



## Press Release

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Upplands Väsby, Tuesday, 13 October 2009

***This is a translation of Rottneros AB's information that has been released on Monday, 12 October 2009***

### **Rottneros carries out guaranteed new share issue of SEK 225 million and debt conversion of SEK 200 million**

- New share issue of SEK 225 million with preferential rights for Rottneros shareholders. Each existing share entitles the holder to subscribe for five new shares for SEK 0.25 per share. In addition, a certain number of newly subscribed shares carry the option to acquire one additional share within two years for SEK 0.82.
- The company has received commitments from its largest shareholders and other external underwriters, which means that the issue is fully underwritten.
- Private placement to Rottneros' banking syndicate through set-off of loans equivalent to SEK 200 million in which each share is subscribed at SEK 0.45.
- The new issues will substantially strengthen the Rottneros balance sheet, provide for the investment needs of Rottneros' existing pulp mills and implementation of the company's long-term growth strategy.
- Given a resolution at an extraordinary general meeting on 11 November 2009, the subscription period will run from 23 November 2009 through 7 December 2009.

"The new share issue will provide the company with the financial resources necessary to carry out interesting, strategic and profitability-enhancing investments over the next few years, while significantly reducing financial risks," says Rune Ingvarsson, chairman of the board. He further explains that "the proposed relatively large underwriting discount should be viewed in light of the company's weak earnings to date and the need to unite banks, underwriters and shareholders in a solution that jointly supports the company's financial reconstruction."

"Through the operational and financial restructuring, including the new share issue, the company's net debt will become essentially zero, compared with the net debt of almost SEK 750 million at the beginning of the year," says Ole Terland, President and Chief Executive Officer. "At the same time we are laying a strong financial foundation for the future Rottneros that focuses on profitable

production of long-fibre pulp in the Nordic countries and, if the South Africa project performs well, a competitive short-fibre pulp," says Ole Terland.

## **Background and purpose**

For many years, Rottneros group operations have focused on the external pulp market. This means that Rottneros produces and sells wood fibre-based pulp on the global market to producers of paper and paperboard, as well as to advanced applications such as filters and electrical applications. The pricing mechanisms are governed by the short-term balance of supply and demand, as well as by efforts of both producers and customers to offset the effects of price fluctuations through stock adjustments. Pulp prices fluctuate substantially and recur with some regularity. The last year is a good example: prices fell from a high of USD 800 last summer to well below USD 600 during the spring, after which they have climbed during the most recent quarter to over USD 730/tonnes with additional increases expected. The point in time at which Rottneros is asking shareholders for an injection of capital is thus appropriate from the perspective of the pulp market.

Profitability in pulp production largely depends on the sales price and since this fluctuates substantially, it is unavoidable that completely pulp-dependent companies, like Rottneros, will see fluctuating profitability. Production costs also vary, especially due to wood price levels, which usually vary so that wood prices tend to be high during periods when pulp prices are strong. Other heavy expenses such as energy, personnel, transports and capital follow completely different patterns. Rottneros' profitability has therefore varied considerably over the years. When Rottneros saw the global economy completely collapse during the fourth quarter of 2008 the financial situation became precarious and during 2008 and 2009 the company has dramatically restructured, trimmed costs and prepared in order to be ready to face the market as a much stronger participant.

## **Strategic and operational reconstruction implemented**

Over the past few decades, the map of the global forest products industry has restructured at a leisurely pace, but in recent years the competitive scenario has changed at a faster pace. Expansion of extremely large ultramodern pulp mills in the southern hemisphere with primarily eucalyptus as raw material has taken over the world's short-fibre supply. The cost of wood fibre for these mills is substantially lower than for short-fibre mills in North America and Europe. This situation was the main reason for the huge losses experienced by Rottneros' short-fibre-based mills in Utansjö and Miranda and the decision was taken to wind up operations. Rockhammar, with production of CTMP primarily based on aspen, though partly on spruce, was successfully sold in April and the payment used mainly to pay down debt.

The Rottneros portfolio now includes the two long fibre-based pulp mills in Vallvik and Rottneros. The Vallvik mill produces over 200,000 tonnes/year of bleached and unbleached sulphate pulp as well as "green electricity." The Rottneros mill produces groundwood and spruce CTMP pulp, as well as small quantities of aspen/birch CTMP, for a total of about 160,000 tonnes/year. Rottneros has changed its strategic focus to base production on the product believed to provide long-term competitiveness, which is pulp based on Swedish long-fibre. This competitiveness arises in symbiosis with the Swedish sawmills' ability to pay for saw timber, as well as the increasingly important demand for biofuel and green energy in Europe. This trinity does not include the pulp mills that are based on fast-growing plantation wood, far from cities with heating needs and green electricity customers. Also of importance to Rottneros is the fact that the portfolio still contains the "new" CTMP line in Utansjö and the cooperation project in South Africa, where Rottneros would also be able to take advantage of the relative benefits of inexpensive wood species. Thus the new group structure for Rottneros provides a base in the competitive Nordic long-fibre pulp market, while taking advantage of the opportunity to expand with cost-effective production of short-fibre pulp through establishment in the southern hemisphere.

Unfortunately, the still modest packaging operation with the SilviPak brand shrunk due to the closing the pulp mill in Miranda. The main focus for SilviPak is to find an appropriate partner for further development.

## **Major initiative at Vallvik mill**

Rottneros' top priority improvement project is at the Vallvik mill, which aims to improve competitiveness through increased production of both pulp and green energy, while implementing a cost effective solution to deal with the discharge of oxygen-consuming substances with the effluent, an issue that has been discussed for many years. Although the legal situation is still unclear, Rottneros sees an alternative solution to building an unprofitable and oversized "biological treatment plant." The total investment will be just as large, but it should be profitable and strengthen the competitiveness of the Vallvik mill. The new share issue would make it possible to approve the improvement project.

One project that is desirable from the perspective of future profitability and growth potential is the construction of a factory for production of CTMP in South Africa, which Rottneros has been working on with local partners for a few years. Rottneros needs a strong balance sheet in order to assume the role of credible partner with responsibility for the project as is expected, which can be achieved through the new share issue and debt conversion. Nevertheless, the project is not expected to burden the Group's liquidity because Rottneros will provide property, plant, and equipment mainly from the Utansjö mill to a project company in which it has part ownership.

The Rottneros mill also has attractive improvement opportunities, but they will mainly be financed through the company's own cash flow rather than through the new share issue.

## **Financial reconstruction in brief**

At the beginning of 2009 the company's debt was almost SEK 800 million, while cash and cash equivalents were less than SEK 50 million. Through measures taken during the year, the corresponding figures are now close to SEK 500 million and 80 million, respectively. With the proposed new share issue of SEK 225 million, the banks' proposed debt-equity swap of SEK 200 million and planned loan payoffs, in December debt will be about SEK 200 million and cash and cash equivalents about the same level, which means that Rottneros' net debt would be reduced to close to zero. This scenario includes the previously implemented write-off of liabilities of SEK 110 million reported during the third quarter and which was part of a settlement with the lender in which the company amortized a certain amount and Nemus Holding assisted Rottneros by acquiring the remaining bond loan. Through this transaction Nemus intends to set off its claim on Rottneros of SEK 20 million with shares in conjunction with the current rights issue.

The banks' debt-equity swap is subject to the new issue and will be carried out in conjunction with its registration. Conversion will take place at a price of SEK 0.45 per share, whereby a total of 444,444,444 shares will be issued to the banks. According to the proposal, two-year call options on 55 percent of the banks' shares will be issued and offered, without compensation, to shareholders who subscribe for new shares in the rights issue.

### Bank ownership before and after debt conversion and new issue<sup>1</sup>

	<u>Before proposed new issues</u>		<u>After proposed new issues</u>			
	Shares (millions)	%	<u>Before exercise of options</u>		<u>After exercise of options</u>	
			Shares (millions)	%	Shares (millions)	%
Existing shareholders	180	100.0%	1,081	70.9%	1,326	86.9%
Banking syndicate	0	0.0%	444	29.1%	200	13.1%
<b>Total</b>	<b>180</b>	<b>100.0%</b>	<b>1,526</b>	<b>100.0%</b>	<b>1,526</b>	<b>100.0%</b>

<sup>1</sup> In the event that existing shareholders subscribe for their share of the rights issue and all options are exercised.

### **Terms and conditions for new share issue**

Every share held in Rottneros carries entitlement to five (5) subscription rights. One (1) subscription right gives the right to subscribe to one (1) new Rottneros share. The subscription price is SEK 0.25 per share, which means that the company will receive about SEK 225 million before share issue expenses, through the issue of a maximum of 901,062,320 shares.

According to the offer for call options for part of the banks' shareholdings, they will receive twenty-seven (27) call options, without additional compensation, for each hundred (100) newly subscribed shares. Each call option entitles the holder to purchase one (1) share for SEK 0.82 within two years. The intention is that call options will be listed and will be tradable.

### Bank ownership before and after options holders exercise options<sup>1</sup>

Bank	<u>Before exercise of options</u>		<u>After exercise of options</u>	
	Shares (millions)	%	Shares (millions)	%
Danske Bank	118	7.7%	53	3.5%
DnB Nor	118	7.7%	53	3.5%
HSH Nordbank	102	6.7%	46	3.0%
Nordea	64	4.2%	29	1.9%
BBVA	42	2.8%	19	1.3%
<b>Total</b>	<b>444</b>	<b>29.1%</b>	<b>200</b>	<b>13.1%</b>

<sup>1</sup> In the event that all options are exercised.

Holders of existing shares have preferential rights to subscribe for new shares in relation to the number of shares they own. In the event that all shares are not subscribed with preferential rights, shareholders and others will have the opportunity to subscribe for shares without preferential rights. Priority for allotment of shares that are not subscribed with preferential rights will be given to those who have subscribed for shares on the basis of subscription rights. The record date at Euroclear Sweden AB (formerly VPC AB) for qualifying for the right to participate in the share issue based on preferential rights is 18 November 2009. The subscription period will extend from 23 November 2009 through 7 December 2009, or the later date decided by the Board of Directors.

Rottneros' largest shareholder, Nemus Holding, which represents 28.5 percent of all shares and votes, has declared it is in favour of the new share issue and has undertaken to vote in favour of the new issue at the extraordinary general meeting.

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Certain shareholders and other stakeholders have also issued subscription undertakings and guarantees that cover the issue in its entirety. Nemus Holding AB, Prior & Nilsson Fond- och Kapitalförvaltning AB and Case Investment AB are among those who have provided such commitments. In light of these commitments, the board of directors believes that the issue will be fully secured through subscription undertakings and guarantees at the time of the general meeting of shareholders.

## Pro forma balance sheet after new issue and debt reduction

<b>Assets (SEK million)</b>	<b>June 2009<sup>1</sup></b>	<b>New issue and debt reduction<sup>2</sup></b>	<b>Pro forma June 2009<sup>2</sup></b>
<b>Total fixed assets</b>	<b>903</b>		<b>903</b>
Total current assets excl. cash and cash equivalents	556		556
Cash and cash equivalents <sup>3</sup>	22	+125	147
<b>Total current assets</b>	<b>578</b>		<b>703</b>
<b>Total assets</b>	<b>1,481</b>		<b>1,606</b>
		<b>New share issue and debt reduction<sup>2</sup></b>	<b>Pro forma June 2009<sup>2</sup></b>
<b>Shareholders' equity and liabilities (SEK million)</b>	<b>June 2009<sup>1</sup></b>		
<b>Shareholders' equity</b>	<b>639</b>	<b>+535</b>	<b>1,174</b>
<b>Interest-bearing liabilities<sup>3</sup></b>	<b>598</b>	<b>-410</b>	<b>188</b>
<b>Non-interest bearing liabilities</b>	<b>244</b>		<b>244</b>
<b>Total shareholders' equity and liabilities</b>	<b>1,481</b>		<b>1,606</b>
<b>Net debt</b>	<b>576</b>		<b>41</b>
<b>Equity/assets ratio</b>	<b>43%</b>		<b>73%</b>

<sup>1</sup> In addition to planned amortization, the company paid off SEK 120 million following the sale of Rockhammars Bruk AB and the closure of the Utansjö mill in Q2 2009.

<sup>2</sup> Accounts before transaction-related expenses. Includes the effects of writing off the SEK 110 million loan announced in the press release of 10 July 2009.

<sup>3</sup> As at 30 June 2009 the company had undrawn credit facilities of SEK 69 million.

## Extraordinary General Meeting

Restructuring through conversion of bank loans to shares as well as the new share issue is subject to resolution by the extraordinary general meeting scheduled for 3:00 p.m. on Wednesday 11 November 2009 at Lyran Conference, Sveavägen 118, Stockholm. As part of the restructuring process and the new issue, the board of directors has resolved to present additional proposals to the meeting of shareholders pertaining to amendments to the articles of association, reduction of share capital, incentive programmes and changes to the Board.

The notice to the general meeting will be announced in a separate press release today and published on Wednesday, 14 October 2009 in Post- och Inrikes Tidningar, Dagens Nyheter and Nya Wermlands-Tidningen and will also be available online at [www.rottneros.com](http://www.rottneros.com).

## Incentive programme

In order to maximize the probability that the company meets its objectives, provided that the restructuring and new issue referred to above are implemented, the Board has proposed establishment of an incentive programme for the company's senior management. The proposed incentive programme will consist of two- and three-year warrants, respectively. Maximum dilution will be about 2%. The main terms and conditions can be seen in the notice to the general meeting.

## **Preliminary timetable**

23 October 2009	Q3 2009 interim report (January – September) published.
11 November 2009	Extraordinary General Meeting decides on the Board's proposal for the new issue, etc.
13 November 2009	Estimated day for publication of the prospectus.
16 November 2009	First trading day in the share without the right to participate in the new issue.
18 November 2009	Record date, i.e., shareholders who are registered in the register of shareholders on this day will receive subscription rights carrying entitlement to participate in the new issue.
23 November – 2 December 2009	Trading in subscription rights.
23 November – 7 December 2009	Subscription period.

## **Financial and legal advisor**

Swedbank Corporate Finance is acting as financial advisor and Setterwalls Advokatbyrå is acting as legal advisor to Rottneros.

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NB

This information is such that Rottneros must disclose in accordance with the Swedish Securities Markets Act and/or the Financial Instruments Trading Act. The information was submitted for publication on 12 October 2009 at 10:30 CET.

**NOTE IMPORTANT INFORMATION ON THE NEXT PAGE**

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This press release does not contain or constitute an invitation or offer to acquire, subscribe to or otherwise trade with shares, subscription rights or other securities in Rottneros AB. The invitation to the persons concerned to subscribe to shares in Rottneros AB will only take place through the Prospectus that Rottneros AB expects to be able to publish in November 2009, and this Prospectus will contain financial statements and other information on the board of directors and auditors of Rottneros AB.

Neither the subscription rights, paid subscribed shares or the new shares will be registered in accordance with the Securities Act or any other act in Canada, and may not be transferred or offered for sale in the United States or Canada, or to persons domiciled there, or on behalf of such persons, other than in such exceptional cases where registering in accordance with the Securities Act or other act in Canada is not required.

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Rottneros is an independent producer of market pulp. The Group comprises the parent company Rottneros AB, listed on NASDAQ OMX Stockholm, and its subsidiaries Rottneros Bruk AB and Vallviks Bruk AB with operations involving the production and sale of market pulp. The Group also includes the wood procurement company Rottneros Baltic SIA in Latvia and the sales company Rottneros S.A. in Belgium. The Rottneros Packaging AB division produces food packaging made from paper pulp. The Group has around 350 employees and had a turnover of approximately SEK 2.9 billion in the 2008 financial year.