b>	<b>109</b>	<b>970</b>
Net income	–	–	–	4	4
Dividends to shareholders	–	–	–	-56	-56
<b>CLOSING BALANCE, 31 DECEMBER 2018</b>	<b>153</b>	<b>440</b>	<b>268</b>	<b>57</b>	<b>918</b>

# PARENT COMPANY STATEMENT OF CASH FLOWS

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

Amounts in SEK m	Note	2018	2017
<b>EBIT (operating loss)</b>		<b>-27</b>	<b>-33</b>
<b>Adjustment for non-cash flow items</b>			
Depreciation/amortisation and impairment losses	11, 12	3	0
<b>EBIT adjusted for non-cash flow affecting items</b>		<b>-24</b>	<b>-33</b>
Received interest income		4	1
Paid interest expenses		-19	-12
<b>Cash flow from operating activities before changes in working capital</b>		<b>-39</b>	<b>-44</b>
<b>Working capital changes</b>			
Change in current receivables		-26	21
Change in current liabilities (non-interest-bearing)		28	13
<b>Total changes in working capital</b>		<b>2</b>	<b>34</b>
<b>CASH USED IN OPERATING ACTIVITIES</b>		<b>-37</b>	<b>-10</b>
Purchase of intangible assets	11	-	-8
<b>CASH USED IN INVESTING ACTIVITIES</b>		<b>-</b>	<b>-8</b>
Bond issue	20	-	400
Change in used bank overdraft facilities	20	-	-11
Dividends paid		-56	-61
<b>CASH USED IN/PROVIDED BY FINANCING ACTIVITIES</b>		<b>-56</b>	<b>328</b>
<b>NET CASH FLOW FOR THE YEAR</b>		<b>-93</b>	<b>310</b>
Cash and cash equivalents at the beginning of the year		311	1
<b>Cash and cash equivalents at the end of the year</b>	18	<b>218</b>	<b>311</b>
Granted and unused credit facilities	20	90	90

# SUPPLEMENTARY DISCLOSURES AND NOTES

## ACCOUNTING POLICIES AND VALUATION PRINCIPLES

### BASIS OF THE REPORTS' PREPARATION

These consolidated accounts have been prepared in accordance with the Swedish Annual Accounts Act and the International Financial Reporting Standards (IFRS), 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.

### AMENDMENTS OF ACCOUNTING POLICIES AND DISCLOSURES

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

### Standards, amendments and interpretations that entered into force in 2018 and were applied by the Group

As of 1 January 2018, Rottneros has applied IFRS 9, Financial Instruments, and IFRS 15, Revenue from Contracts with Customers.

IFRS 9 deals with three areas of accounting for financial instruments:

- Classification and measurement,
- Impairment of financial assets in accordance with expected credit losses, and
- Hedge accounting.

The implementation of IFRS 9 has not impacted Rottneros financial statements due to, among other things, the limited number of financial instruments that Rottneros has. A non-material item of "financial assets available for sale" has been reclassified and is now measured at "fair value through profit or loss". No additional credit loss allowance has been recognised, mainly due to the historically extremely limited credit risk in the operations. The preconditions for applying hedge accounting have not changed. The accounting principles for financial instruments in accordance with IFRS 9 are described below.

The basic principle in IFRS 15 is that revenue is recognised when the control of a good or service is transferred to the buyer. This may take place at a point in time or over time, depending on the nature and inherent complexity of the operations. An overwhelming part of Rottneros' revenues are obtained from the sales of pulp. Revenue is recognised when the customer obtains control of the goods, which also coincides with the delivery.

### 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 by 31 December 2018 are expected to have an impact on the consolidated financial statements.

### IFRS 16, Leases

IFRS 16, which replaces IAS 17, will be applied as of 1 January 2019. IFRS 16 entails the reporting of substantially all lease contracts in the balance sheet. Under

IFRS 16, there is no difference between operational and finance leases. Rather, all contracts that meet the definition of a lease contract shall, with few exceptions, be accounted for as an asset and a liability in the balance sheet. Rottneros has chosen to apply the modified retroactive transition method for IFRS 16, meaning that the value of all identified contracts will affect the value of recognised assets and liabilities with equal amounts. IFRS 16 will have a very limited effect on Rottneros' financial statements since the number of lease contracts of any mentionable value is limited.

### 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.

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 recycled into the consolidated income statement as part of the calculation for the transaction gain or loss.

### REVENUE

#### Accounting principle through 31 December 2017 (in accordance with IAS 18)

Sales of goods are recognised when products are delivered to the customer

## NOTES

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.

### Accounting principle as from 1 January 2018 (in accordance with IFRS 15)

All revenues from contracts with customers are recognised when the control of a good or service is transferred to the buyer. At the inception of a contract with the customer, each distinct performance obligation shall be identified and accounted for separately. Performance obligations that are not separately identifiable are combined with other such performance obligations. Elements of variable consideration in the contract are taken into account when determining the transaction price. Rottneros has a relatively straightforward business model of a traditional nature regarding revenue recognition.

Revenue is recognised either at a point in time or over time, depending on when the control is passed to the buyer. Control is defined as the buyer's ability to direct the use and thereby obtain substantially all of the benefits from the asset. Control is passed over time if any of the following criteria is met:

- The customer simultaneously receives and consumes all of the benefits provided by the entity as the entity performs.
- The entity's performance creates or enhances an asset (e.g. work in progress) that the customer controls as the asset is created.
- The entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

Factors that may indicate the point in time at which control passes include, but are not limited to:

- The entity has a present right to payment for the asset.
- The customer has legal title to the asset.
- The entity has delivered the asset.
- The customer has the significant risks and rewards related to the ownership of the asset.
- The customer has accepted the asset.

The vast majority of Rottneros revenues is derived from the sales of pulp. Control is passed at a point in time, which coincides with the actual delivery of the goods. Revenue is recognised at fair value of the consideration received or receivable. Net turnover in the income statement consists of revenues from the sale of goods and invoiced freight, net of returns, discounts, pulp price hedges and VAT.

### 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.

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 manufac-

turing 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.

### CASH AND CASH EQUIVALENTS

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

### REPORTING OF LEASE AGREEMENTS

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

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

### INTANGIBLE ASSETS

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

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.

### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment 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. Expenditures for repairs and maintenance are charged to expense when they arise.

### 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 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
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. For intangible assets not yet ready for use the recoverable amount is calculated annually.

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

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

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

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

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

### PROVISIONS

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

Provisions for restructurings are made when there is a detailed formal plan 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 non-current 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 6m (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 prelim-

inarily to 142 per cent (154) at the end of 2018. 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 are received for renewable electricity produced by the company and are sold on an ongoing basis. Electricity certificates sold, which are not settled in 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.

### 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 INSTRUMENTS

All financial instruments are initially measured at fair value plus transaction costs, except for those financial instruments that are measured at fair value through profit or loss for which the transaction costs are charged to expense when incurred.

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.

#### Classification of financial assets through 31 December 2017 (in accordance with IAS 39)

Financial assets include accounts receivable, loans receivable, financial assets available for sale and derivative instruments.

#### Classification of financial assets as from 1 January 2018 (in accordance with IFRS 9)

In accordance with IFRS 9, financial assets are classified and accounted for as either debt instruments, equity instruments or derivative instruments.

#### Accounts receivable and loans receivable (through 31 December 2017)

Accounts receivable and loans receivable are amounts to be paid by the counterpart 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'. Receivables are initially recognised at fair value and subsequently at amortised cost less any provisions for impairment. The fair value of receivables 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'.

## NOTES

### **Financial assets accounted for as debt instruments (as from 1 January 2018)**

The classification and measurement of debt instruments depends on the business model that Rottneros applies regarding how the financial assets are managed. Debt instruments are measured at

- Amortised cost,
- Fair value through other comprehensive income, or
- Fair value through profit or loss.

All of Rottneros debt instruments are held in order to receive payments of principal and interest. Therefore, all debt instruments are accounted for and measured at amortised cost, using the effective interest method. Interest income is reported in the financial items in the income statement. Any transaction gain or loss arising from the de-recognition of these assets are reported as other operating income or expense, respectively.

Rottneros' financial assets accounted for as debt instruments include accounts receivable and loans receivable.

### **Financial assets available for sale (through 31 December 2017)**

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.

### **Equity instruments (as from 1 January 2018)**

All equity instruments are measured at fair value in the balance sheet, with the changes in fair value recorded in other operating income or expense in the income statement.

### **Financial liabilities**

#### *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.

### **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.

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.

### **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.

## NOTE 1. NET TURNOVER

Net turnover consists of the following:

	Group		Parent Company	
	2018	2017	2018	2017
Sales of pulp	2,266	1,904	–	–
Results from pulp price hedging	-131	–	–	–
Sales of by-products	40	–	–	–
Sales of pulp wood	84	8	–	–
Sales of fibre trays	1	0	–	–
Management fees received	–	–	6	6
<b>Total</b>	<b>2,260</b>	<b>1,912</b>	<b>6</b>	<b>6</b>

As of 2018, net turnover also includes the results from pulp price hedging and the revenue from sales of by-products. Earlier, these items were included in "other operating income". Net turnover for 2017 and earlier years has not been restated since the effect is not deemed to be material.

Revenue from the sales of Rottneros products is recognised at a specific point in time when control of the product is transferred to the customer. For each sales transaction there is only one performance obligation: delivery of the product in accordance with the terms of the sale.

Net turnover broken down by geographic markets:

	2018	%	2017	%
Sweden	335	15	303	16
Norway	225	10	206	11
Other Nordic countries	58	3	63	3
Germany	303	13	333	17
Italy	278	12	256	13
Poland	102	5	86	5
Rest of Europe	303	13	176	9
USA	264	12	247	13
Rest of North America	29	1	13	1
Asia	343	15	221	12
Rest of world	20	1	8	0
<b>Total</b>	<b>2,260</b>	<b>100</b>	<b>1,912</b>	<b>100</b>

In 2018 the Group's largest customer accounted for 11 (11) per cent of turnover. No other customer accounts for more than 10 per cent of turnover. Of the parent company's net turnover 100 per cent (100) relates to wholly owned subsidiaries.

## NOTE 2. TRANSACTIONS WITH RELATED PARTIES

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 2018 and 2017 respectively. Goods are sold on the same terms as for non-related parties.

Related party	Sales 2018	Sales 2017	Accounts receivable 31 Dec 18	Accounts receivable 31 Dec 17
Arctic Paper S.A. Group	107	150	23	24

Receivables from 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 4 (1) per cent of its operating costs related to purchases from subsidiaries.

### Transactions with persons discharging managerial responsibilities

Information about salaries, fees and other remuneration to persons discharging managerial responsibilities is presented in Note 8.

## NOTE 3. OTHER OPERATING INCOME

	Group		Parent Company	
	2018	2017	2018	2017
Sale of by-products	–	36	–	–
Foreign currency gains/losses	15	-10	0	3
Loss/gain from currency hedging contracts	-16	3	–	–
Loss from pulp price hedging contracts	–	-9	–	–
Sale of green electricity certificates	3	1	–	–
Sale of emission allowances	16	–	–	–
EU grant PULPACKTION	4	4	–	–
Other	12	22	7	7
<b>Total</b>	<b>34</b>	<b>47</b>	<b>7</b>	<b>10</b>

As of 2018, the sales of by-products and the results from pulp price hedging are included in the Group's net turnover. See Note 1.

## NOTES

### NOTE 4. RAW MATERIALS AND CONSUMABLES

	Group		Parent Company	
	2018	2017	2018	2017
Pulp wood	-861	-646	-	-
Chemicals	-162	-164	-	-
Electricity	-151	-100	-	-
Gains from electricity price hedging contracts	59	12	-	-
Fuels	-65	-46	-	-
Other costs for raw materials and consumables	-31	-21	-	-
<b>Total</b>	<b>-1,211</b>	<b>-965</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	
	2018	2017	2018	2017
Due within one year	3	1	0	0
Due later than one year but within five years	6	0	-	-
<b>Total</b>	<b>9</b>	<b>1</b>	<b>0</b>	<b>0</b>

### NOTE 6. AUDIT EXPENSES

	Group		Parent Company	
	2018	2017	2018	2017
Audit engagement, KPMG	0.7	-	0.4	-
Audit engagement, EY	1.2	1.4	0.3	0.9
Audit-related services in addition to the audit engagement, EY	0.1	0.3	0.1	0.3
<b>Total</b>	<b>2.0</b>	<b>1.7</b>	<b>0.8</b>	<b>1.2</b>

The audit firm EY was Rottneros' auditor up until the Annual General Meeting in 16 May 2018 when the audit firm KPMG was elected as auditor for the period until the end of AGM 2019. Rottneros has not purchased any material services beyond the audit engagement from the audit firm elected by the AGM.

### NOTE 7. FINANCIAL INSTRUMENTS

#### Financial instruments by category

	2018	2017
<b>Assets</b>		
Non-current financial assets		
Equity instruments (as from 1 Jan 2018)	8	-
Financial assets available for sale (through 31 Dec 2017)	-	8
Derivative instruments		
Derivative instruments used for hedging purposes	142	32
Financial receivables and cash and cash equivalents		
Accounts receivable	334	254
Cash and cash equivalents	238	326
<b>Total assets</b>	<b>722</b>	<b>620</b>

#### Liabilities

Financial liabilities		
Interest-bearing liabilities	395	394
Accounts payable	174	149
Derivative instruments		
Derivative instruments used for hedging purposes	8	8
<b>Total liabilities</b>	<b>577</b>	<b>551</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
	2018	2017	
<b>Assets</b>			
Equity instruments (as from 1 Jan 2018)	8	-	Level 3
Financial assets available for sale (through 31 Dec 2017)	-	8	Level 3
Derivative instruments used for hedging purposes	142	32	Level 2
<b>Total assets</b>	<b>150</b>	<b>40</b>	
<b>Liabilities</b>			
Derivative instruments used for hedging purposes	8	8	Level 2
<b>Total liabilities</b>	<b>8</b>	<b>8</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.

	2018		2017	
	Book value	Fair value	Book value	Fair value
<b>Assets</b>				
Accounts receivable	334	334	254	254
Cash and cash equivalents	238	238	326	326
<b>Total assets</b>	<b>572</b>	<b>572</b>	<b>580</b>	<b>580</b>
<b>Liabilities</b>				
Interest-bearing liabilities	395	410	394	410
Accounts payable	174	174	149	149
<b>Total liabilities</b>	<b>569</b>	<b>584</b>	<b>543</b>	<b>559</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 currency 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 40-44.

**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 currency risk exposure that arises on outstanding accounts receivable can be hedged 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. Future electricity prices are hedged in advance according to a set strategy to protect Rottneros' future electricity costs against major fluctuations and to achieve a predictable electricity price.

**Interest rate risk**

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**

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
<b>Fair value hedges</b>				
Currency forwards	1	–	1	–
<b>Cash flow hedges</b>				
Pulp price forwards	–	8	–	8
Electricity price forwards	141	–	31	–
<b>Total</b>	<b>142</b>	<b>8</b>	<b>32</b>	<b>8</b>
Minus non-current portion:				
Electricity price forwards	-69	–	-23	–
<b>Current portion</b>	<b>73</b>	<b>8</b>	<b>9</b>	<b>8</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 2018**

Hedging	Hedged volume	Maturity	Hedging level	Fair value
Currency EUR, forward sell	EUR 2.5m	Jan-Feb 2019	SEK 10.30/EUR	0
Currency USD, forward sell	USD 11.0m	Jan-Feb 2019	SEK 9.01/USD	0
Pulp price, forward sell	12,000 tonnes	Jan-Dec 2019	SEK 9,800/tonne	-8
Electricity price, forward buy	701,520 MWh	2019-2021	SEK 0.226/kWh	141
<b>Total fair value</b>				<b>133</b>

**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 price, forward sell	42,000 tonnes	Jan-Dec 2018	SEK 7,293/tonne	-8
Electricity price, forward buy	950,520 MWh	2018-2021	SEK 0.225/kWh	31
<b>Total fair value</b>				<b>24</b>

## NOTE 8. PERSONNEL AND REMUNERATION

	2018		2017	
	Average number of employees	of whom women %	Average number of employees	of whom women %
Parent Company	8	25	7	29
Subsidiaries	295	18	294	17
<b>Group, total</b>	<b>303</b>	<b>18</b>	<b>301</b>	<b>17</b>
Of which				
Sweden	300	18	298	17
Latvia	3	33	3	33

Pay and other remuneration, and social security contributions:

	2018			2017		
	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	13	9	6	22	9	4
Subsidiaries	173	67	8	154	81	15
<b>Group, total<sup>1</sup></b>	<b>186</b>	<b>76</b>	<b>14</b>	<b>176</b>	<b>90</b>	<b>19</b>

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

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

SEK m	2018			2017		
	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>	12	4	1	21	3	1
Subsidiaries	5	0	170	1	0	153
<b>Group, total</b>	<b>17</b>	<b>4</b>	<b>171</b>	<b>22</b>	<b>3</b>	<b>154</b>

<sup>1</sup> For 2017, 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 eight people who make up Group management together with the CEO. See page 77 for the composition of Group management.

See page 39 in the Directors' Report for the Board's proposal to the AGM 2019 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 stakeholders.

Chief Executive Officer Lennart Eberleh also has a "stay on bonus" of SEK 2.0m to be paid after three years of employment i.e. 1 August 2019. This remuneration is not pensionable.

#### 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 Remuneration 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 2018 (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 Carlsson	0.3	–	–	–	–	0.3
Board member, Roger Mattsson	0.3	–	–	–	–	0.3
Board member, Per Skoglund	0.3	–	–	–	–	0.3
Chief Executive Officer, Lennart Eberleh	3.0	1.5	0.1	1.2	0.1	5.9
Other senior executives (eight people)	7.1	2.1	0.4	1.7	0.4	11.7
<b>Total</b>	<b>11.9</b>	<b>3.6</b>	<b>0.5</b>	<b>2.9</b>	<b>0.5</b>	<b>19.4</b>

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 Carlsson <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 Carlsson has in 2017 also carried out work for the company in addition to his ordinary board and committee work. The remuneration, which the Board has 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.

#### COMMENTS ON THE TABLE

- Variable remuneration refers to what is charged to profit/loss for 2018 and 2017 respectively. Variable remuneration for 2018 is paid out in 2019.
- Other benefits mainly 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 (nine people in total) comprised six men and three women at year-end. The Board of Directors (seven people in total) comprised six men and one woman at year-end.

## NOTE 9. FINANCIAL INCOME AND EXPENSES

	Group		Parent Company	
	2018	2017	2018	2017
<b>Financial income</b>				
Interest income from subsidiaries	–	–	4	1
Dividends from external companies	1	2	–	–
Group contributions received/paid, net	–	–	49	28
<b>Total</b>	<b>1</b>	<b>2</b>	<b>53</b>	<b>29</b>

	Group		Parent Company	
	2018	2017	2018	2017
<b>Financial expenses</b>				
Interest expenses	-20	-11	-20	-7
<b>Total</b>	<b>-20</b>	<b>-11</b>	<b>-20</b>	<b>-7</b>

## NOTE 10. TAX ON PROFIT FOR THE YEAR

	Group		Parent Company	
	2018	2017	2018	2017
Current tax	-1	0	–	–
Deferred tax	-54	-33	-2	1
<b>Total</b>	<b>-55</b>	<b>-33</b>	<b>-2</b>	<b>1</b>

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

	Group		Parent Company	
	2018	2017	2018	2017
<b>Reported profit before taxes</b>	<b>276</b>	<b>147</b>	<b>6</b>	<b>-11</b>
Tax at applicable tax rate	-61	-32	-1	2
Tax effect of non-deductible items	-1	-1	-1	-1
Tax effect of non-taxable items	1	0	0	0
Effect of changes in tax rate 2019-2021	6	–	0	–
<b>Reported tax expense</b>	<b>-55</b>	<b>-33</b>	<b>-2</b>	<b>1</b>

## NOTES

### TAX RATE

The applicable tax rate for 2018 is 22.0 per cent (22.0). In accordance with a decision by the Swedish Parliament in June 2018, the tax rate will be lowered to 21.4 per cent for 2019-2020 and to 20.6 per cent as of 2021. Rottneros has revalued its deferred tax assets and liabilities using the new tax rates. The effect of revaluation is included in the reported tax expense for 2018.

### 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 2017</b>	<b>1</b>	<b>-4</b>	<b>-6</b>	<b>1</b>	<b>-8</b>
Recognised in income statement	-1	0	-34	2	-33
Recognised in other comprehensive income	-	-2	-	-	-2
<b>As of 31 December 2017</b>	<b>-</b>	<b>-5</b>	<b>-40</b>	<b>3</b>	<b>-42</b>
Recognised in income statement	-	0	-51	-3	-54
Recognised in other comprehensive income	-	-23	-	-	-23
<b>As of 31 December 2018</b>	<b>-</b>	<b>-28</b>	<b>-91</b>	<b>0</b>	<b>-119</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	
	2018	2017	2018	2017
Deferred tax assets, non-current	0	3	0	2
Deferred tax liabilities, non-current	-119	-45	-	-
<b>Total</b>	<b>-119</b>	<b>-42</b>	<b>0</b>	<b>2</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	
	2018	2017	2018	2017
Deferred tax assets	-	-	0	2
Deferred tax liabilities	-119	-42	-	-
<b>Total</b>	<b>-119</b>	<b>-42</b>	<b>0</b>	<b>2</b>

## NOTE 11. INTANGIBLE ASSETS

Group	2018					2017				
	Software	Trade-marks	Licences	Assets under development	Total	Software	Trade-marks	Licences	Assets under development	Total
Opening cost	57	25	2	6	90	38	25	2	16	81
Purchases for the year	2	-	-	-	2	-	-	-	9	9
Items transferred during the year	-	-	-	-	0	19	-	-	-19	0
<b>Closing accumulated cost</b>	<b>59</b>	<b>25</b>	<b>2</b>	<b>6</b>	<b>92</b>	<b>57</b>	<b>25</b>	<b>2</b>	<b>6</b>	<b>90</b>
Opening depreciation/amortisation and impairment losses	-38	-25	-2	-6	-71	-38	-25	-2	-6	-70
Depreciation for the year	-5	-	-	-	-5	-1	-	-	-	-1
<b>Closing accumulated depreciation/amortisation and impairment losses</b>	<b>-42</b>	<b>-25</b>	<b>-2</b>	<b>-6</b>	<b>-75</b>	<b>-38</b>	<b>-25</b>	<b>-2</b>	<b>-6</b>	<b>-71</b>
<b>CLOSING RESIDUAL VALUE ACCORDING TO PLAN</b>	<b>17</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17</b>	<b>19</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19</b>

Parent Company	2018			2017		
	Software	Assets under development	Total	Software	Assets under development	Total
Opening cost	32	6	38	15	15	30
Purchases for the year	–	–	0	–	8	8
Items transferred during the year	–	–	0	17	-17	–
<b>Closing accumulated cost</b>	<b>32</b>	<b>6</b>	<b>38</b>	<b>32</b>	<b>6</b>	<b>38</b>
Opening depreciation/amortisation and impairment losses	-15	-6	-21	-15	-6	-21
Depreciation for the year	-3	–	-3	0	–	0
<b>Closing accumulated depreciation/amortisation and impairment losses</b>	<b>-18</b>	<b>-6</b>	<b>-24</b>	<b>-15</b>	<b>-6</b>	<b>-21</b>
<b>CLOSING RESIDUAL VALUE ACCORDING TO PLAN</b>	<b>14</b>	<b>–</b>	<b>14</b>	<b>17</b>	<b>–</b>	<b>17</b>

## NOTE 12. PROPERTY, PLANT AND EQUIPMENT

Group	2018							2017						
	Land	Land im-provements	Build-ings	Machinery	Equip-ment	Const. in prog-ress/ advs.	Total	Land	Land im-provements	Build-ings	Machinery	Equip-ment	Const. in prog-ress/ advs.	Total
Opening cost	3	41	137	1,861	63	244	2,350	3	32	136	1,768	55	130	2,124
Purchases for the year	–	–	1	132	4	116	253	–	9	1	23	8	186	227
Sales/disposals	–	–	–	-10	–	–	-10	–	–	–	–	-1	–	-1
Items transferred during the year	–	16	38	152	12	-218	–	–	0	1	70	1	-72	–
<b>Closing accumulated cost</b>	<b>3</b>	<b>57</b>	<b>176</b>	<b>2,136</b>	<b>79</b>	<b>142</b>	<b>2,593</b>	<b>3</b>	<b>41</b>	<b>137</b>	<b>1,861</b>	<b>63</b>	<b>244</b>	<b>2,350</b>
Opening depreciation	–	-15	-62	-1,201	-39	–	-1,317	–	-13	-54	-1,125	-37	–	-1,229
Sales/disposals	–	–	–	10	–	–	10	–	–	–	–	1	–	1
Items transferred during the year	–	-2	-9	-78	-5	–	-94	–	-2	-8	-76	-3	–	-89
<b>Closing accumulated depreciation</b>	<b>–</b>	<b>-17</b>	<b>-71</b>	<b>-1,269</b>	<b>-44</b>	<b>–</b>	<b>-1,401</b>	<b>–</b>	<b>-15</b>	<b>-62</b>	<b>-1,201</b>	<b>-39</b>	<b>–</b>	<b>-1,317</b>
Opening impairment loss	–	–	–	-6	-9	2	-13	–	–	–	-6	-9	2	-13
<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>40</b>	<b>105</b>	<b>861</b>	<b>26</b>	<b>144</b>	<b>1,179</b>	<b>3</b>	<b>26</b>	<b>75</b>	<b>654</b>	<b>15</b>	<b>246</b>	<b>1,020</b>

## NOTES

### NOTE 13. OTHER FINANCIAL ASSETS

	Group		Parent Company	
	2018	2017	2018	2017
Participating interests in Group companies	–	–	276	276
Shareholding in Söderhamns Stuveri & Hamn AB (16%) <sup>1</sup>	8	8	–	–
Other long-term receivables	17	8	17	8
<b>Total</b>	<b>25</b>	<b>16</b>	<b>293</b>	<b>284</b>

<sup>1</sup> Through 31 December 2017, the Group's 16 per cent stake in Söderhamns Stuveri & Hamn AB was classified in financial assets available for sale, and was measured at fair value through other comprehensive income. As from 1 January 2018, the stake is classified as an equity instrument, measured at fair value through profit or loss. See also Note 7.

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	
					2018	2017
Vallviks Bruk AB	556445-8163	Söderhamn	415,000	100	101	101
Rottneros Bruk AB	556014-4502	Sunne	2,100,000	100	89	89
Rottneros Packaging AB	556307-5356	Stockholm	10,000	100	1	1
Utansjö Bruk AB	556012-7994	Härnösand	500,000	100	79	79
SIA Rottneros Baltic	319 171	Latvia	100	100	6	6
<b>Total</b>					<b>276</b>	<b>276</b>

Change in the value of participating interests in Group companies	Parent Company	
	2018	2017
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. PLEGDED ASSETS

	Group		Parent Company	
	2018	2017	2018	2017
<b>Company mortgages</b>				
Pledged to Danske Bank	285	510	50	275
Held by the Company	300	75	225	–
<b>Shares in subsidiaries</b>				
Pledged to Danske Bank	–	480	–	270
<b>Deeds of trust</b>				
Pledged to Danske Bank	–	382	–	–
Held by the Company	382	–	–	–
<b>Total</b>	<b>967</b>	<b>1,447</b>	<b>275</b>	<b>545</b>

On 31 December 2018, a part of the Group's and the Parent Company's mortgages were 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.

On 31 December 2017, all shares in Rottneros AB's subsidiaries Vallviks Bruk AB, Rottneros Bruk AB, Utansjö Bruk AB and Rottneros Packaging AB were also pledged to Danske Bank. The value of pledged subsidiary shares is calculated, in the case of the Group, as the total amount of shareholder's equity in subsidiaries, and in the case of the Parent Company, as the total book value of the shares.

### NOTE 15. INVENTORIES

	Group	
	2018	2017
Raw materials and consumables	71	35
Spare parts, etc.	73	74
Pulp, valued at production cost	245	170
<b>Total</b>	<b>389</b>	<b>279</b>

## NOTE 16. ACCOUNTS RECEIVABLE

	Group		Parent Company	
	2018	2017	2018	2017
Accounts receivable, gross	334	254	–	–
Provision for doubtful accounts receivable	–	–	–	–
<b>Accounts receivable, net</b>	<b>334</b>	<b>254</b>	<b>–</b>	<b>–</b>

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

	Group		Parent Company	
	2018	2017	2018	2017
Opening balance	–	-4	–	–
Receivables written off as uncollectable	–	4	–	–
<b>Closing balance</b>	<b>–</b>	<b>–</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 14m (22) were due as of 31 December 2018. These refer to a number of independent customers that have previously not had any difficulties in meeting their payment obligations. Based on all available information, Rottneros doesn't expect any credit losses from the recorded accounts receivable. These receivables are also covered by credit insurance, which recovers most of any bad debt losses. The ageing of these accounts receivable is presented below:

	Group		Parent Company	
	2018	2017	2018	2017
Accounts receivable that are not due	320	232	–	–
Less than 30 days from due date	13	17	–	–
2 to 3 months from due date	1	3	–	–
3 to 9 months from due date	–	2	–	–
<b>Total</b>	<b>334</b>	<b>254</b>	<b>–</b>	<b>–</b>

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

	Group		Parent Company	
	2018	2017	2018	2017
USD	176	117	–	–
EUR	102	87	–	–
SEK	56	48	–	–
Other currencies	0	2	–	–
<b>Total</b>	<b>334</b>	<b>254</b>	<b>–</b>	<b>–</b>

## NOTE 17. OTHER CURRENT RECEIVABLES

	Group		Parent Company	
	2018	2017	2018	2017
Receivables from Group companies	–	–	955	889
VAT receivables	25	28	–	–
Emission allowances	18	9	–	–
Other receivables	12	4	–	–
Prepaid expenses and accrued income				
Prepaid insurance premiums	2	5	0	0
Other prepaid expenses	11	5	–	–
Accrued income	5	6	0	0
Total prepaid expenses and accrued income	18	16	0	0
<b>Total</b>	<b>73</b>	<b>57</b>	<b>955</b>	<b>889</b>

## NOTE 18. CASH AND CASH EQUIVALENTS

	Group		Parent Company	
	2018	2017	2018	2017
Cash and bank balances	238	326	218	311

None of the cash and cash equivalents were blocked or pledged at the end of the year.

## NOTE 19. SHAREHOLDERS' EQUITY

### SHARE CAPITAL AND NUMBER OF SHARES

Group and parent company	Number of shares <sup>1</sup>	Share capital
As of 31 December 2018	152,571,925	153
As of 31 december 2017	152,571,925	153

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

Average number of shares outstanding, 2018	152,571,925
Average number of shares outstanding, 2017	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.

## NOTES

### SHARE-RELATED INCENTIVE PROGRAMMES

There were no share-related incentive programmes for the Group on 31 December 2018 or 2017.

### DIVIDEND FOR FINANCIAL YEAR 2017

The Annual General Meeting on 16 May 2018 approved an ordinary dividend of SEK 0.30 per share and an extra dividend of SEK 0.07 per share to shareholders for the 2017 financial year. The total dividend of SEK 56,451,612 was paid on 23 May 2018.

### PROPOSED APPROPRIATION OF PROFITS

The Board of Directors will propose to the Annual General Meeting that an ordinary dividend of SEK 0.40 per share and an extra dividend of SEK 0.30 per share be paid to shareholders for the 2018 financial year.

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

Retained earnings	320,770,480
Net profit for the year	4,251,466
Total SEK	325,021,946

#### The Board of Directors proposes:

To be distributed to shareholders <sup>1,2</sup>	106,800,348
To be carried forward	218,221,598
Total SEK	325,021,946

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

<sup>2</sup> Ordinary dividend SEK 0.40 per share and extra dividend SEK 0.30 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 11 (6) per cent as of 31 December 2018.

### CHANGE IN HEDGING RESERVE IN CONSOLIDATED SHAREHOLDERS' EQUITY

	2018	2017
Opening balance	18	15
Cash flow hedging:		
– Changes in fair value of cash flow hedges	39	8
– Cash flow hedges transferred to profit or loss	72	-3
– Income tax effect on changes in fair value	-23	-2
<b>Closing balance</b>	<b>106</b>	<b>18</b>

## NOTE 20. INTEREST-BEARING LIABILITIES

	Group		Parent Company	
	2018	2017	2018	2017
Bond	395	394	395	394
Due for repayment:				
<b>Later than one year but within five years</b>	<b>395</b>	<b>394</b>	<b>395</b>	<b>394</b>

### CHANGES IN INTEREST-BEARING LIABILITIES

	Group		Parent Company	
	2018	2017	2018	2017
<b>Balance at start of year</b>	<b>394</b>	<b>14</b>	<b>394</b>	<b>11</b>

Changes included in the cash flow from financing activities:

Bond issue	–	400	–	400
Long-term loans taken out from banks	–	80	–	–
Amortisation of long-term loans from banks	–	-80	–	–
Change in used bank overdraft facilities	–	-14	–	-11

#### Total changes included in the cash flow from financing activities

	–	386	–	389
--	---	-----	---	-----

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	1	1
<b>Total other changes</b>	<b>1</b>	<b>-6</b>	<b>1</b>	<b>-6</b>

<b>Balance at end of year</b>	<b>395</b>	<b>394</b>	<b>395</b>	<b>394</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 are 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 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 fair value of the bond was assessed to be SEK 410m on balance sheet day.



**CREDIT FACILITIES**

The Group had used none of its bank overdraft facilities on 31 December 2018 and 2017. The Group had unutilised bank overdraft facilities of SEK 182m (182) on 31 December 2018.

The Parent Company had used none of its bank overdraft facilities on 31 December 2018 and 2017. The Parent Company had unutilised bank overdraft facilities of SEK 90m (90) on 31 December 2018.

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

Per cent	2018			2017		
	SEK	USD	EUR	SEK	USD	EUR
Bank overdraft facilities	1.10	3.76	0.80	1.30	4.20	1.15

## NOTE 21. ACCOUNTS PAYABLE

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

	Group		Parent Company	
	2018	2017	2018	2017
SEK	150	130	2	2
EUR	22	18	–	–
USD	2	1	–	–
<b>Total</b>	<b>174</b>	<b>149</b>	<b>2</b>	<b>2</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	
	2018	2017	2018	2017
Liabilities to subsidiaries	–	–	127	109
Other liabilities	35	31	0	0
Accrued expenses and deferred income:				
Holiday pay liability	26	25	2	2
Social security contributions	12	11	1	0
Payroll liability	8	8	–	–
Raw material cost and input goods	74	49	–	–
Other accrued expenses	68	62	17	16
Other deferred income	4	11	0	0
<b>Total accrued expenses and deferred income</b>	<b>192</b>	<b>166</b>	<b>20</b>	<b>18</b>
<b>Total</b>	<b>227</b>	<b>197</b>	<b>147</b>	<b>127</b>

## NOTE 23. CONTINGENT LIABILITIES

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

The Board of Directors has decided on certain investments that will be carried out in 2019. SEK 20m of these investments were procured and contracted on 31 December 2018.

## 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 40-44 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 556013-5872.

## REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

### Opinions

We have audited the annual accounts and consolidated accounts of Rottneros AB (publ) for the year 2018, except for the corporate governance statement on pages 45-49. The annual accounts and consolidated accounts of the company are included on pages 51-73 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 2018 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 2018 and its 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 45-49 and the statutory sustainability report on pages 28-35. 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.

### Revenue recognition

See Note 1 and accounting principles on page 59 of the annual accounts and consolidated accounts for detailed disclosures and a description of the subject.

#### Description

The group's net turnover amounted to SEK 2,260m in 2018. Revenue from the sale of goods is recognised in the income statement when substantial risks and rewards of ownership of the goods are transferred to the buyer, which normally coincides with the delivery of the goods.

Net turnover includes revenue from the sale of goods and invoiced freights, net of returns, discounts, pulp price hedges and VAT. The shipping terms for sales transactions may vary between regions, lands or products, whereby the right of ownership may be passed before actual delivery takes place. Invoicing takes place when the delivery is made. Revenue is recognised at fair value of the consideration received or receivable in the normal course of the Group's operations.

#### How our audit addressed this key audit matter

We have evaluated the design of the company's controls regarding revenue recognition for goods and how these controls have been implemented.

We have reviewed a sample of contracts in order to analyse the suitability of the applied revenue recognition model. We have based on a selected sample reviewed sales transactions recognised before and after the year-end in order to assess whether correct terms and conditions have been applied on the contracts, and that the risks and rewards have been transferred to the customers.

We have based on randomly selected samples controlled that the amounts recognised agree with the information in pre-systems. We have also verified the security in the IT systems and that there are controls between the pre-systems and general ledger in order for the revenue to be recognised in the accounting period when the right of ownership is transferred.

### Valuation of finished goods

See Note 15 and accounting principles on page 60 of the annual accounts and consolidated accounts for detailed disclosures and a description of the subject.

#### Description

As described in note 15 of the annual report, the inventory of finished goods is recorded at SEK 245m in the consolidated financial statements as of 31 December 2018. 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.

#### 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 1-36 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 2018 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.

KPMG AB, Box 11908, SE-404 39 Göteborg, was appointed auditor of Rottneros AB (publ) by the general meeting of the shareholders on 16 May 2018.

Stockholm, 19 March 2019  
KPMG AB

**Jan Malm**  
Authorized Public Accountant  
Auditor in charge

**Sven Cristea**  
Authorized Public Accountant

## OTHER INFORMATION

# ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) will be held on Thursday, 2 May 2019 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 Thursday, 25 April 2019, and
- notify the company of their intention to attend the AGM no later than Thursday, 25 April 2019. 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, "Annual General Meeting", 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 Thursday, 25 April 2019, 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 Thursday, 25 April 2019. Proxy forms are available on the company's home page, [www.rottneros.com](http://www.rottneros.com).

# COMPOSITION OF THE BOARD



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

## PER LUNDEEN

- (1955)  
M.Sc. Engineering.
- Board member 2013-2015, and from the spring of 2016. Chairman of the Board of Directors since September 2016. Chairman of the Remuneration Committee and member of the Audit Committee.
  - Other assignments: 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.
  - Earlier industry experience: President and CEO for Rottneros 2014-2016, President and CEO for Å&R Packaging Group and Å&R Carton AB, Business Area Manager at Åkerlund & Rausing Group.
  - 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.
  - Other assignments: Chairman of the Board of Nemus Holding AB and Munkedal Skog AB. Board member of Arctic Paper S.A. CFO for Nemus Holding AB.
  - Earlier industry experience: Group Controller at Arctic Paper S.A.
  - 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 Audit Committee.
  - Other assignments: Member of IVA, the Royal Swedish Academy of Engineering Sciences.
  - Earlier industry experience: CEO for the Swedish Forest Industries Federation, CEO for CEPI (Confederation of European Paper Industries) in Brussels.
  - 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.
  - Earlier industry experience: CEO of Arctic Paper S.A., MD of Arctic Paper Grycksbo AB, MD of Arctic Paper Häfreströms AB, Business Area Manager at Klippan AB.
  - 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.
  - Other assignments: 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.
  - Other assignments: Vice Chairman of Troedssonstiftelsen. Member of IVA, the Royal Swedish Academy of Engineering Sciences.
  - Earlier industry experience: Research Director at Svenska Cellulosa Aktiebolaget SCA.
  - 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.
  - Other assignments: 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

KPMG AB

## Auditor in charge:

Jan Malm (1960).  
Authorised Public Accountant.

# SENIOR EXECUTIVES



Back row: Monica Pasanen, Ida Mörtzell, Ragnar Lundberg, Nils Hauri, Ingemar Eliasson. Front row: Michael Berggren, Lennart Eberleh, Kasper Skuthälla, Kristin Israelsson.

## LENNART EBERLEH

(1969)  
M.Sc. Engineering.  
• President and CEO since 2016.  
• Employed since 2016.  
• Shareholding: 82,000 shares.

## MICHAEL BERGGREN

(1966)  
M.Sc. Chemical Engineering.  
• Mill Director, Vallvik Mill.  
• Employed since 2017.  
• Shareholding: 27,150 shares.

## INGEMAR ELIASSON

(1956)  
M.Sc. Forestry.  
• Purchasing Director.  
• Employed since 1987.  
• Shareholding: 32,000 shares.

## NILS HAURI

(1981)  
M.Sc. Chemical Engineering.  
• Chief Innovation Officer. Factory Director, Rottneros Packaging.  
• Employed since 2007.  
• Shareholding: 8,000 shares.

## KRISTIN ISRAELSSON

(1974)  
M.Sc. Chemical Engineering.  
• Mill Director, Rottneros Mill.  
• Employed since 2018.  
• Shareholding: 11,000 shares.

## RAGNAR LUNDBERG

(1947)  
M.Sc. Engineering.  
• Technical Director.  
• Employed since 2000.  
• Shareholding: 59,590 shares.

## IDA MÖRTSELL

(1984)  
• Director HR & Safety.  
• Employed since 2014.  
• Shareholding: 10,200 shares.

## MONICA PASANEN

(1963)  
M.Sc. Business and Economics, MBA.  
• Chief Financial Officer.  
• Employed since 2017.  
• Shareholding: 25,000 shares.

## KASPER SKUTHÄLLA

(1978)  
M.Sc. Business and Economics.  
• Sales & Business Development Director.  
• Employed since 2017.  
• Shareholding: 30,000 shares.

# THE ROTTNEROS SHARE 2018

The Rottneros share is listed on Nasdaq Stockholm. Rottneros had a market value of approximately SEK 1,300m (1,100) and its share price was SEK 8.24 (7.15) as of 31 December 2018.

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 1,300m (1,100) at the end of 2018 and the company had 10,649 (11,344) shareholders. Foreign shareholdings in Rottneros amounted to 65.1 (60.2) per cent of the capital. Rottneros' share price was SEK 8.24 (7.15) as of 31 December 2018.

The Stockholm Stock Exchange, Nasdaq Stockholm, had a negative development of approximately 8 (positive 6) per cent (OMXSPI index) in 2018. The Rottneros share peaked at SEK 12.50 (8.50) on 29 May, while the lowest price of SEK 6.88 (6.20) was listed on 13 February. The average price during the year was SEK 10.34 (7.53), an improvement of 37 per cent.

### THE SHARE'S TURNOVER

A total of 76 (70) million shares were traded in 2018 at a value of SEK 790m (529). This represents a turnover velocity for share of 50 (46) per cent for the year. Total turnover velocity among companies in the Small Cap segment on the stock exchange in Stockholm was 51 (67) per cent, while the average for the Stockholm Stock Exchange as a whole was 67 (63) per cent. An average of 263 (209) 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 0.07 as an extra dividend for the 2017 financial year. After a strong financial year 2018, the Board of Directors proposes a higher ordinary dividend of SEK 0.40 per share and an extra dividend of SEK 0.30 per share, corresponding to 48 per cent of net income for 2018.

### DIVIDEND POLICY

Rottneros shall pay out 30-50 per cent of net income, in accordance with the current covenants.

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

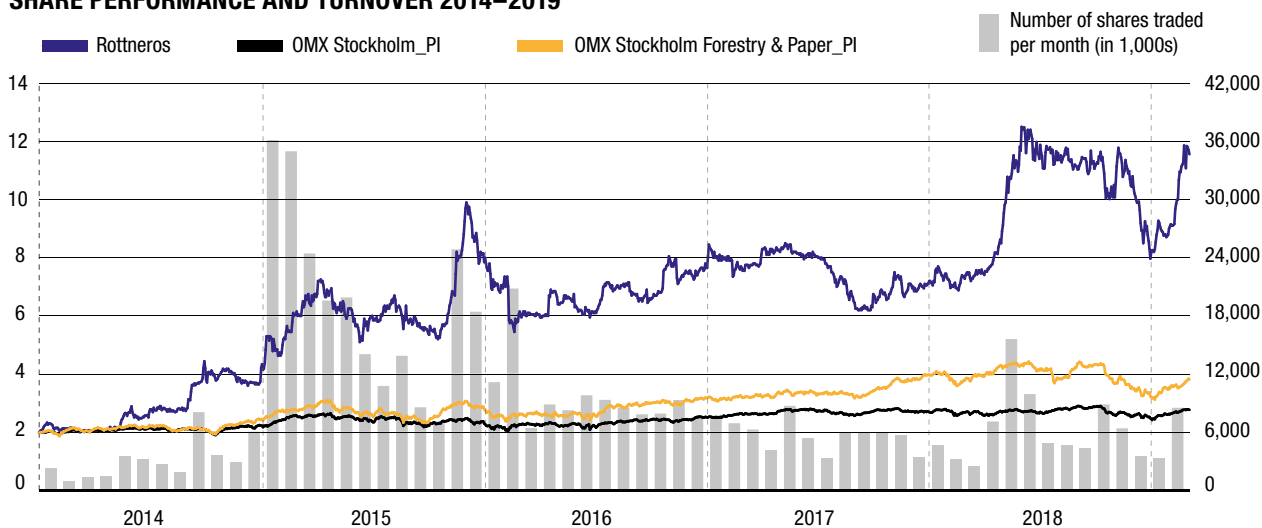
The own holdings of the Board of Directors and senior executives and those of related parties amounted to a total of 337,070 (337,070) shares in Rottneros AB as of 31 December 2018. After year-end this shareholding has increased to 581,010.

No subscription warrants were issued as of 31 December 2018.

### 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 2014–2019



Source: IXC & WebFinancialGroup

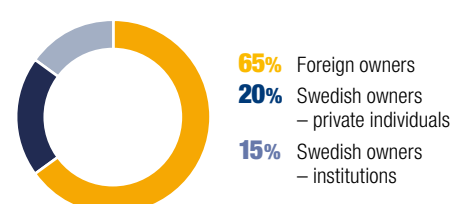
OWNERSHIP STRUCTURE AS OF 31 DEC 2018

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	4,697,042	3.1
UBS Switzerland AG, W81MY	2,533,460	1.7
Lind Value ApS	1,950,000	1.3
State Street Bank and Trust Co, W9	1,905,602	1.2
Bolinder, Staffan	1,800,000	1.2
SEB Investment Management	1,562,464	1.0
BNY Mellon NA (Former Mellon), W9	1,467,914	1.0
Borell, Joakim	1,311,294	0.9
<b>Total for 10 largest owners – by size of holding</b>	<b>103,648,659</b>	<b>67.6</b>
Other shareholders	48,923,266	31.9
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 2018

Number of shares	Number of shareholders	Per cent of capital
1–500	5,891	0.5
501–1,000	1,451	0.8
1,001–5,000	2,130	3.5
5,001–10,000	550	2.7
10,001–15,000	172	1.4
15,001–20,000	87	1.1
20,001–	368	90.0
<b>Total</b>	<b>10,649</b>	<b>100.0</b>

DISTRIBUTION OF OWNERSHIP BY CATEGORY



SHARE DATA<sup>1</sup>

		2018	2017	2016	2015	2014	2013	2012
Shares, opening <sup>2</sup>	Number	152,572	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	152,572
Average number of shares <sup>2</sup>	Number	152,572	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	822
Earnings per share	SEK	1.45	0.75	0.84	1.46	0.87	-1.04	-0.09
Cash flow after investments/share <sup>3</sup>	SEK	-0.21	-0.10	-0.60	1.52	0.29	0.16	-0.07
Equity per share	SEK	9.57	7.91	7.54	6.93	6.39	5.41	6.51
Dividend per share <sup>4</sup>								
Ordinary dividend	SEK	0.40	0.30	0.30	0.30	0.20	–	–
Extra dividend	SEK	0.30	0.07	0.10	0.20	0.60	–	–
Total	SEK	0.70	0.37	0.40	0.50	0.80	–	–
Dividend/equity per share	%	7.3	4.7	5.3	7.2	12.5	–	–
Share price at end of period	SEK	8.24	7.15	8.05	8.15	3.74	1.99	2.00
Market price/equity/share	times	0.9	0.9	1.1	1.2	0.6	0.4	0.3
P/E ratio	times	5.7	9.5	9.6	5.6	4.3	Neg.	Neg.
Dividend yield <sup>5</sup>	%	8.5	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 2018.

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

# MULTI-YEAR REVIEW

GROUP PERFORMANCE IN SUMMARY	2018	2017	2016	2015	2014	2013	2012
<b>INCOME STATEMENT, SEK M</b>							
Net turnover	2,260	1,912	1,730	1,795	1,547	1,389	1,437
EBITDA (Operating profit/loss before depreciation/amortisation and impairment losses)	394	247	221	321	177	-11	61
Depreciation/amortisation and impairment losses	-99	-91	-51	-58	-59	-142	-55
EBIT (Operating profit/loss)	295	156	170	263	118	-154	6
Financial items (net financial items)	-19	-9	-7	-4	-4	-4	0
Profit/loss after financial items	276	147	163	259	114	-158	6
Tax on profit/loss for the year	-55	-33	-35	-36	19	0	-19
Net income	221	114	128	223	133	-158	-13
<b>STATEMENT OF CASH FLOWS, SEK M</b>							
Cash flow from operating activities	223	222	187	335	104	62	41
Investments in non-current assets	-256	-237	-278	-103	-59	-37	-51
Cash flow after investments	-32	-15	-91	232	45	25	-10
Sale of non-current assets	0	0	0	0	39	2	1
Cash used in/provided by financing activities	-56	325	-62	-152	-30	-18	14
Net cash flow	-88	310	-153	80	54	9	5
<b>BALANCE SHEET ITEMS (SEK M)</b>							
Non-current assets	1,290	1,078	905	706	691	706	809
Inventories	389	279	278	267	255	246	240
Current receivables	484	324	290	244	226	175	219
Cash and cash equivalents	238	326	16	169	89	35	26
Net debt (+) / net cash (-)	157	68	-2	-169	-59	25	52
Shareholders' equity	1,460	1,207	1,151	1,058	975	825	993
Long-term interest-bearing liabilities	395	394	-	-	30	0	0
Long-term non-interest-bearing liabilities	137	52	14	18	9	13	15
Current interest-bearing liabilities	-	-	14	-	0	60	78
Current non-interest-bearing liabilities	409	354	310	310	247	264	208
Capital employed	1,617	1,275	1,149	889	916	849	1,045
Total shareholders' equity and liabilities	2,401	2,007	1,489	1,386	1,261	1,161	1,294
<b>KEY RATIOS</b>							
EBITDA margin, %	17.4	12.9	12.8	17.9	11.4	-0.8	4.2
EBIT margin, %	13.1	8.2	9.8	14.7	7.6	-11.1	0.4
Profit margin, %	12.2	7.7	9.4	14.4	7.3	-11.4	0.4
Return on equity, %	16.6	9.6	11.6	21.9	13.6	Neg.	Neg.
Return on capital employed, %	20.4	12.9	16.7	29.1	13.4	Neg.	0.6
Equity/assets ratio, %	61	60	77	76	77	71	77
Debt/equity ratio, %	11	6	0	-16	-6	3	5
<b>OTHER</b>							
Average no. of employees	303	301	282	264	251	256	275
Pulp production, 1,000 tonnes	393.6	401.2	374.1	373.3	345.0	333.4	330.4
Pulp deliveries, 1,000 tonnes	382.5	395.9	374.1	372.2	344.2	332.1	331.4
List price of NBSK pulp, USD per tonne <sup>1</sup>	1,167	882	802	857	925	857	814
SEK/USD <sup>2</sup>	8.69	8.54	8.56	8.44	6.86	6.51	6.78
List price of NBSK pulp, SEK per tonne	10,144	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

	2018				2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Income statement, SEK m</b>												
Net turnover	580	567	576	537	496	472	472	472	441	444	413	432
EBITDA	37	136	118	101	21	66	83	77	1	61	73	86
Depreciation/amortisation and impairment losses	-27	-25	-24	-23	-28	-22	-21	-20	-5	-15	-16	-15
EBIT (Operating profit/loss)	12	111	94	78	-7	44	62	57	-4	46	57	71
Financial items (net financial items)	-5	-5	-4	-5	-5	-3	0	-1	-3	-1	-1	-2
Profit/loss after financial items	7	106	90	73	-12	41	62	56	-7	45	56	69
Tax on profit/loss for the period	2	-24	-17	-16	2	-9	-13	-13	1	-11	-10	-15
Net income	9	82	73	57	-10	32	49	43	-6	34	46	54
<b>Per share</b>												
Earnings per share, SEK	0.06	0.54	0.48	0.37	-0.06	0.21	0.32	0.28	-0.04	0.23	0.30	0.35
<b>Other</b>												
Pulp production, 1,000 tonnes	94	100	100	100	94	103	101	103	87	92	100	95
Pulp deliveries, 1,000 tonnes	94	93	98	98	100	96	99	101	93	96	93	93
List price of NBSK pulp, SEK per tonne	11,056	10,983	10,047	8,584	7,949	7,279	7,572	7,290	7,313	6,912	6,541	6,699

## 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: 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

**EBITDA**

Operating profit before depreciation/amortisation and impairment losses.

**EBIT**

Profit before financial items and income taxes (operating profit).

**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.

**SCM UB**

Timber measured under bark, used to measure raw timber.

**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 phenyl-propane units; the main binding agent for wood fibre. It comprises about 1/3 of the wood.

**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.

**NBSK**

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

**NO<sub>x</sub>**

Nitrogen oxide, a term for emission of nitrogen oxides (NO and NO<sub>2</sub>) to air.

**OPACITY**

Degree of opaqueness.

**POROSITY**

Air permeability, analysis method for determining the permeability for gas or liquid.

**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.

## ADDRESSES

### GROUP OFFICE

#### ROTTNEROS AB (PUBL)

SE-826 79 Vallvik, Sweden  
Telephone: +46 (0)270-622 00  
info@rottneros.com  
www.rottneros.com

### SUBSIDIARIES

#### VALLVIKS BRUK AB

SE-826 79 Vallvik, Sweden  
Telephone: +46 (0)270-620 00

#### ROTTNEROS BRUK AB

SE-686 94 Rottneros, Sweden  
Telephone: +46 (0)565-176 00

#### ROTTNEROS PACKAGING AB

Rönna väg 5  
SE-686 31 Sunne, Sweden  
Telephone: +46 (0)565-176 00

#### SIA ROTTNEROS BALTIC

Rūpniecības iela 25  
LV-3601 Ventspils  
Latvia  
Telephone: +371 362 92 73



1. An example of fibre trays produced by Rottneros Packaging.
2. Pulp wood and wood chips on the woodyard at Rottneros Mill.
3. Fredrik Danielsson, production manager, Rottneros Mill.  
Emelie Haglund, process engineer, Rottneros Mill.
4. Vallvik Mill, located on the Baltic Sea shore on the outskirts of the city of Söderhamn, produces bleached and unbleached sulphate pulp.

## ABOUT THE ANNUAL REPORT

**PRODUCTION:** Oxenstierna & Partners.

**PHOTOS:** Rottneros AB, photo agencies, Arla.

**PAPER:** Munken Polar Rough (by Arctic Paper).

Cover: 300 g.

Insert: 150 g.

**PRINTING:** Pipeline Nordic.



