

Year-end release 2004  
January – December 2004  
Quarterly report  
October – December 2004



		2004	2003
Turnover	Jan. – Dec.	SEK 2,356 m	(2,380)
	Oct. – Dec.	SEK 535 m	(571)
Income after net financial items	Jan. – Dec.	SEK -108 m	(115)
	Oct. – Dec.	SEK -53 m	(61)
Earnings per share after net financial items	Jan. – Dec.	SEK -0.60	(0.64)
	Oct. – Dec.	SEK -0.29	(0.35)
Profit after tax	Jan. – Dec.	SEK -81 m	(85)
	Oct. – Dec.	SEK -40 m	(48)
Earnings per share after tax	Jan. – Dec.	SEK -0.45	(0.47)
	Oct. – Dec.	SEK -0.22	(0.27)
Cash flow per share	Jan. – Dec.	SEK -0.41	(0.00)
	Oct. – Dec.	SEK 0.21	(0.12)
Shareholders' equity per share	SEK 8.73 (31.12.2003: 9.50)		
Equity/assets ratio	66 % (31.12.2003: 73 %)		

- In the fourth quarter the pulp market strengthened from its lowest price level for many years calculated in SEK or euro. Income after net financial items in the fourth quarter amounted to SEK -53 million (61).
- Earnings for full-year 2004 after financial items but before non-recurring items amounted to SEK 8 million. The result after non-recurring items of SEK 116 million was a loss of SEK 108 million.
- Despite its great sensitivity to economic fluctuations, every year for the past five years the company has reported a positive result for the full year in terms of income after financial items but excluding non-recurring items. The average profit margin over the past five-year cycle (excluding non-recurring items) was 9.3 %.
- The Board proposes a dividend of SEK 0.20 per share (SEK 0.30 per share) and an extension of the buy-back programme.
- The effects of the introduction of the new international accounting principles (IFRS) are reported in this year-end release as recommended by Stockholmsbörsen, the Stockholm stock exchange (Annex 1).
- In 2005 the pulp market is assessed as strong. The company expects to report a positive result after net financial items for 2005.

**THE PULP MARKET**

**Market and products**

The total global market for bleached marked pulp in the first eleven months of 2004 amounted to 32.9 million tonnes, an increase of 4.7% or 1.5 million tonnes compared with 2003. Delivery capacity utilisation was 94.6% (92.6), which was high. Production capacity utilisation was 95.2% (94.2). Global stocks of pulp amounted to 3.2 million tonnes at the beginning of the year and had increased to 3.4 million tonnes at the end of the year.

The two most important markets, Western Europe and North America, developed strongly over the year. Deliveries to Western Europe in 2004 increased by 3.4%, reaching 15.7 million tonnes. Deliveries to the North American market increased substantially by 6.3% to 7.6 million tonnes. Chinese imports also continued to grow strongly during the year. Imports increased by 26.6% to 5.5 million tonnes. The average increase in all markets was 6%.

During the year the difference in price between long-fibre and short-fibre chemical pulp increased significantly in Europe, from around USD 60 at the start of the year to around USD 100 at the end of the year, which is a large price difference in historical terms.

In the fourth quarter pulp prices in USD started to increase thanks to a strong market. At the same time, the dollar weakened and converted into local currencies (SEK or EUR) prices were the lowest for several years.

**Long-fibre chemical pulp (manufactured in Vallvik)**

The market for long-fibre chemical pulp was characterised by good demand in 2004. New production capacity was added in the latter part of 2004, which contributed to the market for this grade being very strong in the first half, then becoming weaker in the second half of the year.

The year started with a price for NBSK in Europe of USD 560 per tonne, which increased to USD 660 as we moved into summer. In the third quarter the price fell to around USD 580 per tonne, then recovering in the fourth quarter to USD 630 per tonne.

**Short-fibre chemical pulp (manufactured in Miranda)**

In 2004 the market for short-fibre chemical pulp was again characterised by a certain oversupply, which resulted in a weaker price trend than for long-fibre chemical pulp. The price in Europe at the beginning of the year was USD 500 and increased to USD 550 as summer arrived, ending the year at USD 520. Converted to SEK the price for short-fibre pulp was the lowest for many years.

**Mechanical pulp (manufactured in Rottneros, Rockhammar and Utansjö)**

The market for mechanical pulp in 2004 amounted to 2.6 million tonnes compared with 2.5 million tonnes in 2003, which is an increase of 5%.

Demand was particularly good for CTMP produced from aspen. The good demand is mainly explained by the product's technical properties, which help ensure high bulk and opacity in the paper produced from the pulp. The competitiveness of the company's global product, groundwood pulp, weakened during the year primarily due to substantially increased freight costs.

**PRODUCTION AND DELIVERIES**

The Group's five pulp mills in Rottneros, Rockhammar, Utansjö, Vallvik and Miranda in Spain have a combined production capacity of some 700,000 tonnes per year. Production in the period January – December 2004 increased by 17,700 tonnes or nearly 3% compared with 2003. Deliveries reduced by 16,100 tonnes or nearly 3%.

Average capacity utilisation in the mills during the year was relatively high at 94% (91), which breaks down as sulphate pulp 99% (94), magnesite pulp 80% (85), groundwood pulp 91% (87) and CTMP 91% (93). The Group carried out a maintenance shutdown at the Miranda mill in the fourth quarter 2004. All the costs of maintenance shutdowns are reported in the period in which the shutdown takes place.

**INVOICED SALES AND RESULTS**

**January – December 2004**

The Group's net turnover was SEK 2,356 million (2,380). Pulp accounted for SEK 2,272 million (2,297) of net turnover and sawn timber for SEK 84 million (83).

There were three main elements to the SEK -24 million reduction in turnover compared with the previous year: an improved pulp price in USD (SEK 234 million), a weaker dollar (SEK -213 million) and lower deliveries (SEK -45 million).

Pulp prices developed differently during the year for different grades. The average price of long-fibre sulphate pulp (NBSK) expressed in USD increased from USD 560 to USD 621, an increase of over 10%. The average prices of NBSK pulp converted into SEK increased by 7% or SEK 297 per tonne over the year, from SEK 4,235 to SEK 4,532. The fact that

Rottneros experienced a less favourable impact on prices than the average for NBSK pulp is because when converted into SEK, prices for short-fibre sulphate pulp were around SEK 200 lower per tonne during the year compared with the previous year. A significant proportion of the Group's production consists of mechanical pulp products, the price of and demand for which coincided with developments for short-fibre sulphate pulp during the period. These products therefore experienced weaker demand and weaker prices than long-fibre sulphate pulp.

The consolidated operating result was SEK -101 million (122). The result includes non-recurring items totalling SEK 116 million (see below). Excluding non-recurring items, the operating result was SEK 15 million.

The operating result for the pulp-producing units was SEK -20 million (129) and for the sawmill in Rockhammar SEK -81 million (-7). Besides non-recurring items, hedging activities contributed SEK 165 million (252) to the result, broken down into 199 (155) from currency hedging, -61 (48) from pulp price hedging and 27 (49) from electricity hedging. Income for Green Electricity increased and amounted to SEK 26 million (18).

**Non-recurring items reduced the result for the year by SEK -116 million**

On 16 September the Board of Directors decided to wind up operations at Rockhammar Timber sawmill (see Discontinued Operations page 3) and to cease production of magnesite pulp at Utansjö Mill. All the costs of the restructuring measures have been charged to the result for 2004. The restructuring costs, which are non-recurring in nature, amount to SEK 116 million in total, of which only SEK 19 million affects cash flow. The remaining SEK 97 million relates to write-downs of book values at Utansjö Mill of SEK 68 million and at Rockhammar Timber of SEK 29 million. This radical restructuring package deals with two units that have caused the Group operating losses in recent years.

There is no further need for restructuring measures in the Group at present. At Utansjö a CTMP facility is being built, which is expected to make a positive contribution to income as early as 2005

PRODUCTION (TONNES)	Oct. – Dec. 2004	Oct. – Dec. 2003	Jan. – Dec. 2004	Jan. – Dec. 2003
Sulphate pulp	84,500	80,100	340,000	322,100
Magnesite pulp	13,200	15,700	57,100	61,900
Groundwood pulp	32,300	36,800	134,100	130,100
CTMP	33,000	34,100	125,600	125,000
<b>Total</b>	<b>163,000</b>	<b>166,700</b>	<b>656,800</b>	<b>639,100</b>
DELIVERIES (TONNES)	Oct. – Dec. 2004	Oct. – Dec. 2003	Jan. – Dec. 2004	Jan. – Dec. 2003
Sulphate pulp	82,900	76,000	336,100	318,100
Magnesite pulp	7,400	15,400	44,400	63,700
Groundwood pulp	25,700	35,800	120,000	135,300
CTMP	33,300	30,100	124,500	124,000
<b>Total</b>	<b>149,300</b>	<b>157,300</b>	<b>625,000</b>	<b>641,100</b>

(see under Capital Investments page 4).

The consolidated result after net financial items for the year was SEK -108 million (115). Net financial items for the period amounted to SEK -7 million (-7). Earnings per share after tax amounted to SEK -0.45 (0.47). Cash flow per share amounted to SEK -0.41 (0.00).

The result after net financial items in the parent company was SEK 135 million (236). The result includes the effects of hedging activities at SEK 165 million (246).

#### **October – December 2004 compared with October – December 2003**

Turnover in the fourth quarter 2004 reduced by SEK -36 million compared with the fourth quarter 2003. The reduction is mainly due to reduced deliveries (SEK -24 million), as well as a weaker USD (SEK -47 million), which were partly compensated by higher pulp prices (SEK 35 million).

Hedging activities had a positive result of SEK 52 million in the fourth quarter (broken down into currency 62, pulp prices -14 and electricity 4). The equivalent amount in the fourth quarter 2003 was SEK 75 million (currency 53, pulp prices 12 and electricity 10). During the fourth quarter Green Electricity certificates contributed income of SEK 8 million (8).

Earnings after financial items in the fourth quarter 2004 amounted to SEK -53 million (61) as a consequence of reduced deliveries and low pulp prices in local currency.

#### **October – December 2004 compared with July – September 2004**

Turnover in the fourth quarter 2004 reduced by SEK -48 million compared with the third quarter 2004. Deliveries were largely the same in the two quarters. However, turnover was negatively affected by lower pulp prices (SEK -9 million) as well as changes in the USD exchange rate (SEK -39 million). The price recoil in the third quarter continued into the fourth quarter and the company recorded some of the lowest pulp prices in local currency for many years.

Hedging activities had a positive result of SEK 52 million (see breakdown above). The equivalent figure for the third quarter 2004 was SEK 17 million (currency 35, pulp prices -26 and electricity 8). During the fourth quarter Green Electricity certificates contributed income of SEK 8 million compared with SEK 4 million in the third quarter.

Earnings after financial items for the fourth quarter amounted to SEK -53 million compared with SEK -134 million in the third quarter. The third quarter includes non-recurring items amounting to SEK 116 million. Excluding these items, the result for the third quarter was a loss of SEK -18 million, mainly as a result of planned maintenance shutdowns in Vallvik, Rottneros and Rockhammar.

#### **OPERATIONS BEING DISCONTINUED**

On 16 September the Board of Directors deci-

ded to wind up operations at Rockhammar Timber sawmill. The winding up costs have been estimated at SEK 7 million plus book values of SEK 29 million.

In recent years the sawmill has reported operating losses in the order of SEK 10-15 million per year and this source of loss will now be eliminated. During the year production at the sawmill in Rockhammar amounted to 41,400 m<sup>3</sup> (45,900) and deliveries to 46,700 m<sup>3</sup> (42,600). Sawmill operations ceased in January 2005 and deliveries from stock are expected to continue until 31 March 2005. The majority of the employees will leave on 31 March 2005. The reserves made on 16 September 2004 for winding up costs are judged to be sufficient.

As the table on page 8 shows, the sawmill's operations have been of only marginal significance for the Group's results and position.

#### **ACCOUNTING PRINCIPLES**

This interim report has been prepared in accordance with Recommendation RR 20 of the Swedish Financial Accounting Standards Council on Interim Reports.

The company is applying the Swedish Financial Accounting Standards Council's Recommendation RR 29 on Employee Benefits with effect from 1 January 2004. The application of RR 29 means that defined benefit pension plans within all the Group's subsidiaries must be reported according to common principles. Old-age and family pension commitments for employees in Sweden are secured by insurance with Alecta. According to a statement by the Swedish Financial Accounting Standards Council's Emerging Issues Task Force (URA 42), this is a defined benefit plan covering several employers. For the 2004 financial year the company has not had access to information allowing this plan to be reported as a defined benefit plan. The pension plan in accordance with ITP which is secured by insurance with Alecta is therefore being reported as a defined contribution plan.

All other accounting principles and methods of calculation are unchanged from those applied in the last annual report.

From and including 2005 Rottneros is following the new accounting rules (IFRS). The effects of the transition to IFRS, particularly IAS 39, are shown in Annex 1.

#### **RISK MANAGEMENT**

##### **Currency hedging**

The average USD exchange rate in 2004 was 9% lower compared with 2003. A weaker USD rate reduced turnover by SEK 213 million. The effect on turnover after hedging was SEK -15 million.

In the main, all pulp is priced in USD. Around 30% of Group turnover has been hedged during the year. This means that 70% of turnover is not covered by currency hedging arrangements.

At the beginning of 2004 the USD exchange rate fluctuated widely and it was difficult to estimate how it would develop in the subsequent

periods. In the first quarter 2004 the company therefore concluded a hedging contract in respect of the third and fourth quarters 2004 with an interval of SEK 7.33 to 7.73 per USD. The hedging covered USD 100 million in total. No costs have been charged to the Group for this hedging. The additional currency hedging substantially reduced the company's currency risk since the level of hedging in the third and fourth quarters amounted to 70% of exposure. In the fourth quarter this interval hedging contributed SEK 19 million to earnings.

At the end of the 2004 exchange rate guarantees in the form of forward contracts had been taken out for a total of USD 65 million, at an average rate of SEK 9.45 per USD. These contracts relate to the coming 24 months. For the coming 12 months the contracts amount to USD 44 million at an average rate of 9.84. No hedging has been carried out for other currencies.

##### **Pulp price hedging**

No new pulp price contracts were concluded in 2004. In 2002 the Group concluded 2-year pulp price hedging contracts for 100,000 tonnes at an average level of SEK 5,177 per tonne. All these favourable hedging contracts have now matured. In 2003 the company took out supplementary hedging in the form of 1- and 2-year contracts to cushion the company against any reductions in pulp prices. A total of 50,000 tonnes of this supplementary hedging remain, with varying remaining terms over the coming 6 months. In 2004 pulp price hedging contracts affected the company's profits by SEK -61 million (48) in total due to NBSK price increases in USD. The remaining contracts will mature in the first half 2005. In addition to pulp price hedging, the Group has for several years had long-term customer contracts with a price equalisation profile, which is entirely in line with the company's niche strategy.

##### **Electricity hedging**

The Group hedges electricity prices in Sweden, as a result of which variations in electricity prices have essentially been evened out. Before the dramatic increases in electricity prices at the end of 2002 the Board resolved to hedge nearly 100% of the coming three years' (2003, 2004 and 2005) external purchases of electricity. For 2004 the electricity price was hedged at SEK 0.23. For 2005 the company has hedged 92% of consumption at SEK 0.215 per kWh. For 2006 the company has hedged 35% of consumption at SEK 0.257 per kWh and for 2007 it has hedged 6% of consumption at SEK 0.26 per kWh.

The table on page 4 shows the market value of all hedging. The valuation is carried out by independent parties and refers to the liquidation value, i.e. valuation in accordance with forward contracts as of 31 December 2004. The reference value is the spot rate on 31 December and is given as supplementary information. The hedging has a term of one to three years.

**MARKET VALUE (SEK MILLION) 31 DECEMBER 2004**

Hedging	Volume hedged	Hedge price	Market value	Reference – spot rate 31 December 2004
Currency, USD, forward	USD 65 million	9.45 SEK/USD	184	6.63 SEK/USD
Pulp price, in SEK	50,000 tonnes	USD 550 (PIX) USD 547 (RISI)	-45	USD 630/ 6.63 SEK/USD
Electricity	928,000 MWh	SEK 0.22–0.26/kWh	5	SEK 0.20/kWh
<b>Total market value</b>			<b>144</b>	

**MARKET VALUE (SEK MILLION) 31 DECEMBER 2003**

Hedging	Volume hedged	Hedge price	Market value	Reference – spot rate 31 December 2003
Currency, USD	USD 149 million	9.47 SEK/USD	327	7.28 SEK/USD
Currency, EUR	EUR 10 million	9.07 SEK/EUR	0	9.09 SEK/EUR
Pulp price, in SEK	235,000 tonnes	SEK 5,166/tonne USD 552 (PIX) USD 548 (RISI)	19	USD 560 (PIX)/ 7.28 SEK/USD
Electricity	97% <sup>1)</sup>	SEK 0.22–0.23/kWh	43	SEK 0.25/kWh
<b>Total market value</b>			<b>389</b>	

<sup>1)</sup> % of annual consumption in Sweden

**STORM DAMAGE**

Rottneros owns only one holding of forest land of insignificant size in Central Sweden and the Swedish mills are not generally supplied with wood from the southern part of Sweden due to the long distances it would have to be transported. Consequently, the company is not directly affected by the storm damage that has occurred. However, the company will attempt to help deal with wood raw materials from wind thrown forests as appropriate. The financial consequences for the company are difficult to ascertain at the present time.

**COST CUTTING PROGRAMME**

The Group cost cutting and efficiency programme introduced in 2003 is continuing according to plan. In 2003 the workforce in Utansjö was gradually reduced by 25. This saving had its full economic impact in 2004. In addition, the workforce in Vallvik was cut by 10 in the first quarter 2004 and 5 job cuts are being made at Miranda. The company has been working intensively for a year on coordinating major strategic Group purchases of input materials, logistics, freight and IT services. The action plan also includes capital rationalisation measures which have resulted in a 30% reduction in raw material timber stocks, partly achieved through efficient IT support.

The decision on 16 September to wind up saw-mill operations in Rockhammar will reduce the Group's employee headcount by 31. The restructuring of production at Utansjö (from magnetite to CTMP) is resulting in a reduction of 25 jobs.

**BUY-BACK OF THE COMPANY'S OWN SHARES**

The 2004 AGM resolved to continue the buy-back programme. A maximum of 10% of the shares may be bought back, i.e. 18.8 million shares. The aim of the planned buy-back is partly to optimise the company's capital structure, and partly to create opportunities to use its own shares as liquidity in any future acquisitions.

At the end of 2003 the company had bought back 7,709,641 of its own shares at an average price of SEK 8.32 per share, making a total of SEK 64 million. No shares were bought back in the first quarter 2004, while in the second quarter the company bought back 510,000 shares at an average price of SEK 9.99 per share. No shares were bought back in the second half. The number of outstanding shares at the end of the reporting period was 180,212,464.

At the end of 2004 the Swedish Financial Supervisory Authority fined the company SEK 3 million for delayed reporting in respect of 2001. This amount has been included in full in the financial statements for 2004. The company has appealed the decision to the county administrative court.

**CAPITAL INVESTMENTS AND FINANCIAL POSITION**

Group net investments in fixed assets during the year amounted to SEK 284 million (193). Major investments during the year included a gas combustion system at Miranda (SEK 23 million), evaporation and internal process measures at Vallvik (SEK 19 million) as well as the strategic investment in a production line for CTMP at Utansjö (SEK 176 million).

On 16 September it was decided to build a production facility for the pulp grade CTMP in Utansjö. As a result production of magnetite pulp ceased in January 2005, this being an activity that has been unprofitable for a number of years. The investment is expected to amount to around SEK 280 million (SEK 176 million of which in 2004). The production capacity of the new production line will be approx. 100,000 tonnes of pulp per year, which means that the total capacity of Utansjö Mill – including existing groundwood pulp production – will amount to around 180,000 tonnes. The new facility, which is expected to be taken into use in late March/early April 2005, will in part utilise existing process equipment and infrastructure.

Liquid funds amounted to SEK 157 million

at the end of the period, compared to SEK 252 million at the end of 2003. Lines of credit totalling SEK 854 million were available to the company, of which SEK 50 million was utilised. In October 2004 an 8-year SEK 150 million debenture was taken out with the Nordic Investment Bank in order to finance parts of the CTMP investment in Utansjö. The equity/assets ratio was 66%. Shareholders' equity per share amounted to SEK 8.73 (31.12.03: 9.50).

The parent company has made only minor investments, primarily in software in conjunction with the development of joint IT systems for the Group. The parent company is included in the Group's pooled liquidity system.

**CASH FLOW**

Cash flow from current operations amounted to SEK 34 million (151) including cash flow from hedging activities of SEK 178 million (252). A dividend of SEK 54 million was distributed in May. Working capital increased primarily as a result of higher magnetite stock levels in order to meet delivery commitments in 2005. Cash flow for the year amounted to SEK 94 million (95).

**AVERAGE NUMBER OF EMPLOYEES**

The average number of employees in the reporting period was 835 (857).

**OUTLOOK FOR 2005**

2005 started with a strong pulp market, which is expected to continue during the year. Pulp prices expressed in USD are expected to increase over the year. However, there is great uncertainty surrounding the development of the USD.

The company expects to achieve a positive result after net financial items in 2005.

**DIVIDEND FOR 2004**

At the Annual General Meeting on 26 April 2005 the Board will propose a dividend of SEK 0.20 per share (SEK 0.30 per share). It is proposed that the record day will be 29 April and the dividend is expected to be paid out to shareholders on 4 May.

**PROPOSAL TO EXTEND BUY-BACK PROGRAMME**

The Board will propose to the Annual General Meeting that it approve an extension of the current buy-back programme until the next Annual General Meeting in 2006. The aim of the buy-back programme is to be able to adjust the Group's capital structure on an ongoing basis, thereby contributing to increasing the share value.

Over the year 510,000 shares were bought back and together with shares bought back previously but not withdrawn, the company's shareholding of its own shares on the closing date amounts to 8,219,641 shares. The 2004 AGM mandated the Board to buy back up to 18.8 million shares. Around 10 million shares or around 53% of the approved mandate remains outstanding. The company has been reticent to buy back its own shares in the past

year primarily because of the weakening of the USD exchange rate and the uncertainty in the pulp market. With a view to completing the programme commenced the Board intends to propose to the 2005 Annual General Meeting that it approve a renewed buy-back programme involving a maximum of ten percent of the total number of shares including shares already held. The authorisation, which will include the right to convert shares, is to cover the period up to the next Annual General Meeting. Details of the proposal will be notified once established by the Board.

#### ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 5 p.m. on Tuesday 26 April 2005 at Hotel Selma Lagerlöf in Sunne, Sweden. The record day for voting at the AGM is 15 April 2005.

#### UPCOMING FINANCIAL INFORMATION

The complete Annual Report for Rottneros AB will be available in early April from Rottneros' head office and will be sent out to all shareholders.

26 April 2005 - Interim report (3 months) 2005 and AGM in Sunne

26 July 2005 - Interim report (6 months) 2005

26 October 2005 - Interim report (9 months) 2005

For more information please visit the Rottneros website at [www.rottneros.com](http://www.rottneros.com).

Upplands Väsby, Sweden, 3 February 2005



Lars Blecko  
President and CEO

This report has not been reviewed by the company's auditors.

#### CONSOLIDATED PROFIT/LOSS ACCOUNTS (SEK MILLION)

	Oct. – Dec. 2004	Oct. – Dec. 2003	12 months 2004	12 months 2003
Net turnover	535	571	2,356	2 380
Change in inventories, finished goods	25	26	85	7
Other operating income	84	106	225	271
<b>TOTAL INCOME</b>	<b>644</b>	<b>703</b>	<b>2,666</b>	<b>2 658</b>
Raw materials and consumables	-382	-339	-1,439	-1 372
Other external costs	-166	-159	-643	-609
Personnel costs	-107	-103	-439	-407
Depreciation	-31	-34	-223	-117
Other operating costs	-8	-8	-23	-31
<b>TOTAL COSTS</b>	<b>-694</b>	<b>-643</b>	<b>-2,767</b>	<b>-2,536</b>
<b>OPERATING PROFIT/LOSS</b>	<b>-50</b>	<b>60</b>	<b>-101</b>	<b>122</b>
Financial items	-3	1	-7	-7
<b>PROFIT/LOSS AFTER FINANCIAL ITEMS</b>	<b>-53</b>	<b>61</b>	<b>-108</b>	<b>115</b>
Taxes	13	-13	27	-30
<b>PROFIT/LOSS AFTER TAX</b>	<b>-40</b>	<b>48</b>	<b>-81</b>	<b>85</b>
No. of shares at beginning of period <sup>1)</sup>	180,212	180,722	180,722	182,980
No. of company's own shares bought back <sup>1)</sup>	-	-	510	2 258
No. of shares at end of period <sup>1)</sup>	180,212	180,722	180,212	180,722
Average no. of shares <sup>1)</sup>	180,212	180,722	180,392	181,422
Earnings after tax/share (SEK) <sup>2)</sup>	-0.22	0.27	-0.45	0.47
<b>KEY INDICATORS THAT EFFECT TURNOVER</b>				
Pulp price NBSK, USD <sup>3)</sup>	599	550	617	524
USD/SEK <sup>4)</sup>	6.95	7.58	7.35	8.09
Pulp price NBSK, SEK	4,163	4,170	4,532	4,235
Rottneros' deliveries, tonnes	149,300	157,300	625,000	641,100

<sup>1)</sup> The number of shares is given in thousands. <sup>2)</sup> There are no programs that lead to dilution.

<sup>3)</sup> Source: PIX/Market Pulse <sup>4)</sup> Source: Swedish central bank yearly average.

#### CONSOLIDATED BALANCE SHEET (SEK MILLION)

	Dec. 2004	Dec. 2003
Fixed assets	1,307	1,249
Inventories	485	388
Current receivables	440	443
Liquid funds	157	252
<b>TOTAL ASSETS</b>	<b>2,389</b>	<b>2,332</b>
Shareholders' equity	1,574	1,717
Provisions	174	175
Longterm liabilities		
Interest-bearing	186	42
Current liabilities		
Interest-bearing	56	6
Non interest-bearing	399	392
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>2,389</b>	<b>2,332</b>

## CASH-FLOW ANALYSIS (SEK MILLION)

	Oct. – Dec. 2004	Oct. – Dec. 2003	12 months 2004	12 months 2003
Operating income	-50	60	-101	122
Adjustment for non cash-flow items				
Depreciation	31	34	223	117
Profit/loss from disposal of fixed assets	3	2	7	2
Change in provisions	5	-15	-	-19
Paid financial items	-3	2	-5	-3
Paid taxes	-2	1	-11	4
<b>Cash-flow from current operations before change in working capital</b>	<b>-16</b>	<b>84</b>	<b>113</b>	<b>223</b>
Change in working capital	19	-11	-79	-72
<b>Cash-flow from current operations</b>	<b>3</b>	<b>73</b>	<b>34</b>	<b>151</b>
Acquisition of fixed assets	-141	-52	-284	-193
Change in long-term receivables	1	1	-	2
<b>Cash-flow from capital investments</b>	<b>-141</b>	<b>-51</b>	<b>-284</b>	<b>-191</b>
Change in provisions excl. deferred tax	-20	-24	21	-22
Change in loans/financial leasing	152	38	194	38
Dividend paid	-	-	-54	-55
Buy-back of own shares	-	-	-5	-16
<b>Cash-flow from financing</b>	<b>132</b>	<b>14</b>	<b>156</b>	<b>-55</b>
<b>Cash-flow for the period/year</b>	<b>-6</b>	<b>36</b>	<b>-94</b>	<b>-95</b>
Liquid funds at beginning of year	164	215	252	350
Cash-flow for the period/year	-6	36	-94	-95
Translation difference in liquid funds	-1	1	-1	-3
<b>Liquid funds at end of period/year</b>	<b>157</b>	<b>252</b>	<b>157</b>	<b>252</b>

SHARE DATA <sup>1)</sup>

		2004	2003	2002	2001	2000	1999 <sup>2)</sup>
No. of shares at beginning of period <sup>3)</sup>	No.	180,722	182,980	188,399	209,332	209,332	209,332
No. of company's own shares bought back <sup>3)</sup>	No.	510	2,258	5,419	20,933	-	-
No. of shares at end of period <sup>3)</sup>	No.	180,212	180,722	182,980	188,399	209,332	209,332
Average number of shares <sup>3)</sup>	No.	180,392	181,422	187,709	204,099	209,332	209,332
Operating profit or loss/share	SEK	-0.56	0.67	0.31	1.00	4.34	0.59
Earnings after net financial items/share	SEK	-0.60	0.64	0.46	1.15	4.26	0.53
Earnings after tax/share	SEK	-0.45	0.47	0.29	0.76	3.12	0.43
Operating cash-flow/share <sup>4)</sup>	SEK	-0.41	0.00	-0.13	0.50	4.28	-0.01
Equity/share	SEK	8.73	9.50	9.33	9.40	9.07	6.13
Dividend	SEK	0.20	0.30	0.30	0.35	0.50	0.25
Dividend/equity per share	%	2.3	3.2	3.2	3.7	5.5	4.1
Share price at end of period	SEK	7.55	8.55	7.45	9.85	7.70	11.10
Share price/equity per share	Times	0.9	0.9	0.8	1.0	0.8	1.8
P/E ratio	Times	Neg	18.3	25.3	13.0	2.5	25.5
Direct yield <sup>5)</sup>	%	2.6	3.5	4.0	3.6	6.5	2.3

<sup>1)</sup> There are no programs that lead to dilution.

<sup>2)</sup> On 1 June 1999 Rottneros acquired the Miranda sulphate pulp mill from Kimberly-Clark.

<sup>3)</sup> Number of shares in thousands.

<sup>4)</sup> Cash-flow after normal investments but excluding strategic investments.

<sup>5)</sup> Direct yield is calculated in relation to the closing listed price.

## CHANGE IN SHAREHOLDERS' EQUITY (SEK MILLION)

	2004	2003
Opening shareholders' equity	1,717	1,706
Dividend	-54	-55
Buy-back of company's own shares	-5	-16
Profit/loss for the year	-81	85
Translation difference	-3	-3
<b>Closing shareholders' equity</b>	<b>1,574</b>	<b>1,717</b>

## SIX-YEAR REVIEW

	2004	2003	2002	2001	2000	1999 <sup>1)</sup>	
<b>KEY INDICATORS THAT EFFECT TURNOVER</b>							
Pulp price NBSK, USD <sup>2)</sup>	617	524	463	540	681	520	
USD/SEK <sup>3)</sup>	7.35	8.09	9.72	10.33	9.17	8.27	
Pulp price NBSK, SEK	4,532	4,235	4,500	5,580	6,245	4,300	
Rottneros' deliveries, tonnes	625,000	641,100	630,500	592,800	656,500	563,600	
<b>TURNOVER AND INCOEM, SEK million</b>							
Net turnover	2,356	2,380	2,494	2,741	3,385	2,101	
Profit/loss before depreciation	122	239	170	292	1,020	217	
Depreciation	-223	-117	-113	-87	-112	-94	
Operating profit/loss after depreciation	-101	122	57	205	908	123	
Net financial items	-7	-7	29	30	-16	-12	
Profit/loss after net financial items	-108	115	86	135	892	111	
Profit/loss after tax	-81	85	55	155	653	91	
<b>BALANCE SHEET ITEMS, SEK million</b>							
Fixed assets	1,307	1,249	1,197	1,093	994	1,130	
Inventories	485	388	401	398	363	335	
Current receivables	440	443	425	440	575	452	
Short-term investments	-	-	-	60	-	-	
Liquid funds	157	252	350	420	693	147	
Shareholders' equity	1,574	1,717	1,706	1,771	1,899	1,284	
Provisions	174	175	203	220	210	115	
Long-term interest-bearing liabilities	186	42	6	-	-	2	
Long-term non interest-bearing liabilities	-	-	-	-	-	26	
Current interest-bearing liabilities	56	6	2	-	-	259	
Current non interest-bearing liabilities	399	397	456	420	516	378	
Balance sheet total	2,389	2,332	2,373	2,411	2,625	2,064	
<b>FINANCIAL RATIOS</b>							
Operating margin	%	-4.3	5.1	2.3	7.5	26.8	5.9
Profit margin	%	-4.6	4.8	3.5	8.6	26.4	5.3
Return on capital employed	%	Neg	7	5	12	52	9
Return on equity after full tax	%	Neg	5	3	8	40	7
Equity/assets ratio	%	66	73	72	73	72	62
Debt/equity ratio	Times	0.2	0.0	0.0	0.0	0.0	0.2
Interest cover	Times	Neg	18.2	29.4	79.3	100.1	10.3
<b>OTHER</b>							
Capital expenditure	SEK m	284	193	244	183	85	276
Average no. of employees		835	857	860	878	890	884

<sup>1)</sup> On 1 June 1999 Rottneros acquired the Miranda sulphate pulp mill from Kimberly-Clark.

<sup>2)</sup> Source: PIX/Market Pulse.

<sup>3)</sup> Source: Swedish central bank yearly average.

QUARTERLY DATA, ROTTNEROS GROUP (SEK MILLION)

	2004				2003				2002			
	IV	III	II	I	IV	III	II	I	IV	III	II	I
Net turnover	535	583	623	615	571	587	582	640	560	633	646	655
<b>Operating profit/loss before depreciation</b>	<b>-19</b>	<b>-9</b>	<b>99</b>	<b>51</b>	<b>94</b>	<b>43</b>	<b>57</b>	<b>45</b>	<b>60</b>	<b>74</b>	<b>11</b>	<b>25</b>
Depreciation	-31	-126	-33	-34	-34	-27	-27	-29	-40	-24	-25	-24
Operating profit/loss	-50	-135	66	17	60	16	30	16	20	50	-14	1
Net financial items	-3	-	-2	-2	1	-	-7	-1	1	5	20	3
Profit/loss after financial items	-53	-134	64	15	61	16	23	15	21	55	6	4
Tax	13	41	-19	-8	-13	-5	-5	-7	-1	-24	-3	-3
Profit/loss after tax	-40	-93	45	7	48	11	18	8	20	31	3	1
Pulp production, 1,000 tonnes	163.0	155.0	171.4	167.4	166.7	155.6	163.5	153.3	155.5	163.9	157.8	158.9
Pulp deliveries, 1,000 tonnes	149.3	149.0	157.2	169.5	157.3	160.7	149.4	173.7	150.3	153.7	162.8	163.7
Sawn timber production, 1,000 m <sup>3</sup>	6.8	7.2	13.9	13.5	12.4	10.7	12.3	10.5	10.1	7.3	12.4	12.6
Sawn timber deliveries, 1,000 m <sup>3</sup>	9.5	13.4	12.5	11.3	10.2	10.5	11.6	10.3	9.7	9.1	10.6	13.5

	2004					2003				
	IV	III	II	I	Full year	IV	III	II	I	Full year
<b>Net turnover by segment</b>										
Pulp	519	559	601	593	2,272	552	567	559	619	2,297
Sawn timber	16	24	22	22	84	19	20	22	22	83
<b>Total net turnover</b>	<b>535</b>	<b>583</b>	<b>623</b>	<b>615</b>	<b>2,356</b>	<b>571</b>	<b>587</b>	<b>582</b>	<b>640</b>	<b>2,380</b>
<b>Operating profit/loss by segment</b>										
Pulp	-17	-91	69	19	-22	62	18	32	18	129
Sawn timber	-33	-43	-3	-2	-81	-2	-2	-2	-2	-7
<b>Total operating profit/loss</b>	<b>-50</b>	<b>-134</b>	<b>66</b>	<b>17</b>	<b>-103</b>	<b>60</b>	<b>16</b>	<b>30</b>	<b>16</b>	<b>122</b>
<b>Operating margin by segment</b>										
Pulp	-3.2	-16.3	11.5	3.2	-1.0	11.2	3.2	5.6	2.9	5.6
Sawn timber	-219	-178	-12.0	-11.2	-97.4	-11.1	-7.9	-9.0	-7.7	-8.9
<b>Total operating margin</b>	<b>-9.4</b>	<b>-23.0</b>	<b>10.6</b>	<b>2.7</b>	<b>-4.4</b>	<b>10.5</b>	<b>2.8</b>	<b>5.0</b>	<b>2.8</b>	<b>5.1</b>

Discontinued operations	2004	Timber	2004 Proforma
Fixed assets	1,307	2	1,305
Current assets	1,082	14	1,068
<b>TOTAL ASSETS</b>	<b>2,389</b>	<b>16</b>	<b>2,373</b>
Shareholders' equity	1,574	9	1,565
Liabilities	815	7	808
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>2,389</b>	<b>16</b>	<b>2,373</b>



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Rottneros, with its origins in the 1600s, is a non-integrated flexible supplier of customised, high-quality paper pulp. Through continuous product development, high delivery reliability, technical support and service, Rottneros is able to adapt to satisfy its demanding customers.

Rottneros has a total production capacity of more than 700,000 tonnes of pulp per year produced at five mills in Sweden and Spain, making the Group one of the ten biggest suppliers of market pulp in the world. Increasingly intensive product development in accordance with customers' demands should lead to more stable and higher profitability throughout an economic cycle. The Group has a comprehensive financial hedging policy to even out earnings over the economic cycle.



## Appendix 1 – TRANSITION TO IFRS 2005

From 2005 all listed companies within the EU are to prepare their consolidated accounts according to International Financial Reporting Standards (IFRS). The Swedish Financial Accounting Standards Council's recommendations comply, for the large part, with existing IAS/IFRS, which implies that Rottneros' consolidated accounts are adapted to the new framework.

The application of IFRS is to take place as from 1 January 2005, and the comparative year 2004 shall be recalculated. However, according to the transition rules found in IFRS 1, there is no requirement of a recalculation of the comparative year figures for IAS 39, Financial instruments. IAS 39 is the accounting standard having the greatest effect on Rottneros' consolidated accounts. Rottneros has, therefore, chosen to also recalculate the comparative year 2004 on the basis of IAS 39.

**The forthcoming regulations, applicable to Rottneros' consolidated accounts, imply, in brief, the following:**

### ***IAS 39 Financial instruments***

According to IAS 39, financial instruments shall be valued on the basis of their market value. Changes in market value shall be reported in the company's income statement and balance sheet. The standard allows, as an exception, the application of so-called hedge accounting on the premise that the company's forecasts, systems and routines meet the standard's high level of requirements for precision and documentation. Hedge accounting implies that on-going changes in market value are reported directly against equity and do not affect the income statement.

Rottneros utilizes extensive financial hedging, which implies that the consequences of not applying hedge accounting, would result in a significant increase in volatility in the reported results. Rottneros will apply hedge accounting for the majority of its financial contracts.

It is important to note that cash flow from hedging contracts is not

affected by the introduction of IAS 39. The Group's goal of achieving positive cash flow, even during periods of weak business cycles, remains.

### ***IAS 17 Leases***

The standard regarding leases (IAS 17) is already applied by Rottneros, in all significant aspects. Rottneros has no leasing agreements, which, if reclassified, would have resulted in significant effects at Group level.

### ***IAS 19 Employee benefits***

Rottneros already follows the regulations regarding employee benefits (IAS 19). Rottneros' transition to IFRS will result in no material effect on the Group's income statement or balance sheet.

### ***IAS 41 Agriculture***

As regards the accounting of agriculture (IAS 41), biological assets shall be reported at fair value on each balance sheet date. Rottneros owns only limited forest property, without material effect on the Group's income and financial position.

### ***IAS 20 Accounting for government grants and disclosure of government assistance.***

As regards the accounting of electricity certificates on the basis of the application of the accounting principle (IFRIC 3 emission rights), assets shall be reported at fair value on each balance sheet date. A revaluation of Rottneros' assets relating to electricity certificates, as at balance sheet date, would imply only an insignificant effect on the Group's equity.

**Summary of the financial effects of the transition**

Illustrated below, in table form, are the most significant effects arising from a recalculation of the 2004 comparative figures affecting the

Group's income statement and balance sheet. The values shown below, which include the most important items, will be subject to further reviews and updates during 2005.

<b>Effect on income, SEK MILLION</b>	
Income for 2004, according to current accounting principles	-81
Effect of hedge accounting	-10
Effect of IFRIC 3	0
<b>Income for 2004, according to IFRS (prel.)</b>	<b>-91</b>
<b>Earnings after taxes per share 2004, according to current accounting principles</b>	
Earnings after taxes per share 2004, according to IFRS (prel.)	-0.45
<b>Effect on equity, SEK MILLION</b>	
Equity at 31 December 2003, according to current principles	1,717
Effect of hedge accounting	270
Effect of IFRIC 3	0
Equity at 1 January 2004, according to IFRS (prel.)	1,987
Equity at 31 December 2004, according to current principles	1,574
Adjusted, opening balance, 2004, see above	270
Effect of hedge accounting	-171
Effect of IFRIC 3	0
Equity at 31 December 2004, according to IFRS (prel.)	1,673
<b>Effects on key ratios</b>	
Equity per share 2003, according to current accounting principles	9.50
Equity per share 2003, according to IFRS (prel.)	10.99
Equity/assets ratio 2003, according to current accounting principles	73 %
Equity/assets ratio 2003, according IFRS (prel.)	73 %
Equity per share 2004, according to current accounting principles	8.73
Equity per share 2004, according to IFRS (prel.)	9.28
Equity/assets ratio 2004, according to current accounting principles	66 %
Equity/assets ratio 2004, according to IFRS (prel.)	65 %

In summary, the company's total equity increases by SEK 99 million and equity per share increases by SEK 0.55, from SEK 8.73 per share to SEK 9.28 per share, with transition to IFRS. This increase in equity refers to unrealized gains on the hedging portfolio.

Income after taxes per share for 2004 decreased by SEK 0.05 per

share, from SEK -0.45 to SEK -0.50, which is due to the fact that certain financial hedging contracts were not, knowingly, reported on a hedge accounting basis, and unrealized losses had to be reported via the income statement.