

Annual Report 2010



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Highlights of 2010

- The market for pulp was strong in 2010 and was characterised by good demand and pricing. The strengthening of the market and structural measures implemented at Rottneros meant that the company's profit after net financial items improved by SEK 207 million compared with 2009.
- Investments of approximately SEK 110 million were implemented at Vallvik Mill during the year; they were installed during the fourth quarter. They primarily involved replacing the remaining old part of the evaporation plant and substantially improving air regulation in the recovery boiler. These investments have eliminated production bottlenecks, increasing annual capacity at the mill from 200,000 to 220,000 tonnes. These investments have also resulted in reduced emissions.
- A decision was taken in the fourth quarter to implement an investment of SEK 90 million in closing the water loops in the bleaching plant at Vallvik Mill. This investment represents the final stage of the investment programme at Vallvik announced in, among other things, the new issue prospectus in the autumn of 2009. Annual production capacity will be 240,000 tonnes following completion of this investment.
- In the first quarter, Rottneros concluded an agreement with SIG Combibloc, a Swiss packaging company. This related to the transfer of intangible assets, primarily in the form of patents and patent applications at Rottneros Packaging AB. The company's food tray operation under the SilviPak brand is not included in this agreement.
- Kjell Ormegard was appointed Chair of the Board of Rottneros in conjunction with the AGM. He took up the office of Chair in January as a consequence of Rune Ingvarsson leaving the board for personal reasons.
- Tomas Hedström took up the office of CFO at Rottneros on 1 May 2010. Tomas Hedström was last employed by the SCA Group, where he was responsible for the Group Staff Finance.

ROTTNEROS IN FIGURES

	2010	2009	2008	2007	2006	2005 Total	Remaining operations
Net turnover, SEK m	1,684	1,508	2,663	2,927	2,690	2,429	2,411
Profit/loss after net financial items, SEK m	138	-69	-385	-384	-23	-103	-141
Investment in fixed assets, SEK m	125	10	191	163	113	234	234
Average no. of employees	308	387	667	718	754	804	800
Ratios, %							
Equity/assets ratio	82	78	40	45	57	58	58
Return on capital employed	11.6	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
Return on equity	10.8	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
Operating margin	8.2	-11.0	-11.5	-12.3	-0.3	-5.3	-3.7
SEK/share							
Equity per share ¹	8.05	7.14	44.96	58.29	77.83	84.53	84.53
Profit/loss after tax ¹	0.82	-2.59	-18.35	-16.69	-0.45	-3.49	-5.05
Operating cash flow/share ^{1,2}	0.51	2.74	-13.34	-5.59	1.93	-22.80	-22.80
Dividend ^{1,3}	0.20	–	–	–	1.00	1.00	1.00

¹ There was a reverse share split in April 2010, where ten existing shares were combined as one share. The comparison periods have been adjusted for this reverse split

² Cash flow after normal investments but excluding strategic investments

³ Dividend proposed for 2010

QUARTERLY DATA, GROUP (SEK M)

	2010				2009				2008			
	IV	III	II	I	IV	III	II	I	IV	III	II	I
Net turnover	402	413	462	407	363	345	367	433	534	601	780	748
Operating profit/loss before depreciation	35	88	61	40	32	-45	31	-80	4	14	-19	-81
Depreciation and write-downs	-20	-20	-13	-33	-26	-25	-23	-30	-139	-27	-29	-29
Operating profit/loss	15	68	48	7	6	-70	8	-110	-135	-13	-48	-110
Net financial items	-2	-4	2	4	-6	113	-5	-5	-34	-24	-9	-12
Profit/loss after financial items	13	64	50	11	0	43	3	-115	-169	-37	-57	-122
Tax	-5	-8	0	0	0	0	0	0	-9	13	17	33
Profit/loss after tax	8	56	50	11	0	43	3	-115	-178	-24	-40	-89
Pulp production, thousand tonnes	75.0	82.6	84.0	81.4	86.7	70.9	88.8	89.5	119.5	136.3	162.6	184.3
Pulp deliveries, thousand tonnes	80.4	75.8	86.8	87.3	81.9	89.7	99.4	105.7	118.4	137.1	186.3	176.1
Pulp price, NBSK list price, USD ¹	957	976	943	844	770	670	591	595	746	885	900	878

¹ The PIX price is the source of the NBSK list price



Woodchips produced at Rottneros Mill are used in the production of CTMP, which is a mechanical pulp.

Rottneros in brief

Rottneros, with its origins in the 1600s, is a non-integrated, customer-aligned supplier of high quality pulp.

Approximately 300 people are employed at Rottneros, which had a turnover of SEK 1.7 billion in 2010.

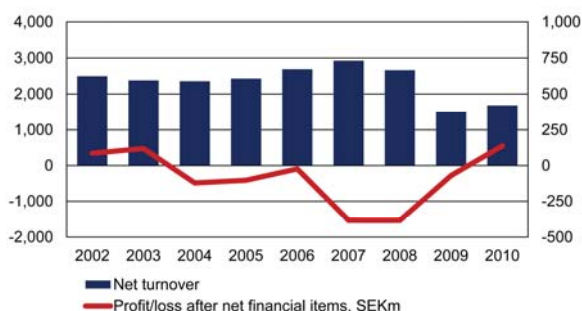
Rottneros produces market pulp; i.e. pulp sold on the open market in contrast to pulp produced at mills with integrated paper production.

Rottneros has an annual production capacity of approximately 400,000 tonnes of pulp at two mills: Rottneros Mill and Vallvik Mill.

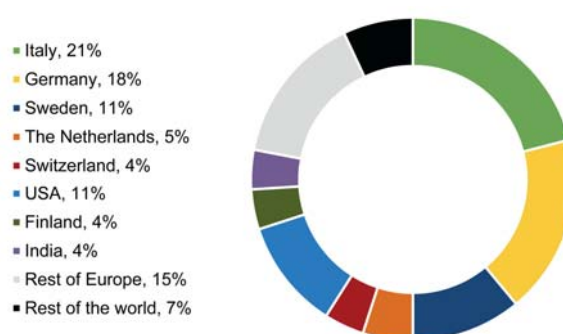
Vallvik Mill produces two grades of long-fibre sulphate pulp: fully bleached sulphate pulp (ECF – Elemental Chlorine Free) and unbleached sulphate pulp (UKP – Unbleached Kraft Pulp).

Rottneros Mill manufactures CTMP and ground-wood pulp.

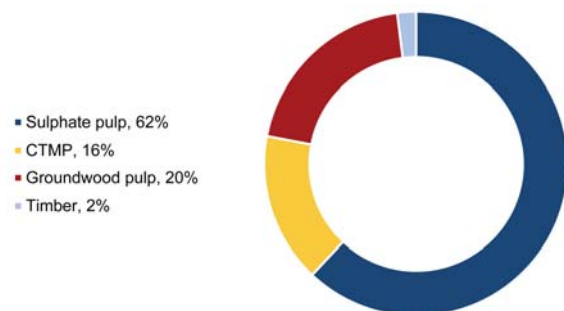
Net turnover and profit/loss



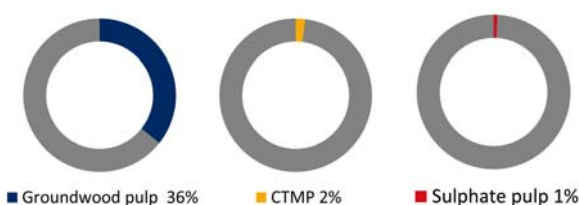
Geographical distribution of turnover



The Group's products – percentage of turnover

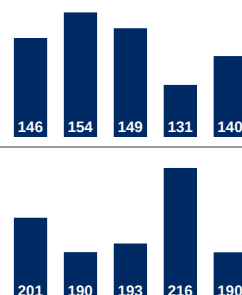


Rottneros' global market shares for market pulp in 2010



ROTTNEROS' PULP MILLS

	Employees		Pulp type		Production			Pulp deliveries	
	Average no.	Mechanical	Chemical	2009, tonnes	2010, tonnes	Change		2006–2010, thousand tonnes	
Rottneros Mill	116	Groundwood		71,800	73,600	3%			
			CTMP	59,700	64,900	9%			
			Total	131,500	138,500	5%			
Vallvik Mill	168		Long-fibre sulphate	193,400	184,500	-5%			



More cash despite major investments

Rottneros is finally showing a full year profit again. Our profit after tax amounts in total to SEK 125 million while our cash flow before investments, depreciation, interest and tax was SEK 202 million. Return on capital employed was almost 12 percent. These are fantastic figures after the long period of difficulties experienced by the company. Naturally it is also pleasing that the board is proposing to reintroduce a dividend and the confidence in the future that this signals.

OFFENSIVE INTERNAL MEASURES

After the success of the new share issue at the end of 2009, the board was able to approve the necessary investments at Vallvik Mill. These are being implemented in two phases. The first phase was installed and put into operation during the autumn shutdown in 2010, while a decision to implement the second phase was taken in the late autumn; this phase will be completed during the autumn shutdown in 2011. Thanks to these investments, the factory will satisfy the new environmental requirements that apply from 2012 at the same time as our capacity was increased by 20 percent, to over 240,000 annual tonnes of sulphate pulp. All that remains now is for the public authorities to confirm that they will temporarily consent to this increase in production for a period of three years.



Ole Terland, President and CEO of Rottneros

In 2010, our trade in pulp generated more cash flow than the investments cost, which made it possible for us to both pay off our borrowings according to plan and increase our net liquid position. This in turn meant that the board has already been able to approve an investment facility of around SEK 150 million for the above-mentioned second phase of Vallvik's improvement programme. We were also able to pay off the remaining debt on the old syndicated bank loan (with all of its reservations) at the start of 2011 and concluded a new loan agreement (without any reservations),

and of course the board is now able to propose the vital dividend.

WHAT COULD WE HAVE DONE BETTER?

Of course, 'good' could have still been 'better'. Our main failing over the past year was that we did not manage to dispose of or activate in some other way the sleeping capital tied up in the CTMP equipment from the mill closed at Utansjö. This is a high priority issue for the company and work is continuing on a number of different projects in countries both east and south of Sweden. The difficulty in respect of new CTMP projects no longer lies in the previously depressed financial market but rather that the global price trend for CTMP is currently poor despite strong development in the chemical pulp markets. This restrains the profitability of new projects and delays investment decisions. This was also one of the reasons why the profitability of our CTMP production at Rottneros Mill has not developed as we would have liked.

Furthermore, the liquidation process for our former pulp mill at Miranda in Spain has been very slow and nor are we able to influence progress on that front. Instead we are compelled to wait patiently for the official procedures in Spain to move forward.

STRONG MARKET BUT HIGH TIMBER AND ELECTRICITY COSTS

The global market for chemical pulp was very strong in 2010. There was a solid recovery, with the exception of Chinese pulp imports which remained weak up until the last few months of the year. Paper production in China continues to increase, so the reason for a reduction in pulp purchases was presumably that stock was being withdrawn from the record level of stock built up in 2009. Both growth in consumption and price formation were stronger for the long-fibre pulps manufactured by Rottneros than for the short-fibre pulps. Mechanical pulps, and particularly CTMP, are more inclined to follow the supply and price of eucalyptus sulphate pulp, which may explain the poor price trends for CTMP for most of 2010.

Profitability in pulp production is heavily associated with the cost of raw timber – and also the cost of electricity for mechanical pulp. 2010 was not a good year in these respects. We experienced extremely sharp increases in the price of timber, both during the spring and at the end of the year. 2011 may well go the opposite direction, driven by a significant reduction in the incomes for Swedish sawmills just like the pulp and paper mills. This was caused by a number of factors including a very strong SEK, timber prices in Sweden now being higher than those in the neighbouring countries of the east and Russia announcing a significant reduction in timber export duties.

The Swedish electricity generation market was chaotic in 2010. A shortage of electricity led to exorbitant prices both at the start of the year and for the entire month of December. Sweden, which has historically allowed low electricity generation costs to support industrial development, has now ended up with a higher price level than our rival countries, despite the low cost of generating electricity. This is particularly worrying for Swedish mechanical pulp production. The largest Swedish segment to use mechanical pulp is newsprint production, which is already under pressure.

ACTIVE SUSTAINABILITY WORK

Fundamental to our operation is our work on issues relating to responsibility and sustainability throughout the value chain. The objective at each step of our production and distribution system is to minimise adverse effects, not only on the environment but also on everything and everyone affected by Rottneros' operation. We aim to have good communications with everyone affected by our operation; that is, customers, shareholders, employees and the surrounding world and above all those regions in which we operate.

Important issues from both a sustainability and financial perspective are the utilisation of resources (e.g. how we use raw timber), energy efficiency and also that we offer our employees a safe work environment.

OUTLOOK FOR 2011

The pulp market appears to be strong for 2011, driven by good general economic growth and the price trend for raw materials, the further expansion of primarily non-integrated Chinese paper production and major restrictions on new production capacity. On the other hand, the strong Swedish krona is impairing the competitiveness and net price revenues of manufacturers operating in Sweden.

Rottneros is starting to see the benefits of the improvements implemented at Vallvik Mill and in the current year we will analyse bottlenecks to our future expansion of capacity. It would be financially attractive to produce up to 300,000 annual tonnes. We are now discussing profitable optional investment opportunities. Furthermore, we are hoping for the price gap to narrow between mechanical pulp and chemical pulp while electricity prices are not likely to be as dramatic as they were in 2010.

We will continue to keep an open mind when reviewing the various opportunities for cooperation, both those already available and new opportunities that are likely to appear in a year of increased activity, consolidations and regroupings. The analyses of potential bioenergy projects will continue both at Rottneros and Vallvik Mill. The products that we are initially considering are automotive fuels based on forest based biofuel. Rottneros will only take part in these investment projects given the right cooperating partners and provided profitability is expected to be good.

I would like to thank our employees for the good work that they have done in 2010 and for remaining loyal to the company during the difficult years.



Ole Terland
President and CEO

Business concept, business model, objectives and strategies

Added value through knowledge strengthens the position of customers

The overall objective of Rottneros is to provide its shareholders with a competitive return over the course of a business cycle. In order to achieve this objective, the Group needs to create added value for its customers as well as be an attractive employer and competitive producer.

Rottneros creates value by focusing on segments where the Group can secure a strong position in the market for market pulp through its production focus and applications. Examples include mechanical market pulp, where Rottneros is a leading supplier, and chemical pulp for electrical applications, where the Group has developed unique expertise. Rottneros' strategy is to produce both mechanical and chemical market pulp so that it can offer its customers a broad portfolio of products.

By communicating the latest information about pulp applications, Rottneros also creates value for its customers that can strengthen their position in their respective markets.

BUSINESS CONCEPT

Rottneros' business concept is to be an independent and flexible supplier of customised and high-quality pulp. This business concept is based on the success factors identified by the Board of Directors and management; namely, to be a company that solely concentrates on producing pulp and focuses on the requirements of its customers as well as niche areas and efficient production. Rottneros adapts its product range to meet the needs and high expectations of customers by continuously developing its products and providing a high level of security of supply, technical support and service. This business concept forms the basis of the strategy applied by the Group and is characterised by specialisation, focussing on niches and customer orientation.

BUSINESS MODEL

Rottneros is a global supplier of bleached and unbleached long-fibre chemical pulp, mechanical CTMP (using spruce, aspen, birch and pine as raw timber) and groundwood pulp. Rottneros operates in the market for market pulp.

Pulp is produced and sold at two Swedish pulp mills. Vallvik Mill produces long-fibre chemical bleached sulphate pulp, which is primarily used for tissue, writing and printing paper. The mill also produces long-fibre chemical unbleached pulp of very high purity, which has made the mill a leading supplier of pulp for transformer and cable manufacturers. This pulp is also particularly suitable for filters and other absorbent products.

Rottneros Mill manufactures CTMP and groundwood pulp. CTMP made from aspen and birch is primarily used for printing and writing

paper, while CTMP from pine and spruce is largely used by board manufacturers. Other applications for special CTMP grades include the manufacture of filters and tissue paper. Rottneros' grades of groundwood pulp are specially adapted for use in the manufacture of different kinds of printing paper and board.

OBJECTIVES AND STRATEGIES

Group management has a number of overall objectives for operational activities, which are intended to result in a competitive return for shareholders through growth in value and dividend yield. The ambition is for Rottneros to gradually create the conditions for an earnings trend that is less volatile over the course of a business cycle by focusing on increasingly more specialised grades of pulp and thereby experiencing less dramatic price fluctuations. Rottneros' ambition is to offer specialised grades of pulp, which should create consistently higher profitability.

DIVIDENDS AND DIVIDEND POLICY

The level of dividends has been adapted to Rottneros' performance level, financial position, future development opportunities and investment needs.

Our capacity to pay dividends should be viewed over the entire business cycle rather than for an individual year. This means that dividends will be restrained in good years so that it will be possible to pay dividends in years with weaker results. The company's debt/equity ratio must also be considered. The board proposes a dividend of SEK 0.20 per share for the operating year 2010.

BUSINESS CONCEPT

Rottneros is an independent and flexible supplier of customised and high-quality pulp. Rottneros adapts its product range to meet the needs and high expectations of customers by continuously developing its products and providing a high level of security of supply, technical support and service.

VISION

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

This in turn shall result in stable profitability over the course of a business cycle.



Flash drying at Vallvik Mill. This kind of drying is one of the prerequisites for the specialist pulps produced at the mill.

Markets and products

Good balance between supply and demand

Rottneros produces three main kinds of pulp for the market pulp market: long-fibre chemical bleached and unbleached pulp; mechanical CTMP pulp using spruce, aspen, birch and pine as raw material; and groundwood pulp. Rottneros' pulp is sold globally, with the main focus on Europe and the United States as well as some of the Asian markets. Global production of paper pulp amounts to approximately 190 million tonnes, of which approximately 54 million tonnes relate to market pulp.

EUROPEAN MARKET

Approximately 76 percent of Rottneros' sales are made to Europe, which consequently constitutes the Group's largest market. This characterises the sale organisation, which has been set up to primarily meet the demands of the European market. When combined with the close cooperation with customers in a number of prioritised segments, such as board and thin writing and printing paper, this results in customers being offered the pulp, or a combination of pulps, that meet their final product requirements as efficiently as possible in terms of cost and resources. This forms a basis for future expansion in a profitable customer segment.

The European market amounted to approximately 16 million tonnes of pulp in 2010 and was thus the largest market area globally.

WORLD MARKET

A clear trend in 2010 was the reduction in supplies to Asia, primarily China, during the first three quarters compared with 2009. This resulted in the ongoing redistribution of pulp volumes between Europe/North America and China slowing down. Indications are that a stock of imported pulp had built up in the Chinese market in 2009 and the market was partly supported by these stocks in 2010. Supplies of chemical pulp to China fell by 17 percent in 2010 (from 8.6 to 7.1 million tonnes), while combined volumes in the European and US markets increased by seven percent (from 20.9 to 22.4 million tonnes).

Global production of pulp amounted to approximately 190 million tonnes in 2010, of which approximately 54 million tonnes comprised market pulp. Approximately 52 percent of the total global market for chemical market pulp is bleached short-fibre chemical pulp, 43 percent is bleached long fibre pulp and the remainder is sulphate pulp and unbleached chemical pulp.

There was only a marginal change in the production of chemical pulp by global producers in 2010 (+0.6 percent) following a reduction of 2.4 percent or 1.4 million tonnes in 2009. This was the result of permanent or temporary closures in pulp lines.

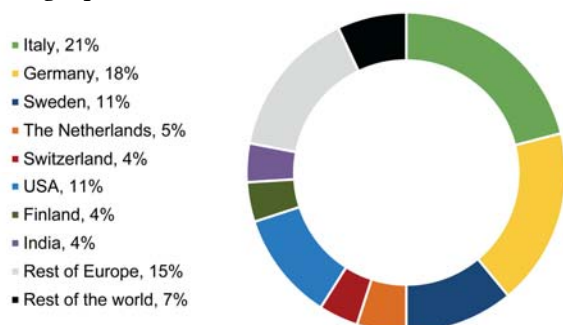
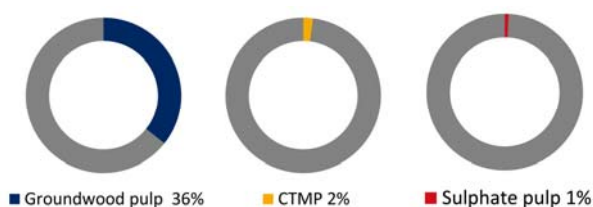
However, these decreases were in part covered in 2010 by the restarting of capacity that had been temporarily or finally discontinued. However, these supplements to capacity were fully counter-balanced by the reduction due to the loss of production in Chile following the earthquake of 27 February 2010.

57 percent of Rottneros' production comprises long fibre chemical pulp while 43 percent comprises mechanical pulp. In recent years, there has been a slight shift from long fibre pulp to short-fibre eucalyptus pulp to accommodate a number of new additional paper machines. However, this change in the raw materials for fibre has not reduced the absolute need for, or requirements imposed on, the strong long fibre pulp produced by Rottneros. The main reason for using long fibre pulp is to take advantage of the strong qualities that this fibre gives to paper. The increased use of fibre-based packaging materials and tissue paper means that it is reasonable to assume that this consumption will not decline.

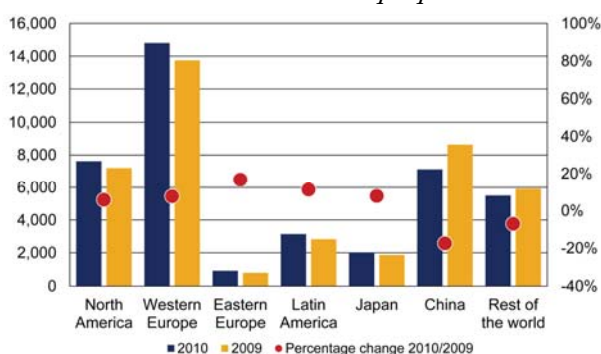
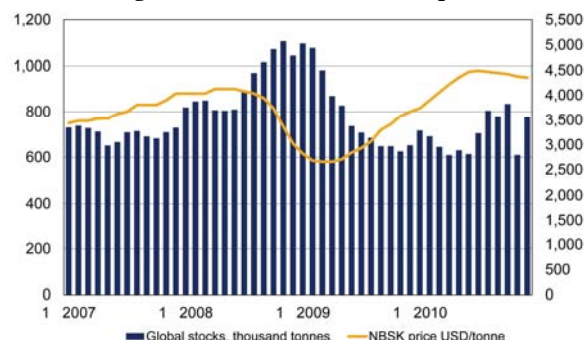
The pulp industry underwent a structural change in 2008 as a result of a combination of high electricity and timber prices and low demand. This resulted in several pulp producers shutting down units or significantly restricting their production.

On the part of Rottneros, the mill at Utansjö closed down in 2008 and Rottneros Miranda closed at the beginning of 2009. The effects of the global structural change led to an improved balance between the supply of and demand for pulp.

The pulp market had already started its recovery by the end of 2009.

Geographical distribution of turnover*Rottneros' global market shares for market pulp in 2010*

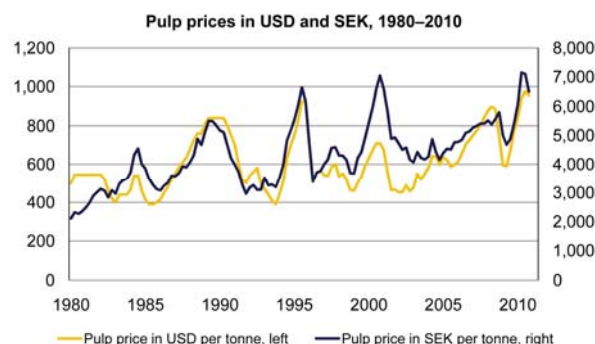
2010 consequently started with a relatively good balance between supply and demand. One event that was of decisive importance for the development of the pulp market in the first half of the year was the tragic earthquake in Chile. This meant that pulp production at mills owned by the Chilean companies CMPC and Arauco, with an annual capacity corresponding to almost five million annual tonnes (representing approximately ten percent of global market capacity for pulp), ceased immediately and stood still for a period of around two months.

Deliveries of chemical market pulp*Trends in global stocks and NBSK price*

Source: Riksbanken and FOEX Indexes Ltd

PRICE TRENDS

Market pulp prices are largely set in USD. When setting the price of pulp from Rottneros Mill and Vallvik Mill, the price received in SEK is consequently determined by a combination of the price trend for market pulp and the USD rate.



2010 started with prices in Europe of approximately USD 800 per tonne for NBSK and USD 600 for bleached CTMP. The good balance between supply and demand and also the earthquake in Chile led to prices rising up to USD 980 for NBSK and over USD 700 for CTMP by the end of June. The second half of the year was characterised in particular by reduced demand for short-fibre chemical pulp, which resulted in a price squeeze for this kind of pulp, primarily in Asia, which had an adverse effect on the prices of CTMP, while long fibre chemical pulp fared better. Prices at the end of the year were USD 950 for NBSK in Europe and USD 600 for CTMP.



The grades of mechanical pulp manufactured at Rottneros are used to produce, among other things, magazine paper.

Markets and products

Customised products

Rottneros manufactures long fibre chemical pulp as well as two categories of mechanical pulp – groundwood pulp and CTMP. Chemical pulp is produced at Vallvik Mill and mechanical pulp at Rottneros Mill. Most of the Group's pulp products have been customised.

LONG FIBRE CHEMICAL PULP

The global capacity for bleached long fibre chemical market pulp only increased marginally in 2010 (by 0.7 percent compared with 2009), which means that it amounted to 23.6 million tonnes. A number of mills – in both North America and Europe, including Sweden and Finland – that produced long fibre chemical pulp closed down in 2008 and 2009 as a consequence of the weak market, which meant that capacity reduced by approximately 0.8 million tonnes. Rottneros' largest individual market for long fibre chemical pulp was Germany in 2010, which accounted for 25 percent of its deliveries, followed by the United States (17 percent) and Sweden (12 percent).

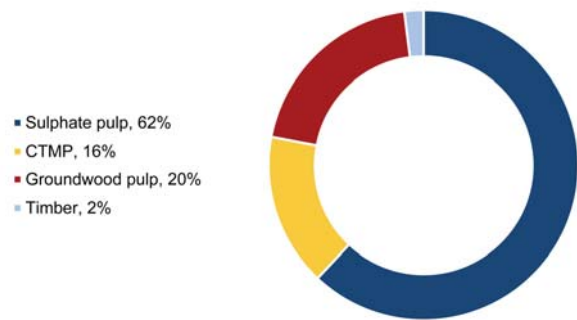
Long fibre pulp accounts for about 43 percent of the total market for bleached chemical market pulp. The largest producers in this market are Arauco (Chile), Domtar and Canfor (US/Canada), Södra (Sweden) and Mercer (Canada /Germany/US).

Long fibre chemical pulp accounts for 57 percent of the Group's total production. Vallvik Mill produces sulphate pulp – a long fibre chemical pulp produced from pine and spruce. Most of Vallvik's sulphate pulp comprises ECF pulp (Elemental Chlorine Free), which is primarily used for tissue, writing and printing paper. Long fibre pulp constitutes the strength component for various qualities of paper, which is why reinforcement is an important function of this pulp.

Other production of sulphate pulp consists of UKP (Unbleached Kraft Pulp), which is an extremely pure kind of unbleached pulp. The UKP pulp produced by Vallvik Mill has been developed over many years and its quality has made this mill a leading supplier of pulp for transformer and cable manufacturers.

The pulp produced at Vallvik is flash-dried and is therefore particularly suitable for filters and other absorbent products.

The Group's products – percentage of turnover



MECHANICAL PULP

Global production of mechanical market pulp amounted to approximately 3.4 million tonnes in 2010. This is over 20 percent more than 2009. The Canadian companies Millar Western and West Fraser are the largest producers of mechanical pulp in the market for market pulp.

Rottneros' largest markets for mechanical pulp in 2010 were Italy, India and Sweden, which accounted for 44, 15 and 12 percent of the deliveries respectively. The mechanical pulps manufactured by Rottneros at Rottneros Mill include CTMP (Chemithermomechanical pulp) and groundwood pulp. These pulps represent 43 percent of the Group's overall production.

When manufacturing CTMP, the timber receives a gentle chemical pretreatment at a raised temperature. This pulp is available in both bleached and unbleached grades and the main raw timber used is spruce, pine and aspen; these are combined to produce different grades of pulp.

Applications for CTMP vary depending on the timber used. CTMP made from aspen and birch is mainly used for printing and writing paper, while CTMP from pine and spruce is largely used by board manufacturers. Other applications for special CTMP grades include the manufacture of filters and tissue paper. Rottneros manufactures several grades of groundwood pulp specially adapted for manufacturing different kinds of printing paper. High opacity (degree of opaqueness) is the unique property provided by groundwood pulp and this is a particularly important property for thin printing paper. Spruce is used as the raw timber. There are both unbleached and

bleached grades of groundwood pulp with varying levels of brightness. All of Rottneros' pulps are TCF

bleached, which means that they are totally chlorine-free.

ROTTNEROS' PULP TYPES AND GRADES

	Pulp type	Timber	Bleaching	Type of bleaching	Areas of application
Mechanical pulp	Groundwood pulp	Spruce	Unbleached/bleached	TCF	Printing and writing paper, LWC/ULWC
	CTMP	Spruce	Unbleached/bleached	TCF	Printing and writing paper, board, tissue
		Aspen/birch	Bleached	TCF	Printing and writing paper, fine paper
		Pine	Unbleached/bleached	TCF	Board, filters
Chemical pulp	Long fibre sulphate pulp.	Pine/spruce	Bleached	ECF	Fine paper, printing and writing paper, LWC/ULWC, board, tissue, filters
			Unbleached		Filters, electrical applications, absorbent products



Vallvik has space for approximately 28,000 tonnes of pulp in its warehouse, which corresponds to around 40 day's production.

Units belonging to the Group

Production at Rottneros and Vallvik

Rottneros Group's main operation is run from its two pulp mills: Vallvik Mill and Rottneros Mill. The Group also includes SIA Rottneros Baltic, a Latvian company that purchases pulpwood and exports it to Vallvik Mill and external customers, and Rottneros Packaging, which produces SilviPak food packaging.

The organisation at Rottneros changed on 1 January 2010 when several joint Group functions were transferred from the parent company to the mills. This means that the mills are responsible for the entire business process, from the purchase of raw materials to pulp sales.

ROTTNEROS MILL

Rottneros Mill produces two grades of mechanical pulp: groundwood and CTMP. Both production processes are eco-friendly, and the high utilisation of raw materials means a low level of timber consumption per tonne of pulp produced. Pulp is produced on two separate production lines. Spruce roundwood is used to produce mechanical pulp, while CTMP is mainly produced using spruce and pine chips, though aspen and birch chips are also used.

Annual production capacity of approximately 170,000 tonnes makes Rottneros Mill one of the world's largest producers of mechanical market pulp. The mill has around 125 employees.

138,500 tonnes were produced in 2010, which represents an increase of approximately 7,000 tonnes or just over five percent compared with 2009. This increase was primarily due to strong demand from several of the mill's key customers during the first half of the year. It was also the result of a review of the customer and product mix at the mill. This review started in 2009 and led to an increased focus on pulp for, among other things, the production of board, filters, high bulk printing and writing paper and thin printing paper. These are segments where customers can exploit the unique properties of mechanical pulp. Product development focussed on these pulps in 2010.

Rottneros' groundwood pulp is primarily used to produce wood-containing printing paper that requires high opacity; i.e. thin paper with a high degree of opaqueness. The main applications for CTMP include board, filters and high bulk printing and writing paper, in addition to various special applications.

Rottneros Mill is continuing to take measures to increase productivity and reduce energy consumption per tonne of pulp produced. As regards productivity, the mill has installed additional drying equipment on the CTMP line, which has increased capacity by 5,000 tonnes or

six percent. Work to improve and optimise the solid fuel furnace has meant that it was possible to reduce oil consumption by approximately 20 percent over a five-year period.

Production on the CTMP line at Rottneros Mill came to a standstill for a total period of just over three weeks at the beginning and end of 2010 owing to extremely high electricity prices.

All-in-all the productivity-enhancing measures taken since 2004 have resulted in a production capacity lift of 25 percent, while the number of employees fell by approximately 50. This represents an increase in productivity of around 50 percent. The mill's energy consumption per tonne produced has simultaneously reduced by over 20 percent.

The entire Group endeavoured to increase the proportion of exports to Europe compared with Asia during 2010, with a view to reducing transport costs and thereby increasing margins. On the part of Rottneros Mill, this meant an increase in the European market's share of the mill's CTMP by approximately ten percent. The proportion of groundwood pulp sold in the European market amounts to over 95 percent.



Spruce logs in the debarking drum at the groundwood line at Rottneros Mill.

VALLVIK MILL

Vallvik Mill manufactures two grades of long-fibre sulphate pulp: fully bleached sulphate pulp (ECF - Elemental Chlorine Free) and unbleached sulphate pulp (UKP - Unbleached Kraft Pulp). Softwood is used as the raw material. Producing sulphate pulp is less energy intensive than producing groundwood pulp and CTMP, which means that Vallvik Mill enjoys less exposure to electricity prices than Rottneros Mill.

A large proportion of the electricity used is generated at the mill. All of this production comprises 'green energy' and generates the right to electricity certificates that are then sold via Nord Pool power exchange. The value of the electricity certificate generating electricity produced by Vallvik is normally higher than the net electricity purchased from the network, which results in low electricity costs or even a surplus in our energy cost balance.

The extreme winter cold at the start and end of 2010 resulted in higher than normal energy consumption, while electricity prices were extremely high, with a consequential fall in the value of the electricity certificates. This resulted in the energy cost surplus for the six months of summer not being sufficient to outweigh the deficit for the six months of winter.

Production capacity at the mill was approximately 220,000 tonnes in 2010 and around 160 people were employed.

184,500 tonnes were produced in 2010, representing a reduction of approximately five percent compared with 2009. Production was affected by both an unplanned production shutdown in May and the annual maintenance shutdown in the autumn.

Europe is the main market for Vallvik Mill. Approximately 70 percent of production is sold in Europe while the remainder, primarily niche products, is sold to the US. The large proportion of

sales to the European market reflects a component of the Group's endeavour to increase margins by reducing freight charges.

The market for Vallvik's pulp products was strong in 2010, which meant for example that the mill already had a strong order book at the start of the year.

The main area of application for Vallvik's bleached pulp (ECF) is reinforcement, which means that the primary function of chemical long-fibre pulp is to give paper the strength required for production and printing. Reinforcement pulp is principally used to produce magazine and fine paper, both coated and uncoated variants, together with various grades of thin paper.

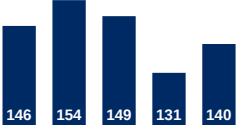
Electrical applications and filters, which constitute Vallvik's niche products, are important areas of application for unbleached pulp (UKP). These areas have been further strengthened in recent years.

The mill is generally efficient from the perspective of staff and chemicals, with a well-developed infrastructure including rail links as well as a disposal site and harbour within the area.

In 2010, investments were made in upgrading the evaporation plant and rebuilding the recovery boiler. These investments represent a step towards increasing capacity at Vallvik, reducing point emissions to water and air as well as further increasing the generation of electricity and becoming a net seller of electricity, and also reducing oil consumption.

A decision was made at the end of 2010 on an investment to close the water loops in the bleaching plant at a cost of SEK 90 million. This investment constitutes the final stage of the investment programme.

ROTTNEROS' PULP MILLS

	Employees	Pulp type		Production			Pulp deliveries
	Average no.	Mechanical	Chemical	2009, tonnes	2010, tonnes	Change	2006–2010, thousand tonnes
Rottneros Mill	116	Groundwood		71,800	73,600	3%	
		CTMP		59,700	64,900	9%	
		Total		131,500	138,500	5%	
Vallvik Mill	168		Long-fibre sulphate	193,400	184,500	-5%	

These investments will lead to a significant reduction in water use, which among other things will mean that the biological external water purification plant currently being built can be scaled down considerably. In addition to these major investments, work is continuing to identify and eliminate production bottlenecks.



One of Vallvik's special products is a pulp used to insulate advanced power cables. Here, an underwater cable is being laid using a special cable laying vessel.

The investments made in 2010 and planned for 2011 will result in capacity at the mill increasing by 20 percent, from 200,000 to 240,000 tonnes of sulphate pulp each year. Vallvik Mill has therefore applied to increase its production permit to 242,000 tonnes. Vallvik's long-term objective is to achieve a capacity of approximately 300,000 tonnes per year.

SIA ROTTNEROS BALTIC

Some of the raw materials imported by Rottneros primarily come from Latvia, through their subsidiary SIA Rottneros Baltic. SIA Rottneros Baltic represents a strategic component of the Rottneros Group's supply of raw materials. The company also helps by procuring timber from the rest of the Baltic region, Russia and Belarus.

These imports are mainly for Vallvik Mill. SIA Rottneros Baltic has five employees.

ROTTNEROS PACKAGING – SILVIPAK

Rottneros Packaging AB is a subsidiary of the Rottneros Group producing food packaging manufactured from pulp fibre under the brand name SilviPak. This packaging is primarily used for frozen and chilled pre-portioned food for small households and is sold, for example, in supermarkets and by industrial kitchens and restaurants. Operations started in the spring of 2006. Packaging is produced at Rottneros Mill and five people are employed.

Rottneros concluded an agreement with SIG Combibloc, a Swiss packaging company, at the beginning of 2010. This related to the transfer of intangible assets, primarily in the form of patents and patent applications. Rottneros Packaging's food tray operation under the SilviPak brand was not included in this agreement.



Most of the mill is controlled from the operations centre at Vallvik. Berndt Åkerdahl on the left is an operations engineer and Robert Jansson is an operator at the recovery boiler.

Supply of raw materials

High timber and electricity prices in 2010

TIMBER SUPPLY

The Rottneros Group has a team to manage timber supply in Sweden as well as a timber procurement company in Latvia, SIA Rottneros Baltic. The responsibility for the timber supply was decentralised to the two mills in 2010 in so far as they are able to optimise stock levels, quality issues and marginal business. However, commercial negotiations are still being coordinated jointly through the Group's Wood Procurement Director. The organisations in both Sweden and Latvia is partly founded on a number of multi-annual agreements concluded with the largest suppliers of pulpwood and woodchips to reduce dependency on spot markets. In recent years, Rottneros has endeavoured to significantly reduce the proportion of hardwood used, both for reasons of cost and future competitiveness. As a large proportion of hardwood is imported, there has consequently been a significant fall in the Group's proportion of imports.

Rottneros' objective is to have a low stock of pulpwood to optimise the supply of fresh timber. This is cost effective for several reasons: timber is better when used fresh while the amount of capital tied up is kept to a minimum. Fresh timber also reduces the consumption of bleaching chemicals, which is positive both in terms of the environment and cost.

The Latvian timber procurement company represents an important link in our timber supply, even though the Group is endeavouring to minimise the proportion of imports for reasons of cost. Any shortage in the supply of Swedish timber can be quickly compensated by our own Latvian organisation. Imports are also important for supplying FSC-certified timber (see below).

Working with a low level of stock requires a steady and reliable flow of pulpwood, which presupposes good and stable relationships with timber suppliers. The Group's two main timber suppliers are the Mellanskog Forest Owners' Association and Sveaskog, which is a state-owned enterprise.

To minimise transportation, Rottneros endeavours to use Swedish raw timber felled as close to the mill as possible. This is why forest industry companies commonly swap timber supplies with each other. The timber imported to Sweden is transported by sea and goes directly to Vallvik

Mill, which is located on the coast and has its own harbour. Rottneros Mill, which is located close to the Norwegian border, has some of its normal catchment area for pulpwood in Norway.

The Group has routines for 'traceability certification' to monitor the origin of pulpwood; this has become increasingly important for our relationship with pulp customers. The aim of traceability certification and associated routines is to ensure that no timber used in the Group's industrial operations has illegal or controversial origins. The Group has traceability certification according to FSC and PEFC standards, which are the two international systems used in Sweden. This means that the Swedish mills have a joint traceability certification system.

The Latvian subsidiary, SIA Rottneros Baltic, also has traceability certification according to FSC.

TIMBER MARKET

The price of pulpwood rose by approximately ten percent in 2010. The largest increases within the geographical areas of Rottneros occurred during the first six months of the year due to, among other things, the extreme winter, with its severe cold and lots of snow that made both logging and imports difficult owing to the ice conditions in the Baltic Sea. The strong demand for saw logs at the start of 2010 also drove up timber prices, and logging resources were concentrated on saw timber. At the same time, demand improved at Swedish chemical pulp mills. These mills represent the dominant part of pulpwood consumption, regardless of whether or not they are integrated with paper or board mills. There were thus good opportunities for forest owners to charge high prices for pulpwood.

The widely criticised Russian export duties of up to approximately EUR 15 per cubic metre only had an indirect effect on Rottneros, as the Group did not import anything from Russia in 2010. On the other hand, these duties contributed to raising the general level of pulpwood prices.

One effect of these export duties, which have been significantly increased by Russia over recent years, is that a number of Russian logging companies have been wiped out, with a consequential reduction in the level of logging. The announcement now made regarding a reduction in duties of approximately EUR 2 per

cubic metre may gradually lead to an increase in Russian exports and have a consequential positive effect on price trends in Finland, the Baltic States and Sweden.

The company is of the opinion that it has been able to hold the cost of materials at the Group's units at a reasonable level when generally compared with the cost of Swedish raw timber. The cost of raw timber in 2010 accounted for just over 40 percent of the Group's operating costs, in line with 2009.

Demand for pulpwood at Vallvik Mill is expected to rise by approximately 20 percent in 2011. This demand will be met by both increased imports via SIA Rottneros Baltic and increased purchases in surrounding regions.

Pulpwood prices are expected to rise even further in 2011, driven by the sharp slowdown in the opportunities for sawmills to export in the late autumn of 2010. This slowed both final felling by forest owners and access to sawmill woodchips for the pulp industry. A little later in the year, the strong Swedish krona is expected to diminish the value of exports and thereby the solvency of both sawmills and the pulp and paper industry.



Rottneros Group uses approximately 1.5 million cubic metres of timber each year.

POWER SUPPLY

Electricity prices rose sharply in 2010 to an average price of SEK 0.54 per kWh compared with SEK 0.39 per kWh in 2009. These figures peaked in January and February, with prices of up to SEK 13.75 per kWh resulting from a combination of a severe winter and approximately 30 percent of nuclear power capacity being unavailable owing to a delay in maintenance and upgrading work. A further peak was recorded at the end of November and beginning of December, with prices of SEK 2.31 per kWh. In December, the average price was SEK 0.83 per kWh in Sweden, while it was around SEK 0.55 per kWh in, for example, Germany.

The high electricity prices were a strong contributory factor for a three-week production shutdown of parts of Rottneros Mill, which is the unit of the Group where exposure to electricity prices is highest.

The long-term price levels for the coming years amount to SEK 0.40–0.45 per kWh. Financial instruments can be purchased as hedging contracts for electricity prices for up to five years via Nord Pool (an exchange for trading electricity). In practice, companies such as Rottneros cannot enter into fixed electricity price contracts against physical delivery.

The Rottneros Group was not allowed to conclude long hedging contracts via Nord Pool during the financial crisis in 2008 and 2009. The Board of Rottneros approved a new electricity trading policy in 2010 and the Group intends to increase the proportion of electricity prices hedged when the market is offering attractive commercial terms. Electricity hedging contracts were concluded on 15 February 2011, corresponding to 64 percent of estimated consumption for 2011, 27 percent of estimated consumption for 2012 and 41 percent of estimated consumption for 2013.

Rottneros has continued its work to reduce energy consumption by, for example, further developing low energy segments for pulp refiners and moving heat exchangers from Utansjö Mill to Rottneros Mill.

Rottneros implemented an environmental and energy investment at Vallvik in 2010, part of which involves recovering and incinerating a greater proportion of combustible fibre substances, thereby increasing the production of green electricity.

CHEMICALS

There was a reduction in the price of the chemicals used by Rottneros during the first six months of 2010 owing to the financial crisis. This crisis also resulted in several producers being wiped out in 2009 and 2010. However, prices had reverted to the 2009 level by the end of the year due to the combination of increased demand and reduced manufacturing capacity. The chemicals industry, which is energy intensive, was also affected by the high electricity prices. However, the strong Swedish kronor slightly mitigated the need for importing chemical suppliers to raise their prices.

Agreements concluded by the Group with chemical suppliers indicate rising price levels for 2011.

Rottneros' responsibility

From stock to pulp bales

Rottneros is actively working on issues relating to responsibility and sustainability throughout the value chain. The objective at each stage of the company's production and distribution system is to minimise adverse effects on the environment and everyone affected by Rottneros' operation. This year is the first time that Rottneros is reporting sustainability information in accordance with Level C of the Global Reporting Initiative's (GRI's) Guidelines.

GRI

The International Integrated Reporting Committee (IIRC) was established in 2010 with an initial mandate to produce a regulatory framework for sustainability reporting, integrating financial and non-financial information. Rottneros is voluntarily using the GRI guidelines until a new reporting framework is produced. Rottneros' sustainability work forms an integral part of its Annual Report and is also presented on Rottneros' website. For 2010, Rottneros has chosen to report in accordance with GRI's Application Level C, which means that the report is not externally assured.

INTERESTED PARTIES

Rottneros aims to have good communications with everyone affected by its operation. The Board and corporate management have identified the following groups as their primary interested parties: Market, Shareholders, Internal and Surrounding World. These are the groups that Rottneros has most contact with and with whom it is considered very important to maintain a

positive relationship. Other interested parties also have a significant relationship with Rottneros from time to time. The ongoing contacts that the Board and management have with various interest groups provide a good basis when there is a need to communicate further with interest groups.



GRI INDEX LEVEL C

		Location of information (page in Annual Report)			Location of information (page in Annual Report)
1.	STRATEGY AND ANALYSIS		4.	GOVERNANCE, COMMITMENTS AND ENGAGEMENT	
1.1	Statement from President	6–7	4.1	Governance structure of the organisation	42–48
			4.2	Role of the Chair of the Board	44–45
2.	ORGANISATIONAL PROFILE		4.3	Number of independent members of the board	45
2.1	Name of the organisation	36	4.4	Mechanisms for shareholders and employees to provide recommendations to the board or corporate management	43–45
2.2	Primary brands and products	10–13	4.14	List of stakeholder groups	19–20
2.3	Operational structure of the organisation, including subsidiaries	14–16, 80	4.15	Basis for identification and selection of stakeholders	19
2.4	Location of the headquarters	88			
2.5	Countries where the organisation operates	5, 14–16			
2.6	Nature of ownership and legal form	32–34	5.	PERFORMANCE INDICATORS	
2.7	Markets served	10–13	EC	Economic performance indicators	
2.8	Scale of the reporting organisation	3–5	EC3	Coverage of the organisation's defined benefit plan obligations	68, 74–75
2.9	Significant changes during the reporting period	36–39			
2.10	Awards received in the reporting period	Not relevant	EN	Environmental indicators	
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3.	REPORT PARAMETERS		EN5	Energy saved due to efficiency improvements	14–15, 24
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3.2	Date of most recent previous report	19	EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	25–26
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3.8	Basis for reporting on subsidiaries	65–71	LA4	Percentage of employees covered by collective bargaining agreements	20
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MARKET

Rottneros is a leading specialist company within the development and production of pulp. Our aim is to provide our customers with pulp applications that strengthen their market position and profitability. Rottneros acts responsibly towards its customers by always striving to offer products of the highest possible quality. We create value for our customers by offering new knowledge that has the potential to strengthen their position in their markets.

We also act responsibly towards our suppliers and other partners. Rottneros' representatives are prohibited from acquiring benefits for personal gain or affording the company an undue competitive advantage through improper means. Rottneros does not enter into business relationships with companies that wilfully and systematically violate laws, regulations or international human rights conventions.

CUSTOMERS

Rottneros conducts an active dialogue with its customers, principally via its sales organisation. Regular meetings are held, in particular to discuss issues relating to products and quality. Information is also provided to customers via Pulp Focus, a customer magazine that we send out to all of our customers. There are four issues a year.

Rottneros normally conducts a customer satisfaction survey every other year although the last survey was conducted in 2008. Rottneros received a good overall rating for this survey. Rottneros' delivery performance, product quality and contacts with the sales organisation were areas where our rating was 'very good'. Further information about the survey can be found in Issue 21 of Pulp Focus, which can be downloaded from Rottneros' website.

SUPPLIERS

Rottneros has a management process which means that new suppliers are chosen according to certain criteria and assessments. This primarily applies to suppliers that provide strategically important input goods. Rottneros keeps in regular contact with its suppliers. Meetings are held with suppliers to discuss supply commitments in conjunction with the procurement of annual contracts for input goods. Each company then has an opportunity to update each other about the market situation, any organisational changes and other issues related to the relationship.

SHAREHOLDERS

We act responsibly towards our shareholders by working to maximise shareholder value within the framework of what is permitted by laws, regulations and industry standards. Our capital market activities are characterised by transparency and honesty. We openly report the actions, salary terms and benefits of senior management and the Board. We comply with the laws, regulations and ethical guidelines that apply to the capital markets. We aim to reduce the Group's risk exposure and pay steady dividends to our shareholders.

STOCK/CAPITAL MARKET

Press releases, quarterly financial statements, meetings with analysts and attendance at Capital Market Days are the primary ways in which we contact existing and potential shareholders.

INTERNAL EMPLOYEES

Rottneros acts responsibly towards our employees by promoting good health, the environment and safety at the workplace. We offer good employment terms as well as opportunities for development. We protect the rights of our employees, act to eradicate all forms of discrimination and harassment, and promote diversity at the workplace.

THE UNIONS

All employees within Rottneros are covered by collective bargaining agreements. Collective bargaining agreements have been concluded with Pappers (Swedish Paper Workers' Union), Unionen, Ledarna (Swedish Organization for Managers) and Sveriges Ingenjörer (Swedish Association of Graduate Engineers).

SURROUNDING WORLD SOCIETY

We act responsibly towards society. Rottneros' mills often have strong ties to the local community, which usually have a traditional industrial culture, and they are often the largest employer in the area. This gives us a financial as well as a social responsibility. We cooperate with the municipal authorities where we operate, offering apprenticeships and organising mill visits and other initiatives.

ENVIRONMENT

We assume our environmental responsibility by ensuring that all production units within the Group comply with the environmental standards laid down in acts and ordinances. Our goal is to reduce emissions to levels that are technologically

feasible, financially viable and ecologically justified. Environmental goals are regularly followed up in conjunction with our financial reporting, and we conduct an active dialogue with stakeholders on the environmental impact of our operations and products.

Personnel

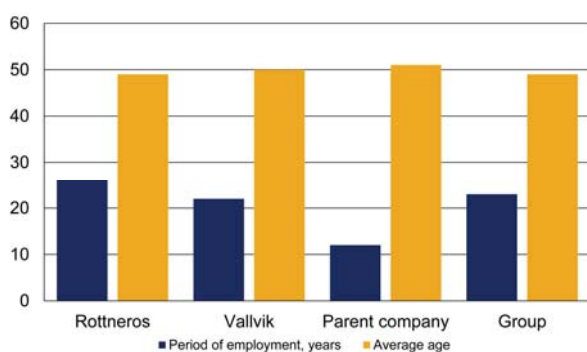
Low staff turnover provides continuity

In 2009 and 2010 the organisation at Rottneros was adapted to the Group's current size and structure, with two Swedish pulp mills. This means that around 20 people left in 2010 – among other things as a consequence of the new slimline organisation at Vallvik Mill – in addition to the 370 or so employees who left the Group in 2009. Approximately 200 of these were based in Sweden.

Some of the changes made within the Group have entailed marketing, sales and technical customer services transferring from the parent company, Rottneros AB, and the head office to the mills. This combined with other minor changes has resulted in a reduction in the number of employees at the parent company, from 20 to 11 since 2009. Besides the immediate cost savings, the aim of decentralisation is for the mills to assume greater responsibility for their entire operation and their own income statements and balance sheets.

The payroll function, which was previously run from the individual mills and head office, was based at Vallvik Mill in 2010. Measures to improve the efficiency of marketing and administrative functions have resulted in the Group now having an organisation dimensioned to the scope of the operation.

Term of employment and average age 2010



Staff turnover within the Group is low, seven percent for 2010, and absence owing to sickness was 2.2 percent in 2010, which is a comparatively low figure. High attendance and low staff turnover provide the basis for good continuity, both in the short and long term.

The average number of employees amounted to 308 (387) for the full year 2010. This change, compared with the previous year, was primarily due to the operation at Miranda closing and the operation at Rockhammar being sold.

The average period of employment is around 21 years and the average age of employees is approximately 50. 16 percent of employees are women.

In 2010, salaries and other remuneration paid to employees (excluding social security contributions) amounted to SEK 138.9 (167.6) million, representing around 8 (11) percent of the Group's total turnover in 2010.



First phase of wood grinding at Rottneros' groundwood line.

Environment

Renewable energy objectives require the cooperation of the forest industry

The forest industry and forests will provide the necessary funding to enable Sweden to meet the EU's requirements for renewable energy as a proportion of total consumption by 2020. This particularly applies to the need for bio-based vehicle fuel, where Sweden is currently a leader in developing this technology. Full-scale plants are being planned and will be built over the next few years. Rottneros is considering the possibility of starting biofuel production together with cooperating partners at both Vallvik Mill and Rottneros Mill, provided any projects are deemed to meet the Group's requirements for profitability.

An EU Directive from 2009 lays down the targets for the use of renewable energy within the Union by 2020:

- renewable energy will represent 20 percent of total consumption
- 20 percent reduction in greenhouse gases compared with 1990
- 10 percent biofuel within the transport sector

The level of 20 percent renewable energy and reduction in greenhouse gases has been calculated as an average for Member States. However, the use of 10 percent biofuel within the transport sector applies to all Member States.

Use of renewable energy differs significantly between Member States.

Sweden uses 40 percent renewable energy, representing the highest level in Europe. The level in other heavily forested countries – Finland, Austria and Latvia – lies between 23 and 33 percent. Countries with the worst natural conditions for using bioenergy as their preferred option only use one or a few percent.

This table shows that biogas is listed as quite an important kind of fuel, while renewable electricity will only have a marginal influence within the transport sector. One important conclusion that may be drawn from the table is that there will be a significant increase in the production of bio-based diesel within Sweden and similarly in the production of ethanol.

The requested increase has been calculated for each country and lies between 7 and 14 percent.

Member States will achieve their targets by setting attractive prices for renewable energy. In southern Europe this means that the use of solar power to generate electricity has been given top priority.

Sweden has been required to increase its use of renewable energy to 49 percent by 2020. The Swedish Government has set even higher national targets: renewable energy shall be 50 percent as a proportion of total use and at least 10 percent within the transport sector. In Sweden's National Action Plan, the Government has made the assessment that the proportion of renewable energy should be at least 14 percent within the transport sector. One precondition according to the Government is the increased potential to mix biofuel into petrol and diesel.

Bioethanol is the most important fuel within the transport sector. Up until 2020, the consumption of bioethanol will almost double and imports will increase. Usage of bio-based diesel is currently low. A very sharp increase in consumption is expected up until 2020 in accordance with the table:

RENEWABLE ENERGY IN THE TRANSPORT SECTOR, 2020

Year	2010		2020	
	Total (ktoe) ¹	Of which imported (ktoe/%)	Total (ktoe) ¹	Of which imported (ktoe/%)
Bioethanol	251	140/56%	465	292/63%
Bio-based diesel	89	0	251	0
Biogas	40	0	94	0
Renewable electricity ²	3	0	9	–

¹ ktoe = kilotonne of oil equivalent

² for road transport

Source: Sweden's National Action Plan for renewable energy according to Directive 2009/28/EC

TYPES OF BIO-BASED DIESEL

The term 'bio-based diesel' includes several different products. The most common products today are based on oilseed (for example rape), although diesel production based on forest raw materials is in the process of being introduced to the market.

DIESEL BASED ON OILSEED:

FAME is an abbreviation for 'fatty acid methyl ester'. Up until now, the term biodiesel has been used for diesel fuel with a blend of up to seven percent of FAME, but also for pure FAME fuel (100 percent).

RME stands for 'rape methyl ester', which is based on oilseed rape. This forms part of the FAME group. Up to seven percent can be blended into fossil diesel fuel. There are very limited opportunities for growing rape to produce vehicle fuel.

DIESEL BASED ON RAW MATERIALS PRODUCED BY FORESTS:

There are three main methods of producing diesel fuel based on forest raw materials. All of these methods use wood as the raw material, which means that they produce what are referred to as 'second generation biofuel'. 'First generation biofuel' is based on raw materials that have already been converted, such as crops or sugarcane for ethanol production.

The first method is to produce 'tall oil diesel' based on tall oil, which is a by-product when producing sulphate pulp. Tall oil diesel is not likely to become a dominant product as there are limited quantities of tall oil available.

The second is the production of DME (dimethyl ether), which is a diesel fuel produced from 'black liquor' from sulphate pulp mills. This is made up of dissolved wood components and the mill's processing chemicals. Black liquor gasifies into synthesis gas, which is refined into methanol which in its turn comprises the raw material for DME. These process chemicals are returned to the pulp mill where they were traditionally prepared in order to be put back into the pulp production process.

DME can also be produced from fossil natural gas. The term BioDME is often used to distinguish black liquor-based dimethyl ether from the fossil natural gas.

Diesel production based on black liquor has been developed over a long period of time at test and demonstration facilities. A Swedish company leads this field. BioDME will shortly be produced continuously in Sweden and available for use for heavy duty lorries.

The third method is based on the gasification of forest raw materials. The technology to produce 'synthetic diesel fuel' from natural gas and coal is well-established, but it may also be produced renewably from forest-based raw materials, referred to as 'BTL' (Biomass to Liquid). During production, forest raw materials are gasified to obtain synthesis gas, which, after being refining into methanol, can be further processed into a diesel fuel. Today, the development of technology to gasify and turn synthesis gas into methanol is almost complete. The remainder of the development work for this part of the process can be carried out at a full-scale plant. The technology to turn methanol into BTL requires some further development work.

Methanol is produced as a step of the process when gasifying both black liquor and forest raw materials. Methanol has an alternative use: instead of being used to produce diesel fuel, it can be used as a blending component in petrol. It may therefore be attractive to initially use methane from another gasification plant as a blending component for petrol. Methanol can also be used by chemical manufacturers when producing green chemicals.

FORESTS AND THE FOREST INDUSTRY ARE IMPORTANT TO BIO-BASED VEHICLE FUEL IN SWEDEN

Like other countries in the EU, it has been laid down that the proportion of biofuel used in the transport sector in Sweden should be ten percent by 2020. The plans include a considerable volume of bio-based diesel, in addition to ethanol (which is largely imported) and a modest amount of biogas. There are no plans to import bio-based diesel.

There is thus a significant requirement for the domestic production of bio-based diesel fuel. It is doubtful whether Sweden can produce sufficient quantities based on oilseed. This means that production of a bio-based diesel must be wood-based, which will require production based on both black liquor and forest raw materials.

Environment

Environmental work at the mills

ROTTNEROS MILL

Last year saw the conclusion of a project to recover heat from the energy generated by the grinder, which has been underway since 2007. The last stage primarily related to the heating of the air in the flash dryers that transport the wet pulverised pulp. The new heating coils produce around 0.5 MW. The system was also extended last year so that the debarking and chipping operation, offices and workshops are heated by waste heat from the grinder as well. Heating coils to heat air for the flash dryer and several heat exchangers for heating process water had previously been installed. In total, the project resulted in oil consumption at the mill reducing by around 20 percent compared with 2007, the base year.

Rottneros Mill submitted as planned a trial period review last year regarding the production permit brought into use in 2007.

Final coverage of the disposal site, which has been ongoing since 2006, is nearly complete and it is considered that it could be finished in 2011. After that a mainstream programme will be laid down for taking samples over a longer period.

Work is continuing to make biological treatment even more efficient. Equipment to remove 'floating sludge' was installed during the holiday shutdown.



Regular wastewater analyses are conducted at the day laboratory at Vallvik.

VALLVIK MILL

The recovery boiler was rebuilt during the autumn maintenance shutdown to make improvements to technical combustion. This rebuilding work has increased capacity at the mill. It has also made it possible to increase the production of green electricity and supports the long-term objective of the mill becoming self-sufficient for electricity.

A new stripper was installed during the shutdown (treats liquid from volatile matter) that has the capacity to treat a significantly larger quantity of condensate (liquid from evaporation) than the old stripper. Reducing the COD content in the condensate will decrease COD emissions to the recipient.

At the same time, a system was installed to deal with gases from the heavy liquor cisterns. These gases are fed into the existing system for concentrated gases where they are burnt in the blast furnace. This is done to reduce diffuse emissions of hydrogen sulphide.

The rebuilding work has led to an increase in the level of hydrogen sulphide in the flue gases from combustion in the blast furnace, which is an undesirable effect. The Environmental Court has therefore temporarily raised the guideline value for process sulphur for Vallvik Mill. The mill has also applied to the Environmental Court for increased values for process sulphur for 2011 and 2012.

The design and planning of the biological purification plant for process wastewater continued last year. Building work on the plant will start in the spring of 2011 and it will be put into operation at the turn of the year 2011/12.

The biotreatment plant, together with the new stripper and closure of the bleaching plant, will reduce COD emissions from the mill by 65 percent, which satisfies the conditions contained in the Environmental Court judgment.

Last year a consultation was conducted with reference to a future application for a permit to increase annual production to 242,000 tonnes for a limited period of time. Work on an environmental impact assessment and permit application is ongoing.

BREAKDOWN OF THE ROTTNEROS GROUP'S TRANSPORTS FOR 2010 (TONNES KM), %

	Road	Rail	Sea	Share of total transports, %
Pulpwood, %	52	3	45	18
Chemicals, %	100	0	0	2
Pulp, %	14	24	62	80
Share of total transports, %	22	20	58	100

EMISSIONS TO WATER AND AIR FOR 2010

	Rottneros	Vallvik
Production, tonnes	138,500	184,500
S, tonnes per year	7.4	134
Permit	–	135
NOx	tonnes per year 28.5	kg per tonne 1.5
Permit	–	1.5
Suspended solids, tonnes per day	0.9	0.6
Permit	1.2	2.0
COD, tonnes per day	9.5	20
Permit	10.5	38
BOD7, tonnes per day	2.2	7
Permit	–	–
AOX, tonnes per day	–	0.2
Permit	–	0.8
Phosphorus, kg per day	3.6	33
Permit	6.0	–

ENERGY CONSUMPTION FOR 2010

GWh	Rottneros	Vallvik	Total Group
Biofuels, incl. black liquor	48	1,489	1,537
Fossil fuels	59.5	26	85.5
Total energy consumption, excl. electricity	107.5	1,515	1,623
Share of biofuels, %	45	98	95
Electricity generated at mills	–	115	115
of which green electricity	–	114	114
Electricity purchased	246	46	292
Total electricity consumption	246	161	407
Share produced at mills, %	0	71	28

CARBON DIOXIDE EMISSIONS FOR 2010, TONNES PER YEAR

	Rottneros	Vallvik	Total
Fossil fuels ¹	15,749	7,071	22,820
Biofuels	30,067	569,069	599,136
% biofuels	66%	99%	96%

¹ Only fossil fuels contribute to the greenhouse effect.

EMISSION RIGHTS FOR CARBON DIOXIDE 2010

Mill	Allowance/year 2008–2012	2009 emissions	2010 emissions
Rottneros	21,784	14,565	15,749
Vallvik	17,958	4,561	7,071
Total	39,742	19,126	22,820

¹ Only fossil fuels contribute to the greenhouse effect.



Inspections in conjunction with preparations prior to upgrading the evaporation plant at Vallvik. From right: Michael Bülow and Tord Andersson (Vallvik), Johan Sjögren (Instrument Montage), Roger Persson (Perex) and Heimo Turula (Ukitig).

Opportunities and Risks

Risk management represents part of our strategy

The Rottneros Group is a company highly susceptible to the business cycle. The company divides its opportunities and risks into two categories: operational and financial.

Operationally, the company employs a number of measures and strategies, such as focusing on niches and various specific customer segments, in order to reduce the Group's dependence on the list price for market pulp and to mitigate fluctuations in profitability over the course of a business cycle. The company also has a strategy for dealing with financial risk that complements its operational strategy.

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

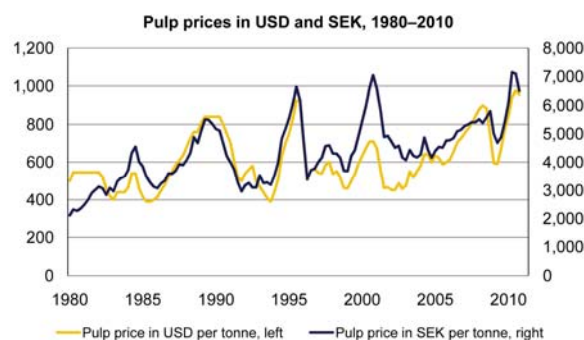
Financial risk is managed at a Group level based on guidelines that are partly defined in the Group's Financial Policy and partly specified by the Board and Finance Committee. Strategic exposure is a key issue for the Board, while the Finance Committee monitors the Financial Policy and the risk mandates defined by the Board. The management continually assesses whether the USD rate, pulp prices or electricity present attractive opportunities for strategic hedging. Financial hedging instruments are not used speculatively, but solely to even out results and secure transactions/costings.

OPERATIONAL OPPORTUNITIES AND RISKS

PULP PRICES AND THE BUSINESS CYCLE

Pulp is a product that is traded globally, with major export and import flows. The world market price is expressed in USD. For this reason, the price of pulp in USD and the USD/SEK rate are the most important factors affecting the result at Rottneros. The Asian paper market has experienced rapid growth and now accounts for a significant share of global production and consumption. However, a shortage of locally available raw materials means that large quantities of pulp and deinked pulp (DIP) are imported from Europe and America. Purchase volumes among Asian purchasers consequently have a major impact on the world market price. Although the world market price is shown in USD, purchasers' revenues are often in other currencies.

The price of pulp (NBSK) is shown in USD, but production costs are largely incurred in local currencies. The average USD rate was six percent lower in 2010 compared with the average rate in 2009. There is a correlation between the NBSK price and USD. If USD is strong, the NBSK price



Source: Riksbanken and FOEX Indexes Ltd

expressed in USD tends to be lower, while a low USD rate tends to result in a higher NBSK price in USD. (diagram 2) The NBSK price in 2010 translated into SEK averaged SEK 6,705 per tonne, to be compared with SEK 4,989 per tonne for the previous year. This means that the price translated into SEK increased by 34 percent in relation to 2009.

CUSTOMERS

The Group has several large customers with a good geographical spread and is not dependent on any one country. Most of the Group's sales are generated in Europe, where Italy, Germany and Spain represent the largest markets. The Group has just over 100 customers in total, of which the ten largest represent approximately 50 percent of turnover. Rottneros thus has a good diversification of commercial risk. The production of groundwood pulp at Rottneros Mill is dependent on one major customer, with several recipient paper mills. Credit insurance is used for all sales as far as possible.

MAINTENANCE SHUTDOWNS AND SEASONAL VARIATIONS

There is normally a holiday shutdown at Rottneros Mill for part of July and August, which may be combined with annual maintenance work. There is normally an annual maintenance

shutdown at Vallvik Mill in October or November. All costs relating to maintenance shutdowns are recognised in the period during which the shutdown takes place. Otherwise, the Rottneros Group is not affected by seasonal variations to any appreciable extent.

CAPITAL INVESTMENTS

Each year the management assesses the investment requirements for all of the mills over the next few years. This includes ongoing annual investments, expansion investments for the purpose of eliminating bottlenecks and also investments aimed at improving quality. However, these investments are adapted to economic trends and cash flow. In general, Rottneros has a cautious investment strategy. Rottneros also has a relatively low level of equity in fixed assets compared with the rest of the industry, which results in low depreciation and cost of capital. Total tangible fixed assets for Rottneros had a book value of SEK 720 million at the end of 2010. Dividing this by the total annual capacity of 400,000 tonnes yields a book value of just over SEK 1,800 per tonne. The replacement cost of the equivalent capacity is around seven to eight times the book value.

FINANCIAL OPPORTUNITIES AND RISKS

PULP PRICE RISKS

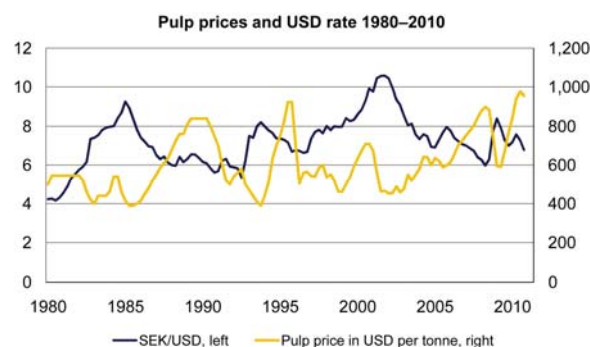
Rottneros has hedged pulp prices during periods over the past five years. Pulp price hedging may be utilised if it is assessed that prices will fall below the prices at which hedging contracts can be concluded. This should then be viewed as a profit maximisation strategy. Pulp price hedging may also be utilised if price levels in the market are so low that any further decline could threaten the survival of the company. This may then be viewed as a survival strategy. Pulp prices will not be hedged without exchange rates being hedged correspondingly, unless there are very good reasons to do otherwise. No pulp is presently being hedged, as the market is considered to be too illiquid at the current time.

CURRENCY RISKS

Transaction exposure

USD is the main underlying currency for pulp prices although Rottneros also issues invoices in different currencies. Around 20 percent of invoicing is contracted in SEK, with EUR as the invoicing currency. The underlying exposure to USD is thus very high, while the direct inflow of USD (the real flow) corresponds to just over 40 percent. However, there is a delay in the impact of

exchange rate fluctuations on indirect exposure as the normal duration of a contract is between one and three months. Currency hedging in 2010 resulted in a profit of SEK 40 (-5) million.



Source: Riksbank and FOEX Indexes Ltd

Balance risk exposure

The fundamental principle is that assets and liabilities in currencies other than SEK should be hedged. The selling price for pulp is usually based on the current pulp price listed in USD translated into the invoicing currency. Most invoices are issued in USD, EUR and SEK. The exposure to balance risk that arises on outstanding accounts receivable in EUR and USD can be hedged, preferably by borrowing in currencies that correspond over time to the average accounts receivable for each currency. A netting procedure should be applied so that, for example, purchases of timber in currencies other than SEK, electricity contracts (which are normally concluded in EUR) or other purchases like chemicals or for investment expenses are included when assessing the need for hedging.

Translation exposure

Shareholdings in foreign subsidiaries are not hedged.

ELECTRICITY DERIVATIVES

All of the physical electricity for the Swedish mills is purchased directly via the Nord Pool electricity exchange. Electricity prices are quoted in EUR. The average prices in EUR/MWh are shown below, together with the average price in SEK/kWh (based on EUR forward exchange rates as of 31 December 2010) in brackets. Twenty-six percent of electricity consumption for 2011 was hedged at an average rate of EUR 43.8 per MWh (almost SEK 0.40 per kWh) at the end of December 2010. Further electricity hedging was carried out at the beginning of 2011. On 15 February 2011, 64 percent of the estimated electricity consumption for 2011 had been hedged at on average EUR 48.9/MWh (just over SEK 0.44/kWh), 27 percent of

the estimated consumption for 2012 at on average EUR 47.5/MWh (approximately SEK 0.44/kWh) and 41 percent of the estimated consumption for 2013 at on average EUR 45.4/MWh (approximately SEK 0.42/kWh). The average price level for electricity on the Nord Pool exchange amounted to SEK 0.54 per kWh for 2010.

MARKET VALUATION OF FINANCIAL INSTRUMENTS

The market value of all financial instruments on 31 December 2010 is shown in the table on page 30. These values have been recognised in the accounts in accordance with IFRS and IAS 39.

INTEREST RATE RISK

Sensitivity to changes in the interest rate is relevant to financial assets and financial liabilities with a floating interest rate. The Group's borrowing is shown in Note 15 on page 77. The Group had interest-bearing liabilities of SEK 39 million on 31 December 2010 (SEK 101 million on 31 December 2009). Interest-bearing net receivables amounted to SEK 116 million compared with interest-bearing net receivables of SEK 10 million on 31 December 2009. Rottneros' sensitivity to changes in the interest situation is consequently low.

LIQUIDITY RISK AND REFINANCING RISK

Liquidity risk is managed by the Group retaining sufficient liquid assets and short-term investments in liquid markets and by using agreed credit facilities to secure access to financing. The Group continuously makes liquidity forecasts.

The Group's syndicated loan, which was taken out in 2003, was refinanced in October 2008. The Group's syndicated loan was renegotiated again prior to the new share issue and conversion of the lending banks' loan receivable into equity in December 2009. The new loan was a secured loan that equated to SEK 26 million and EUR 6.3 million and a credit facility with a framework amount of USD 15.9 million, where Banco Bilbao, Danske Bank, DnB NOR, HSH Nordbank and Nordea were all participants.

In January 2011, Rottneros terminated this credit and concluded a new secured financing agreement with Danske Bank. This agreement, which entered into force on 31 January 2011, entitles Rottneros to raise credit in SEK, USD and EUR corresponding to SEK 100 million and does not contain any covenants, for example relating to key

financial ratios, investments or dividends. This entails a significant increase in the company's operational scope for action. Furthermore, the costs associated with the new agreement are significantly lower. Rottneros repaid the entire outstanding credit in conjunction with the new agreement entering into force; this amounted to SEK 28 million on 31 December 2010.

The table on page 29 shows an analysis of the Group's financial liabilities which will be settled net, broken down by the remaining terms as of the balance sheet date up to the due date under the agreement. The amounts stated in the table are the contractual, undiscounted cash flows. Amounts maturing within 12 months are the same as the book amounts, as the discount effect is insignificant.

Rottneros has a large interest-bearing net receivable and a new financing agreement, including a stand-by credit line that is considered to be sufficient for normal operating and investment cash flow over the next few years. With this, both the liquidity and refinancing risks are considered to be low.

MANAGEMENT OF CAPITAL RISK

The objective of the Group in terms of capital structure is to secure the ability of the Group to continue its operations, to ensure that it is able to continue generating returns for its shareholders while creating benefits for other stakeholders and to maintain an optimal capital structure to keep capital costs down.

In order to maintain or adjust its capital structure, the Group may decide to change the dividend paid to shareholders, repay capital to its shareholders, issue new shares or reduce its debt by selling assets.

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 receivables/liabilities divided by shareholders' equity.

Rottneros' business operation is cyclical in nature and it is normal for there to be significant fluctuations in its results and cash flow. The debt/equity ratio should thus not be so high that these fluctuations threaten the company's survival. Nor is it good to have a high proportion of equity in terms of return on capital. A dividend of SEK 0.20 per share has been proposed for 2010.

The debt/equity ratio was -0.1 on 31 December 2010.

DEBT/EQUITY RATIO		
	2010	2009
Long-term interest-bearing liabilities	10	57
Current interest-bearing liabilities	29	44
Cash and cash equivalents	-155	-111
Interest-bearing net receivable	-116	-10
Total equity	1,228	1,089
Debt/equity ratio	-0.09	-0.01

CREDIT RISK

Credit risk is managed at a Group level. Credit risk materialises 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 percent excess. When granting credit insurance, the insurance company takes into account factors such as the concentration of credit risks. This ensures good risk diversification. The maximum credit risk on outstanding accounts receivable was SEK 42 million at the end of 2010 (10 percent excess + any uninsured receivables). Eighty percent of total outstanding accounts receivable was insured on 31 December 2010. Historically, the Group has only incurred minor credit losses.



Equipment for the steam pre-treatment of wood chips on the CTMP line at Rottneros Mill. Approximately 25 percent of the raw materials bought in by the Group is in the form of finished wood chips.

INSURANCE

Rottneros insures all of its facilities against property damage and business interruption and has relevant liability insurance.

OTHER OPPORTUNITIES AND RISKS POLITICAL RISKS

Rottneros' exposure to political risks is limited.

ENVIRONMENT

As a producer of pulp, Rottneros' operation has a significant impact on the environment in terms of emissions to both water and air. In addition, some waste products must be managed. Extensive environmental legislation governs Rottneros' operational area and the operation requires permits that need to be renewed periodically. There is a risk of a granted permit being exceeded, which may not only lead to production restrictions or the need to make investments but also criminal liability or the revocation of a permit.

There is also a risk of environmental legislation being amended, which may affect the operation of Rottneros. No such changes are known at the current time. See also the environment section on pages 23–26.

THE GROUP'S FINANCIAL LIABILITIES

As at 31 December 2010	<1 year	2 years	3-5 years	>5 years
Bank loans	25	–	–	–
Derivative instruments – inflow	95	–	–	–
Derivative instruments – outflow	102	–	–	–
Accounts payable and other liabilities	112	5	5	0
Interest	0	–	–	–
As at 31 December 2009	<1 year	2 years	3-5 years	>5 years
Bank loans	38	17	25	–
Derivative instruments – inflow	397	–	–	–
Derivative instruments – outflow	403	–	–	–
Accounts payable and other liabilities	102	4	11	–
Interest	2	1	1	–

SENSITIVITY ANALYSIS 2010

		Effect on annual result after net financial items (SEK m)		
Type of risk	Change	2010	2009	Sensitivity
Pulp price	USD 50/tonne	100	145	High
USD	SEK 0.50/USD	100	100	High
Electricity prices	SEK 0.10/kWh	30	30	High
Timber prices	SEK10/m ³	15	15	Medium
Interest rate risk	1% point	0	1	Low
Refinancing				None
Credit risk				Excess 10%

EFFECTS OF HEDGING ON EARNINGS IN 2010

2010	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Full year
Currency hedging	3	0	13	24	40
Pulp price hedging	–	–	–	–	–
Electricity price hedging	–	–	–	3	3
Total	3	0	13	27	43

EFFECTS OF HEDGING ON EARNINGS IN 2009

2009	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Full year
Currency hedging	-2	-1	-1	-1	-5
Pulp price hedging	3	4	-4	–	3
Electricity price hedging	2	1	1	2	6
Total	3	4	-4	1	4

MARKET VALUE (SEK M) DECEMBER 2010

Hedging	Hedged volume	Hedging level	Market value	Reference: spot rate 31 December 2010
Currency USD, future	USD 14m	7.26	8	SEK 6.80/USD
Electricity	80,875 MWh	39.7	17	SEK 0.771/ kWh
Total market value			25	

MARKET VALUE (SEK M) DECEMBER 2009

Hedging	Hedged volume	Hedging level	Market value	Reference: spot rate 31 December 2009
Currency USD, future	USD 7m	7.22	1	SEK 7.21/USD
Currency EUR, future	EUR 34m	10.42	6	SEK 10.35/EUR
Total market value			7	

The Rottneros share

High turnover velocity, weak price trends

The Rottneros share has been listed on NASDAQ OMX Nordic, Stockholm since November 1987. Rottneros is included in the Small Cap segment and is classed as a company in the Materials sector. Rottneros had a market value of approximately SEK 670 (1,058) million at the end of 2010. There were 18,033 (20,393) shareholders at the turn of the year. Foreign shareholders held 21.77 (16.4) percent of Rottneros' capital. In 2010, Rottneros' share price fell from SEK 6.90 at the start of the year to SEK 4.37 at the end of the year, a drop of 36.7 percent. (In this section, the share price for 2009 has been converted considering the reverse share split; see below).

The stock exchange as a whole, measured as OMX Affärsvärlden's General Index, rose by 23.1 (–47) percent in 2010, while the OMX index for paper and forest products rose by 13.2 (–31) percent. The share peaked at SEK 9 on 12 April, while the lowest price of SEK 4.25 was listed on 14 December.

THE SHARE'S TURNOVER

A total of 118 (295) million shares were traded in 2010 at a value of SEK 784 (346) million. This represents a turnover velocity for share stock of 80 (89) percent last year. Total turnover velocity among companies in the Small Cap segment on the stock exchange in Stockholm was 62 percent, while the average for all segments of the Stockholm stock exchange was 74 percent. An average of 137 (120) trades in Rottneros were executed every day.

SHARE CAPITAL AND HOLDINGS OF TREASURY STOCK

The share capital at the end of the year was SEK 153.4 (153.4) million divided between 153,393,890 (1,533,938,869) shares. All shares carry equal voting rights and equal rights to the company's capital and profit. Trends in share capital are illustrated in a table on the following page.

At the AGM in 2010, the Board was given the mandate of transferring shares previously acquired under the company's buy-back programme. However, no such transfer took place during the year and the company's holding of treasury stock remained the same as the previous year (821,965 shares), corresponding to 0.54 percent of the number of shares outstanding after the share issues.

INCENTIVE PROGRAMME WITH SUBSCRIPTION WARRANTS FOR SENIOR EXECUTIVES

The 2010 AGM approved an incentive programme for eight senior executives through issuing no more than 30 million subscription warrants. Over the past year, twelve million subscription warrants have been transferred to senior executives within the framework of the incentive

programme. The price per warrant amounted to SEK 0.10. Ten subscription warrants are required to subscribe for one new ordinary share in Rottneros. The issue price amounts to SEK 9.75 per share and it is possible to subscribe for shares during the period 17 May 2011 to 16 May 2013. The dilution effect will amount to 0.8 percent in the event that all warrants are exercised.

CHANGE TO THE NUMBER OF SHARES AND VOTES

The AGM on 22 April 2010 approved a reverse share split which means that ten (10) existing shares have been combined as one (1) share. In April 2010 a directed new issue of 31 shares was implemented, which had been resolved at the AGM. This was done to achieve a number of shares that was evenly divisible by ten. The number of shares and votes following the issue amounted to 1,533,938,900 and the share capital amounted to SEK 153,393,890.

The reverse split subsequently implemented meant that the number of shares and votes in Rottneros AB has been 153,393,890 since 30 April 2010 and that the share capital amounts to SEK 153,393,890. This change was executed by Euroclear Sweden AB in Rottneros' register of shareholders and in the shareholders' VP accounts after the record day for the reverse split, which was 7 May 2010. This means that the Rottneros share, other things equal, was being traded from and including this date at a price that was ten times higher than before the reverse split.

EVENING OUT SMALL SHAREHOLDINGS

Small shareholders, who owned less than 1,000 shares prior to the reverse split, were offered the opportunity to even out their holdings through commission-free trade. In total, this offer covered 5,300 shareholders. When the offer expired on 28 May 2010, 416 shareholders had sold on average 32 shares and 515 shareholders had bought on average 30 shares. This resulted in a net purchase of 5,313 shares at a price of SEK 7.20.

DIVIDEND

The Board proposes a dividend of SEK 0.20 per share for the operating year 2010.

TRADE IN CALL OPTIONS

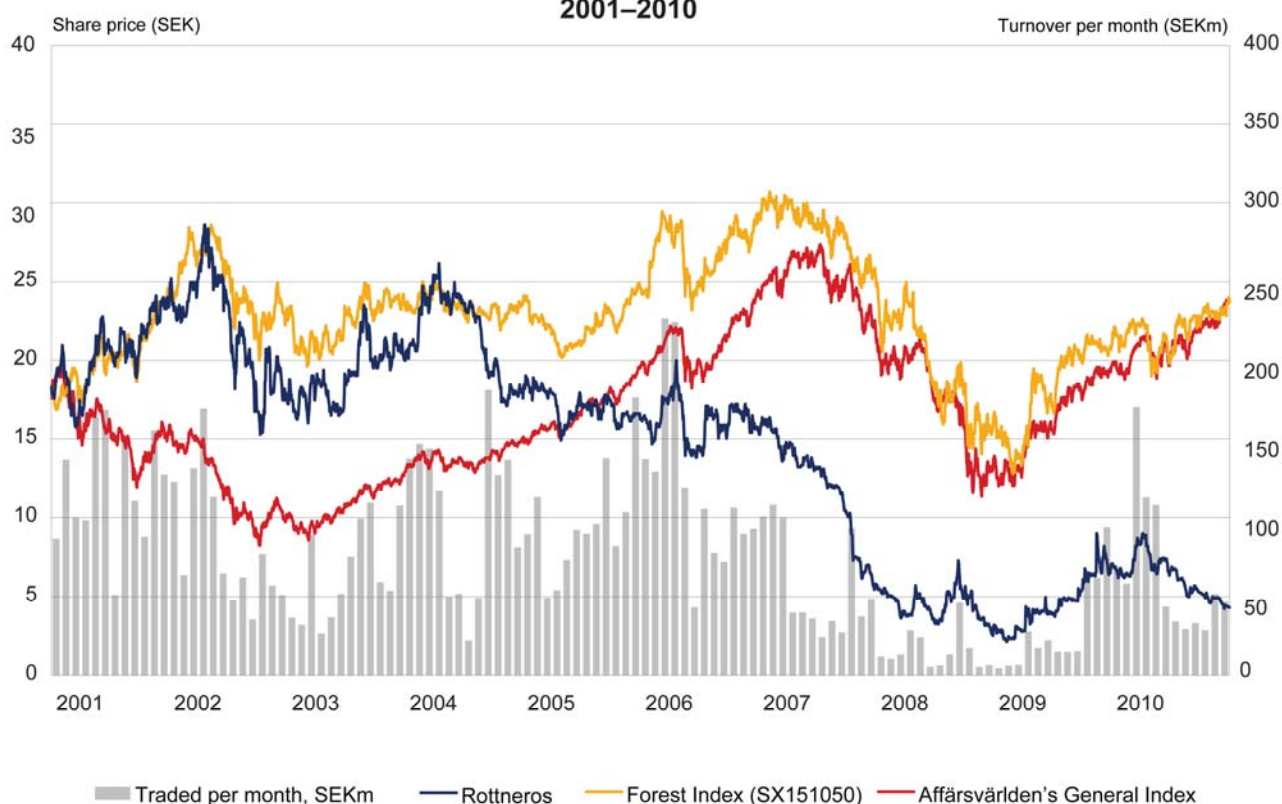
Subscribers for the new shares in the new share issue implemented by Rottneros at the end of 2009 were allotted for no consideration approximately 0.27 call options for each newly allotted share. A holder of a call option is entitled to buy an ordinary share in Rottneros from Swedbank at a redemption price of SEK 8.20 per ordinary share or such adjusted price as may be required in certain circumstances according to the conditions. Swedbank, in its capacity as the issuing agent, has allotted the subscribers of the new issue approximately 244 million call options as listed with Nordic MTF on NGM (Nordic Growth Market). Trading in the call options started on Friday 15 January 2010.

Rottneros' lending banks, which by previous conversion of interest-bearing liabilities obtained shares in Rottneros, have undertaken to sell to Swedbank up to approximately 24 million shares in total to enable Swedbank to fulfil its obligations associated with the call options issued. Exercising a call option to purchase an ordinary share must be notified during an application period. The final application period will end on 7 December 2011.

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 are regularly posted on www.rottneros.com. Presentation material from presentations of quarterly reports for journalists and analysts can also be downloaded from the website. The main channel for the Annual Report is the website, for which reason this report is not sent to shareholders unless specifically requested.

**The share's performance and turnover
2001–2010**



OWNERSHIP STRUCTURE, 30 DEC 2010

SHAREHOLDER	NUMBER OF SHARES	PERCENTAGE OF CAPITAL
Nemus Holding AB	30,857,435	20.12%
Danske Bank A/S	6,451,273	4.21%
DNB Nor Bank ASA Sverige	6,451,273	4.21%
HSH Nordbank AG	5,599,860	3.65%
Skagen Vekst Verdipapirfond	5,220,337	3.40%
Aliz Invest AB	4,959,440	3.23%
Swedbank Försäkring, AB	4,605,900	3.00%
Ålandsbanken AB, W8IMY	3,971,516	2.59%
Barclays Cap Sec Cayman Client	3,671,680	2.39%
Nordea Bank AB (Publ)	3,500,521	2.28%
Total holdings of 10 largest shareholders	75,289,235	49.08%
Rottneros AB (treasury stock from buy-back)	821,965	0.54%
Other shareholders	77,282,690	50.38%
Total	153,393,890	100.00%

SHAREHOLDER	NUMBER OF SHARES	PERCENTAGE OF CAPITAL
Geographical distribution of ownership		
Domiciled in Sweden	120,003,920	78.23%
Rest of Nordic region	16,660,568	10.86%
Rest of Europe (excl. Sweden and Nordic region)	9,898,822	6.45%
USA	2,372,747	1.55%
Rest of world	4,457,833	2.91%
Total	153,393,890	100.00%

Source for all tables: Euroclear Sweden, VPC Analys

SHAREHOLDER	NUMBER OF SHARES	PERCENTAGE OF CAPITAL
Distribution of ownership by shareholder category		
Natural persons	41,055,693	26.76%
Legal entities	112,338,197	73.24%
Total	153,393,890	100.00%

SHARES BY SIZE OF HOLDING
30 DEC 2010

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS	PERCENTAGE OF CAPITAL
1–500	9,166	0.89%
501–1,000	3,040	1.39%
1,001–5,000	3,825	5.67%
5,001–10,000	1,030	4.83%
10,001–15,000	316	2.56%
15,001–20,000	167	2.01%
20,001–	489	82.65%
Total	18,033	100.00%

Analysts who track the Rottneros share

- Enskilda Securities: Linus Larsson
- Swedbank: Claes Rasmusson

SHARE DATA ¹						
	2010	2009	2008	2007	2006	2005
Shares, opening ²	1,525,719	180,212	180,212	180,212	180,212	180,212
Shares issued ²	0	1,345,507	-	-	-	-
Reverse share split ²	-1,373,147	-	-	-	-	-
Repurchased treasury shares ²	-	-	-	-	-	-
Shares, closing ²	152,572	1,525,719	180,212	180,212	180,212	180,212
Average number of shares ^{2,5}	152,572	26,884	18,021	18,021	18,021	18,021
Operating profit or loss per share ⁵	0.90	-6.18	-16.95	-19.99	-0.43	-4.95
Profit/loss after net financial items per share ⁵	0.90	-2.58	-21.33	-21.30	-1.29	-5.70
Profit/loss after tax per share ⁵	0.82	-2.59	-18.35	-16.69	-0.45	-3.49
Operating cash flow per share ^{3,5}	0.51	2.74	-13.34	-5.59	1.93	-22.80
Equity per share ⁵	8.05	7.14	44.96	58.29	77.83	84.53
Dividend ^{5,6}	0.20	-	-	-	1.00	1.00
Dividend/equity per share ⁶	2.5	-	-	-	1.3	1.2
Share price at the end of period ⁵	4.37	6.90	10.50	23.10	65.50	68.00
Share price/equity per share	0.5	1.0	0.2	0.4	0.8	0.8
P/E ratio per share	5.3	Neg.	Neg.	Neg.	Neg.	Neg.
Direct yield ^{4,6}	4.6	-	-	-	1.5	1.4

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

² Number of shares is in thousands, excluding Rottneros' treasury shares

³ Cash flow after normal investments, but excluding strategic investments

⁴ The calculation of direct yield is based on the share price at year-end

⁵ There was a reverse share split in April 2010 where ten existing shares were combined as one share

The comparison periods have been adjusted for this reverse split

⁶ Dividend proposed for 2010

Director's Report and Corporate Governance Report

Directors' report

- Profit after net financial items amounted to SEK 138 (-69) million for the full year 2010.
- Cash flow from operating activities amounted to SEK 202 (84) million for the full year 2010, corresponding to SEK 1.33 (3.10) per share.
- An interest-bearing net receivable of SEK 116 million was reported on 31 December 2010, compared with SEK 10 million at the beginning of the year.
- Investments of around SEK 110 million were implemented at Vallvik Mill during the year. They primarily involved replacing the remaining old part of the evaporation plant and substantially improving air regulation in the recovery boiler. These investments have eliminated production bottlenecks, increasing annual capacity at the mill from 200,000 to 220,000 tonnes. The investments have also resulted in reduced emissions.
- In August 2010 the Board of Rottneros decided to invest SEK 60 million in a biological water purification plant and at the end of the year the board also took the decision to invest SEK 90 million in closing the water loops in the bleaching plant at Vallvik Mill. These investments represent the final stage of the investment programme at Vallvik communicated in, among other things, the new issue prospectus in the autumn of 2009.
- Kjell Ormegard was appointed Chair of the Board of Rottneros in conjunction with the AGM. He took up the office of Chair in January owing to Rune Ingvarsson leaving the board for personal reasons.
- Tomas Hedström took up the office of CFO at Rottneros on 1 May 2010. Tomas Hedström was last employed by the SCA Group, where he was responsible for the Corporate Finance Department.
- The AGM of Rottneros 2010 resolved to issue no more than 30 million subscription warrants to be used for an incentive programme for eight senior executives. Twelve million of these subscription warrants were subscribed for at a price of SEK 0.10. The issue price amounts to SEK 9.75 per share and shares can be subscribed for during the period 17 May 2011 to 16 May 2013.
- Rottneros concluded an agreement with SIG Combibloc, a Swiss packaging company, relating to the transfer of intangible assets, primarily in the form of patents and patent applications at Rottneros Packaging AB. The company's food tray operation under the SilviPak brand is not included in this agreement.
- The CTMP line at Rottneros Mill shut down for a total period of just over three weeks in 2010 owing to a combination of extremely high electricity prices and the high cost of timber.
- The board proposes a dividend of SEK 0.20 (0) per share.
- A new financing agreement has been concluded with Danske Bank, which entered into force on 31 January 2011. This new agreement does not contain any covenants, which allows a significant increase in Rottneros' operational freedom while reducing costs.
- The company is not providing a full year forecast for 2011.

The Board of Directors and President of Rottneros AB hereby present the annual accounts and consolidated accounts for the 2010 operating year.

DESCRIPTION OF THE OPERATION

GROUP UNITS

Rottneros' main operation comprises two production units – Vallvik Mill and Rottneros Mill – which produce pulp for sale. Chemical pulp is manufactured at Vallvik Mill, while mechanical pulp is produced at the mill in Rottneros.

The parent company, Rottneros AB, served as the distributor for both mills up until 30 November

2010 and was responsible for issuing all invoices for pulp. On 1 December 2010, each of the mills took over these functions and has subsequently been responsible for the entire business process, from the purchase of raw materials to pulp sales.

The Group also includes the wholly-owned subsidiary SIA Rottneros Baltic in Latvia, from which the Swedish mills import some of their raw timber.

Minor operations are run from its subsidiaries Rottneros Packaging AB, Utansjö Bruk AB and Rockhammars Bruk AB.

PRODUCTION AND SUPPLIES

The Group's pulp mills in Rottneros and Vallvik have a combined production capacity of 400,000 tonnes per year. Production for 2010 amounted to 323,000 tonnes compared with 335,900 tonnes in 2009. Production for 2009 includes 11,100 tonnes in respect of Rockhammar Mill, which was sold in 2009.

There was the usual holiday shutdown at the mill in Rottneros during July and August 2010, which was combined with minor annual maintenance work. Loss of production accounted for around 10,000 tonnes. An extended maintenance shutdown took place at Vallvik Mill in October 2010. This shutdown resulted in a loss of production corresponding to around 13,000 tonnes. All costs relating to maintenance shutdowns are recognised in the period during which the shutdown takes place.

Deliveries in 2010 amounted to 330,300 (376,700) tonnes, representing a reduction of 12 percent. Deliveries for the full year 2009 include deliveries of 29,200 tonnes in total from the mill at Miranda, which has been closed, and the mill at Rockhammar, which has been sold. The stock of finished products fell by 7,300 tonnes in 2010.

2010 IN FIGURES

INVOICING AND RESULTS

The Group generated a net turnover of SEK 1,684 (1,508) million in 2010. The turnover for 2010 was thus SEK 176 million more than the previous year. The main factors affecting turnover include: reduced delivery levels (SEK -186 million); a weaker USD (SEK -104 million); higher pulp prices in USD (SEK 550 million); and other changes (SEK 84 million). The lower delivery levels are mainly attributable to the sale of Rockhammar Mill and the closure of Rottneros Miranda.

The average price of long-fibre sulphate pulp (NBSK) expressed in USD increased by 42 percent (from USD 657 to USD 930), while the average price of NBSK pulp converted into SEK increased from SEK 4,989 to SEK 6,705 per tonne, representing an increase of 34 percent.

The average price of electricity on the Nord Pool electricity exchange amounted to SEK 0.54 per kWh for 2010, compared to SEK 0.39 per kWh for the same period of the previous year. The higher

electricity prices in 2010 had an adverse effect on the profit for 2010 of SEK 46 million compared with 2009. The timber supply functioned efficiently during the period. However, the cost of pulpwood rose throughout 2010. This cost increase, which was a consequence of higher timber prices, amounted to SEK 75 million in 2010 compared with 2009.

The Group posted an operating profit of SEK 138 (-166) million in 2010. Hedging transactions realised in 2010 resulted in a gain of SEK 43 (4) million.

The Group posted a profit after net financial items of SEK 138 (-69) million, including net financial items of SEK 0 (97) million. Net financial items include financial exchange gains of SEK 5 (15) million. These amounts were countered by operating exchange losses on accounts receivable. The net financial items for 2009 also include financial income of SEK 110 million from a debt write-off.

The Group's profit after tax amounted to SEK 125 (-69) million. Earnings per share after tax were SEK 0.82 (-2.59). Cash flow per share amounted to SEK 0.51 (2.74).

PARENT COMPANY

The turnover for the parent company amounted to SEK 1,533 (1,516) million for 2010. All pulp invoicing within the Group had been centralised at the parent company up until 30 November 2010, which had served as a distributor for all of the mills and received sales commission for this at normal rates. From and including 1 December, each of the mills is responsible for its own invoicing and distribution. The parent company's profit after net financial items amounted to SEK 26 (33) million for 2010. This profit includes realised hedging activities for the entire Group, which affected the result by SEK 43 (4) million.

The parent company's profit after net financial items was SEK 21 million for the fourth quarter of 2010 compared to SEK 7 million for the same period of the previous year and a loss of SEK 2 million for the third quarter of 2010. The profit for the fourth quarter of 2010 includes realised hedging activities for the entire Group, which affected the result by SEK 27 million.

INVESTMENTS AND FINANCIAL POSITION

The Group's investments in fixed assets amounted to SEK 125 (10) million in 2010.

Most of these investments are attributable to the evaporation plant and recovery boiler at Vallvik Mill.

The Group's cash and cash equivalents amounted to SEK 155 million at the end of the year, compared to SEK 111 million at the end of 2009.

The Group had total interest-bearing liabilities of SEK 39 million on 31 December 2010 (SEK 101 million on 31 December 2009). Interest-bearing net receivables amounted to SEK 116 million compared with an interest-bearing net receivable of 10 million on 31 December 2009.

Approved but unutilised lines of credit totalled SEK 108 million on 31 December 2010.

The equity/assets ratio was 82 percent on 31 December 2010 compared to 78 percent on 31 December 2009. Equity per share amounted to SEK 8.05 (SEK 7.14 on 31 December 2009).

CASH FLOW

Cash flow from operating activities before investments amounted to SEK 202 (84) million in 2010 and included cash flow of SEK 44 (3) million from financial hedging. Cash flow after investing activities was SEK 94 (199) million. Cash flow for the full year 2009 includes an amount of SEK 120 million for the sale of fixed assets, primarily at Rockhammar Mill.

EMPLOYEES

The average number of employees was 308 (387) in 2010. This change, compared with the previous year, was primarily due to the operation that was closed at Miranda and the operation sold at Rockhammar. Staff turnover remains low and sickness absence was 2.2 percent in 2010, which is a comparatively low figure. The average period of employment is approximately 21 years and the average age of employees is approximately 50. Sixteen percent of employees are women.

SIGNIFICANT EVENTS

TRADE IN CALL OPTIONS

Subscribers for the new shares in the new share issue implemented by Rottneros at the end of 2009 were allotted (for no consideration) approximately 0.27 call options for each newly allotted share. A holder of a call option is entitled to buy an ordinary share in Rottneros from Swedbank at a price of SEK 8.20 per ordinary share or such adjusted price as may be required in certain circumstances according to the conditions. Swedbank, in its capacity as the issuing agent,

has allotted the subscribers of the new issue approximately 244 million call options as listed with Nordic MTF on NGM (Nordic Growth Market). Trading in the call options started on Friday 15 January 2010.

Rottneros' lending banks, which by previous conversion of interest-bearing liabilities obtained shares in Rottneros, have undertaken to sell to Swedbank up to approximately 24 million shares in total to enable Swedbank to fulfil its obligations associated with the call options issued. The exercise of a call option to purchase an ordinary share must be notified during an application period. The final application period will end on 7 December 2011.

NEW CHAIR OF THE BOARD

On 22 January 2010, the Board of Rottneros AB appointed board member Kjell Ormegard to chair the Board of Rottneros up to and including the AGM in April 2010. This change is owing to a request made on the same day by former chair Rune Ingvarsson to resign immediately from the Board of Rottneros for personal reasons. Kjell Ormegard was elected Chair of the Board of Rottneros at the AGM in April 2010.

AGREEMENT WITH SIG COMBIBLOC

Rottneros Packaging AB is a wholly owned company within the Rottneros Group, which has a small manufacturing and sales operation for cellulose fibre-based food packaging under the SilviPak brand. Rottneros Packaging concluded an agreement with SIG Combibloc, a Swiss packaging company, in February 2010. This related to the assignment of intangible assets, primarily in the form of patents and patent applications.

Rottneros Packaging's food tray operation under the SilviPak brand was not included in this agreement. The transaction has had a minor impact on Rottneros' income statement and a positive impact on the Group's cash flow.

NEW CHIEF FINANCIAL OFFICER

Tomas Hedström took up the office of CFO for Rottneros AB on 1 May 2010. Tomas Hedström was last employed by the SCA Group, where he was responsible for the Group Staff Finance. Prior to this, he held various financial posts within SCA's Swedish and global operation. Tomas Hedström replaced Karl Ove Grönqvist, who decided to leave Rottneros in May.

DECISIONS MADE AND INVESTMENTS IMPLEMENTED AT VALLVIK MILL

The highest priority improvement projects for Rottneros are at Vallvik Mill. These projects aim to improve competitiveness by increasing the production of both pulp and green energy. In December 2009, the Board of Rottneros approved an investment of SEK 77 million in the evaporation facility at Vallvik Mill. By increasing evaporation capacity, more of the mill's internal process water can be evaporated, which in its turn enables more of the organic material to be recovered and incinerated and increases the production of bioenergy.

On 2 February 2010, the Board of Rottneros approved an investment of SEK 45 million in the recovery boiler at Vallvik Mill. This investment was the second stage of the environmental measures and other measures to improve energy efficiency. Improving the recovery boiler increased its incineration capacity, which increased Vallvik's production of bioenergy. These installations were implemented for the fourth quarter of 2010 in conjunction with the annual maintenance shutdown.

In August 2010, the Board of Rottneros decided to invest SEK 60 million in a biological water purification plant. The new water purification plant will be put into operation in the autumn of 2011.

In December 2010, the Board of Rottneros decided to invest SEK 90 million in closing the water loops in the bleaching plant. This investment represents the final stage of the programme of measures previously communicated in, among other things, the new issue prospectus in 2009. The closure of the bleaching plant will significantly reduce water utilisation. One important consequence of this is that the biological external water treatment plant currently being built can be kept significantly smaller. There will also be a slight reduction in the cost of power and chemicals.

The agreed investments will help Vallvik Mill to meet the extended requirements for water purification that will apply from 2012. The investments will also lead to a twenty percent increase in capacity at the mill, from 200,000 to 240,000 annual tonnes of sulphate pulp. The current production permit is limited to 220,000 annual tonnes and a request for a temporary extended permit for 242,000 annual tonnes has already been submitted to the relevant environment authorities.

CHANGE TO THE NUMBER OF SHARES AND VOTES IN ROTTNEROS AB

The 2010 AGM resolved to carry out a reverse share split, where ten existing shares are combined as one share. A directed new issue of 31 shares, as resolved at the AGM, was implemented in April with a view to achieving a number of shares that was evenly divisible by ten. The record day for the reverse split was 7 May 2010 and the number of shares in Rottneros subsequently amounted to 153,393,890.

INCENTIVE PROGRAMME

The AGM of Rottneros held on 22 April 2010 approved an incentive programme for eight senior executives and resolved to issue no more than 30 million subscription warrants to be used for this programme. In total, 12 million of these subscription warrants were allotted to those entitled to subscribe. The price per warrant amounted to SEK 0.10, and ten subscription warrants are required to subscribe for one new ordinary share. The issue price amounts to SEK 9.75 per share and shares can be subscribed for during the period 17 May 2011 to 16 May 2013. Rottneros have cancelled subscription warrants that were not allotted. The dilution effect will amount to 0.8 percent in the event that all warrants are exercised.

EVENING OUT SMALL SHAREHOLDINGS

Small shareholders, who owned less than 1,000 shares prior to the reverse split, were offered the opportunity to even out their holdings through commission-free trade. In total this offer related to 5,300 shareholders. When the offer expired on 28 May 2010, 416 shareholders had sold on average 32 shares and 515 shareholders had bought on average 30 shares. This resulted in a net purchase of 5,313 shares at a price of SEK 7.20.

TEMPORARY LIMIT ON PRODUCTION AT ROTTNEROS MILL

The CTMP line at Rottneros Mill was at a standstill for a total period of just over three weeks in 2010. The shutdown was due to the combination of extremely high electricity prices and high timber costs, resulting in sales of marginal volumes becoming unprofitable. The production line for groundwood pulp at Rottneros Mill was unaffected by the shutdown.

NEW FINANCING AGREEMENT AFTER THE END OF THE REPORTING PERIOD

In January 2011, Rottneros terminated the credit previously placed with a bank consortium

comprising five banks. A new secured financing agreement for SEK 100 million has been concluded with Danske Bank. This agreement, which entered into force on 31 January 2011, does not contain any covenants, for example relating to key financial ratios, investments or dividends. This allows a significant increase in the company's operational freedom. Furthermore, the costs associated with the new agreement are significantly lower. Rottneros repaid the entire outstanding credit in conjunction with the new agreement entering into force; this amounted to SEK 28 million on 31 December 2010.

RISK MANAGEMENT

Operationally, the company employs a number of measures and strategies, such as focusing on niches and various specific customer segments, in order to reduce the Group's dependence on the list price for market pulp and to mitigate fluctuations in profitability over the course of a business cycle. The company also has a strategy for dealing with financial risk that complements its operational strategy. Rottneros is aiming to stabilise the Group's volatile earnings trend by managing this risk in a more advanced way. The factors that have the greatest impact on the Group's result are associated with the price of pulp in US dollars, exchange rates and the price of timber and electricity.

USD

USD is the main underlying currency for pulp prices, although Rottneros also issues invoices in different currencies. Around 20 percent of invoicing is contracted in SEK, with EUR as the invoicing currency. The underlying exposure to USD is thus very high, while the direct inflow of USD (the real flow) corresponds to just over 40 percent. However, there is a delay in the impact of exchange rate fluctuations on indirect exposure as the normal duration of a contract is between one and three months.

The average USD exchange rate was six percent lower during the full year 2010 compared to the same period of the previous year, amounting to an average of SEK 7.21/USD for the period compared to SEK 7.65/USD in the previous year. The impact on turnover of a lower average USD exchange rate in relation to SEK for the full year 2010 amounted to SEK -104 million compared to the same period in 2009.

At the end of December 2010, currency hedging in the form of forward contracts had been concluded for USD 14 million at an average rate of SEK 7.26/USD for deliveries in 2011.

PULP PRICES

The price of pulp (NBSK) is shown in USD, but production costs are largely incurred in local currencies. Pulp prices had not been hedged at the end of December.

ELECTRICITY

All of the physical electricity for the Swedish mills is purchased directly via the Nord Pool electricity exchange. Electricity prices are quoted in EUR. The average prices in EUR/MWh are shown below, together with the average price in SEK/kWh (based on EUR forward exchange rates as of 31 December 2010) in brackets. Twenty-six percent of electricity consumption for 2011 was hedged at an average rate of EUR 43.8 per MWh (almost SEK 0.40 per kWh) at the end of December 2010. Further electricity hedging was carried out at the beginning of 2011. On 15 February 2011, 64 percent of the estimated electricity consumption for 2011 had been hedged at on average EUR 48.9/MWh (just over SEK 0.44/kWh), 27 percent of the estimated electricity consumption for 2012 at on average EUR 47.5/MWh (approximately SEK 0.44/kWh) and 41 percent of the estimated consumption for 2013 at on average EUR 45.4/MWh (approximately SEK 0.42/kWh). The average price level for electricity on the Nord Pool exchange amounted to SEK 0.54 per kWh for 2010.

SHARE INFORMATION

NUMBER OF SHARES

There are 153,393,890 ordinary shares. All shares have a quota value of SEK 1 and correspond to one vote.

SALE OF TREASURY SHARES

The 2010 AGM authorised the Board to make decisions on transferring shares in the company for the period up until the next AGM. No such transfer took place in 2010. Rottneros' holding of treasury shares amounted to 821,965 after the reverse split in May.

DIVIDEND FOR 2010

The Board will propose distribution of a dividend of SEK 0.20 per share (approx. SEK 31 million in total) at the AGM on 19 April 2011.

RESEARCH AND DEVELOPMENT

Development work is an integral part of production and refers to measures to improve processes and quality; these measures are carried as an expense when they are incurred.

ENVIRONMENTAL INFORMATION

As a producer of pulp, Rottneros' operation has a significant impact on the environment in terms of emissions to both water and air. In addition, some waste products must be managed. Extensive environmental legislation governs Rottneros' operational area and the operation requires permits that need to be renewed periodically. These permits regulate production volume, emissions, noise levels and how waste and chemicals are managed. A continuous dialogue is conducted with the regulatory authorities about how improvements can be made. This dialogue also must stay up-to-date with the rules contained in environmental legislation, which are progressively becoming more stringent.

Last year, Rottneros Mill concluded a project to recover heat from the energy generated by a grinder, which had been underway since 2007. In total, the project resulted in oil consumption at the mill reducing by around 20 percent compared with the base year 2007.

In accordance with its plans, Rottneros Mill submitted a probation period investigation last year regarding the production permit used in 2007. Final coverage of the disposal site, which has been ongoing since 2006, is nearly complete and it is considered that it could be finished in 2011. After that a mainstream programme will be laid down for taking samples over a longer period.

Work is continuing to make biological treatment even more efficient and equipment to remove 'floating sludge' was installed during the holiday shutdown.

Vallvik Mill runs an operation that is subject to a permit obligation under the Environmental Code and holds a permit to manufacture no more than 220,000 tonnes of fully bleached sulphate pulp per year. The recovery boiler was rebuilt during the autumn maintenance shutdown to produce technical combustion improvements. A new stripper was also installed during the shutdown that has the capacity to treat a significantly larger quantity of condensate from the evaporation plant. At the same time a system was installed to deal with gases from the heavy liquor cisterns, which are then burnt in the blast furnace. This is done to reduce diffuse emissions of hydrogen sulphide.

The rebuilding work has led to an increased level of hydrogen sulphide in the flue gases from combustion in the blast furnace, which is an undesirable effect. The Environmental Court has therefore temporarily raised the guideline value for process sulphur for Vallvik Mill. The mill has also applied to the Environmental Court for an increased value for process sulphur for 2011 and 2012.

The biotreatment plant, together with the new stripper and closure of the bleaching plant, will reduce COD emissions from the mill by 65 percent, which is in line with the conditions contained in the Environmental Court judgment that entered into final legal force in 2009.

In 2008, Vallvik Mill was granted a permit to close down an old disposal site and start a new one. Building the new disposal site on top of the old one has resulted in costs that were considerably lower than for a new disposal site. Contacts are still ongoing with the municipal authority regarding the formulation of financial security for completion of the new disposal site.

FORECAST

As Rottneros' financial result is largely affected by volatility in the pulp and currency markets, the company will not be submitting an earnings forecast for 2011.

Corporate governance report

Corporate governance in Rottneros

Rottneros is a Swedish public limited company based in Sunne, Sweden and is listed in the Small Cap segment on NASDAQ OMX, Stockholm ('the Stock Exchange'). Rottneros has been covered by the Swedish Code of Corporate Governance ('the Code') since 1 July 2008 and the requirement for a corporate governance report contained in the Annual Accounts Act has also been included since 1 March 2009. Rottneros' corporate governance is based on the Swedish Companies Act, the Annual Accounts Act, the rules of the Stock Exchange and 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 applies the Code without deviations.

STRUCTURE FOR CORPORATE GOVERNANCE

The shareholders at the annual general meetings/general meetings make the appointments 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 structured at Rottneros.



CONTROL INSTRUMENTS

The external control instruments that form the frameworks for corporate governance at Rottneros include the Swedish Companies Act, the Annual Accounts Act, the rules of the Stock Exchange and the Code, together with other relevant legislation. 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 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 the regular checks conducted by the authorities.

The internal control instruments include the Articles of Association as adopted by the AGM, the Rules of Procedure for the Board and the Terms of Reference for the President, the Board's committees and the Company's financial reporting. In addition, there are, for example, financial and quantitative targets, budgets, reports, policies, valuations and codes of conduct.

The policies resolved by the Board include the Code of Conduct, the Financial Policy, the

Communication Policy and the Environmental Policy. The President decides on the Customer Credit Policy, Crisis Management Policy, IT Security Policy and Work Environment Policy, which are communicated to the Board. There are also five important steering documents decided by the President or the person appointed by the President.

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. This is Rottneros' highest decision-making body. The AGM makes decisions on the Articles of Association, appoints the Board and the Chair of the Board, elects the auditors, adopts the income statement and balance sheet and makes decisions on the appropriation of profits and discharge from liability, makes decisions on nomination procedures, guidelines for the remuneration of senior executives, etc.

Rottneros' Articles of Association contain no special provisions about the appointment and dismissal of members of the Board or about amendments of the Articles of Association.

Each shareholder has the right to participate in the AGM, either in person or through a representative holding a power of attorney. 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' website www.rottneros.com. Minutes, the President's statements, etc. from the latest meetings are also available from this website.

SHAREHOLDERS

Rottneros' ordinary shares have been listed on NASDAQ OMX Stockholm since 1987. According to the share register kept by Euroclear Sweden (formerly VPC), Rottneros had 18,033 shareholders on 31 December 2010. The share capital amounted to SEK 153,393,890, divided between 153,393,890 ordinary shares, each carrying equal voting rights and equal rights to the company's profit and capital. The Articles of Association contain no restrictions on the number of votes each shareholder can cast at a general meeting.

Nemus Holding AB had a participating interest amounting to just over 20 percent of the total number of shares and votes on 31 December 2010. Otherwise, none of the shareholders had a direct or

indirect shareholding representing at least one tenth of votes attached to all shares in Rottneros.

In the autumn, the Finansinspektionen (Swedish Financial Supervisory Authority) informed the company that information about a change to the number of shares in the company had not been provided in a way that was technically correct. The company is of the view that although the Finansinspektionen's comment is in the material sense essentially correct, all of the shareholders were fully informed and no harm could have been caused by the omission.

Rottneros' holding of treasury shares amounts to 821,965, corresponding to around 0.54 percent of the total number of shares. Pages 31–34 of the 2010 Annual Report for the company provides more information about the share, shareholders, etc. Information is also available on the company's website.

2010 ANNUAL GENERAL MEETING

Rottneros' 2010 AGM was held on 22 April 2010 in Stockholm. Twenty-five of the company's shareholders attended the meeting, representing 28 percent of the company's votes and capital (excluding Rottneros' buyback shares). All members of the Board were present, as was the President. The company's auditors also attended the meeting.

The AGM passed the following resolutions:

- In accordance with the Board's proposal, no dividend will be distributed to shareholders.
- The board shall comprise four ordinary members. Board members Roger Asserståhl, Kjell Ormegard and Ingrid Westin Wallinder were re-elected. Bengt Unander-Scharin was elected as a new board member.
- Kjell Ormegard was appointed Chair of the Board.
- A fee of SEK 500,000 shall be paid to the Chair of the Board and SEK 250,000 to each of the other Board members who are not employed by the company. Members shall be paid a fee of SEK 25,000 for committee work, except in the case of the chair of the committee, who shall receive remuneration of SEK 50,000. A fee of SEK 25,000 for time required to read materials prior to Board meetings was determined for each employee representative. Auditors' fees are paid on the basis of invoices approved by the President.
- In accordance with the Board's proposal, guidelines are approved for remuneration for the President and other senior executives. This

means, for example, that remuneration shall comprise fixed salary, a possible variable remuneration component, other benefits and pension contributions. 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 pay is based on outcomes in relation to defined and measurable targets and is capped in relation to fixed salary. All matters relating to the remuneration of the executive management are dealt with by the Compensation Committee, except in respect of the President, whose remuneration is decided by the Board of Directors.

- Implement a directed new issue of 31 ordinary shares, amendment of the Articles of Association regarding the number of shares in the company and a reverse split of the company's shares, in which connection ten ordinary shares shall be combined as one ordinary share.
- Authorise the board to make decisions on commission-free trade for shareholders with holdings of less than 100 shares after the reverse split.
- Authorise the Board to make decisions on transferring shares (shares previously acquired under the company's buy-back programme) in the company on one or several occasions during the period up until the next AGM.
- The AGM resolved to approve the Board's proposal for a long-term incentive programme for the company's senior executives that, deviating from the shareholders' priority rights, comprises the issue of no more than 25 million Series A subscription warrants and 5 million Series B subscription warrants.
- Article 8 of the Articles of Association was amended to stipulate that notices convening general meetings shall be announced in the Post- och Inrikes Tidningar (Official Swedish Gazette) and on Rottneros' website. On the date the notice to attend is issued, information about the fact that the notice to attend has been issued will be announced in Dagens Nyheter newspaper and in a daily newspaper published in Sunne. This decision is conditional on an amendment having entered into force in the Swedish Companies Act regarding the way in which a general meeting is convened.

NOMINATING COMMITTEE

Rottneros' AGM makes decisions on the principles for the appointment of the Nominating Committee. The 2010 AGM resolved that the Nominating Committee shall comprise the Chair of the Board and two additional members. The Chair of the

Board may not chair the Committee. One of these two members, in addition to the Chair of the Board, must be a representative of the company's major shareholder and the other shall be a representative of one of the company's other four major shareholders. Neither of these two members may be a Board member at the same time. The Nominating Committee appoints a chair from within its ranks. It is the responsibility of the Chair of the Board to ensure that members are appointed as stated above. The principles also include a procedure for remunerating 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 major shareholders in terms of votes.

The names of members of the Nominating Committee shall be presented at least six months prior to the 2011 AGM. The composition of the Nominating Committee at any given time will be published on Rottneros' website. A press release with information about the composition of the Nominating Committee was published on 14 October 2010 and is available on Rottneros' website. Olle Grundberg from Nemus Holding AB has been appointed Chair of the Nominating Committee. Other members appointed are Jan Alkmark from Danske Bank A/S and Kjell Ormegard, who chairs the Board of Rottneros AB. Altogether, the Nominating Committee represents over 24 percent of the votes attached to all shares in Rottneros.

The Nominating Committee shall submit proposals for decisions to the 2011 AGM as regards election of the Chair for meetings, number of Board members and deputy Board members, election of Board members and deputy Board members, election of Chair of the board, fees for the Board, fees for the auditors, when applicable proposals concerning the election of auditors, and criteria for the appointment of a new nominating committee.

AUDITORS

Rottneros' auditors are elected at the AGM. According to previous rules, auditors were elected for a period of four year unless otherwise stated in the Articles of Association. At the 2007 AGM, Öhrlings PricewaterhouseCoopers AB (PwC) was elected as the company's auditor for the period up until the 2011 AGM, with authorised public accountant Magnus Brändström as Chief Auditor. Magnus Brändström has been the Chief Auditor since 2004. Rottneros' Articles of Association do not include any term for the auditor. With effect 1 November 2010 it is prescribed by the Swedish

Companies Act that the auditor's term is one year, unless otherwise stated in the Articles of Association. This means that from and including 2011 the auditor for Rottneros will be elected annually at the AGM.

AUDIT WORK

The auditors examine the company's and the Group's annual accounts and accounting records and the administration of the company by the Board and President. The company's auditor attends at least one Board meeting each year. The auditors have attended all meetings of the Audit Committee and the 2010 AGM. The auditor attends the AGM to present the audit report.

In addition to the audit assignment, PwC has provided Rottneros with VAT and tax consulting services and assisted with various accounting-related investigations. PwC has to examine its independent status in connection with each consulting assignment. Information on the fees paid to the public accounting firm in 2010 is presented in Note 7 of the 2010 Annual Report.

BOARD OF DIRECTORS

COMPOSITION OF THE BOARD AND FEES

According to the Articles of Association, the Board of Rottneros shall comprise a minimum of three and a maximum of ten members, with up to six deputies, elected by the AGM. In addition, the employees shall elect two representatives with two deputies. Since the 2010 AGM, the Board of Rottneros has comprised four members without deputies elected at the AGM, and two members and two deputies appointed by the employees. The President 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 President. Other officials of the company are called in when necessary to present matters. The company's CFO serves as the Board secretary. The table below shows the composition of the Board in 2010 in addition to remuneration paid to Board members and the President for the full years 2010 and 2009 respectively.

REMUNERATION TO THE BOARD AND PRESIDENT, AND ATTENDANCE AT MEETINGS

AMOUNT IN SEK THOUSAND		TOTAL FEES, 2010	TOTAL FEES, 2009	ATTENDANCE 2010	
				BOARD MEETINGS	COMMITTEE MEETINGS
Kjell Ormegard ^{1,2}	(Chair)	608	510	100%	100%
Rune Ingvarsson ³		28	580	–	–
Roger Asserstål		303	250	100%	94%
Bengt Unander-Scharin ²		167	–	100%	–
Ingrid Westin Wallinder ^{1,4}		340	459	100%	100%
Bengt-Åke Andersson	(employee representative)	25	17	92%	–
Mikael Lilja	(employee representative)	25	25	62%	–
Tord Strömberg	(employee representative/deputy)	25	17	69%	–
Thomas Wasberg	(employee representative/deputy)	25	17	69%	–
Ole Terland ⁵	President	7,055	5,474	–	–

¹ The total fee in 2009 for Board members Kjell Ormegard and Ingrid Westin Wallinder includes remuneration for the assignment that they performed for the company over and above their ordinary board tasks and committee work regarding the refinancing of Rottneros in the autumn of 2008. These amounts are SEK 200,000 for Kjell Ormegard and SEK 158,000 for Ingrid Westin Wallinder.

² Kjell Ormegard (Chair of the Board) and Bengt Unander-Scharin (Board member) have invoiced their respective fees, together with social security contributions and value-added tax, via their own companies. This procedure is cost-neutral for Rottneros.

³ Resigned from the Board in January 2010

⁴ Rottneros purchased legal services on market terms in 2010 for SEK 291,000 (70,000) from the law firm Advokatfirman Lindahl, which employs Board member Ingrid Westin Wallinder.

⁵ The table in Note 6 of the company's 2010 Annual Report shows the total remuneration for 2009 and 2010, broken down by fixed salary, variable remuneration, other benefits, pension expenses and other remuneration. The President attends the majority of Board meetings and committee meetings, though not meetings of the Compensation Committee, as a co-opted member.

EVALUATION OF THE BOARD'S WORK

The Chair is responsible for evaluating the work of the Board and for ensuring that the Nominating Committee is provided with these evaluations. An evaluation of the Board's work for 2010 was concluded at the beginning of 2011.

INDEPENDENCE

According to the Code, a majority of the members elected at the AGM must be independent in relation to the company and executive management; also, at least two of these members must be independent in relation to the company's major shareholders.

Rule 4.4 of the Code includes criteria to help assess the level of independence.

Rottneros' Board of Directors is considered to have met the requirements of the Code regarding independence, since the Board members elected at the AGM are considered independent of both the company and executive management and of the company's major shareholders.

BOARD WORK AND RESPONSIBILITIES

The Board oversees the work of the President and is responsible for ensuring that the organisation, management and guidelines for managing the company's funds are appropriate. The Board of Directors is also responsible for ensuring that the company is organised in such a way that its internal control is appropriate and effective. The Board of Directors is also responsible for developing and following up the company's strategies through planning, establishing targets and taking decisions on the acquisition and disposal of operations, major investments, appointments of and remuneration for the management team as well as day-to-day follow-ups during the year. The Board approves the budget and annual accounts.

Rules of Procedure for the Board

The Board works according to specific Rules of Procedure prescribing the distribution of responsibilities between the Board and the President, between the Board's various committees and within the Board itself as well as instructions for financial reporting. The Board's Rules of Procedure contain special Terms of Reference for the President.

A Board meeting following election is held immediately after the AGM or immediately after extraordinary general meetings where a new Board has been elected. Rottneros held a Board meeting following election on 22 April 2010 where among other things members of the Board committees

were appointed and the above-mentioned Rules of Procedure were adopted.

In addition to meetings following election, the Board convenes five scheduled meetings each year and additional meetings when the Chair sees fit or within 14 days following a request for a meeting from a member of the Board. Thirteen Board meetings were held in 2010. The work of the Board follows a schedule established in advance, which includes specific fixed items that require decisions during the financial year:

- In January/February, the Board works on the press release of unaudited annual earnings figures, the Board's recommendations with respect to dividends and any necessary additions to the budget and business plan. The company's auditors report any observations made when conducting their audit. The Board also evaluate their functions and procedures for making decisions and consider improvements to these.
- The official annual report is reviewed at the end of February.
- The results for the first and second quarters are reviewed in April and July.
- In October, the results for the third quarter are reviewed. The investment plans for the coming financial year are also dealt with in October together with a review of the company's strategies.
- In December, the Board works on preparations for the annual accounts and the business plan for the coming year is approved.

In addition to the items above, the Board's work in 2010 focused on the following:

- Share-related matters such as the reverse share split and commission-free trade
- Disposal of/project preparations for the Utansjö equipment
- Reviewing and updating policies
- Improving the company's bank contracts.

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.

THE BOARD'S CONTROL OF FINANCIAL REPORTING

The Board monitors the quality of financial reporting by providing instructions for its execution and through the Terms of Reference for the President. One of the tasks of the President is to work with the CFO to review and ensure the

quality of all external financial reporting, including year-end releases, interim reports, annual reports, press releases with economic content and presentation materials produced for meetings with the media, shareholders and financial institutions.

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

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

THE BOARD'S COMMITTEES

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

AUDIT COMMITTEE

This Committee comprises three representatives from the Board. Its tasks include preparatory work for decisions to be made by the Board to assure the quality of the company's financial reporting, reviewing the scope and focus of audit assignments, addressing audit issues, evaluating audit work, establishing guidelines for purchasing other services from the company's auditors, following up and assessing the application of current accounting principles and the adoption of new accounting principles, and other accounting requirements as stipulated in legislation, generally accepted accounting principles, applicable Stock Exchange rules, etc.

The Company's Chief Auditor and representatives of the accounting firm are co-opted for meetings. Senior executives are also co-opted for meetings when appropriate. In 2010, the Committee comprised Kjell Ormegard, who is Chair of the

Board, and Board members Ingrid Westin Wallinder and Roger Asserståhl. Ingrid Westin Wallinder chairs the Committee.

The Audit Committee held five meetings in 2010. Minutes are forwarded to the Board on an ongoing basis. The auditors attended all meetings of the Audit Committee.

FINANCE COMMITTEE

The Finance Committee comprises one member of the Board as well as the President and CFO. The Committee's task is to oversee the Financial Policy and the risk mandate. The Committee has invited external financial experts to attend when required. The Finance Committee has been mandated by the Board to manage the application of the Group's Financial Policy and take decisions regarding implementation as required by this Policy. The Committee also ensures that the Policy and related decisions are continually observed. The Finance Committee comprised Kjell Ormegard, Ole Terland (President) and Tomas Hedström (CFO) since May 2010. Kjell Ormegard chairs the Committee.

The Finance Committee held three meetings in 2010. Work in 2010 focussed on producing a new Financial Policy and finding an alternative to the contract with the bank syndicate. The Board receives minutes from the Finance Committee on an ongoing basis.

COMPENSATION COMMITTEE

The Committee comprises three representatives of the Board. 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, both ongoing and those that have ended during the year, for the executive management; monitor and evaluate the application of the guidelines for remuneration of senior executives that the AGM is legally obliged to establish, as well as the current remuneration structures and levels in the company.

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

In 2010, the Committee comprised Kjell Ormegard, who is Chair of the Board, and Board members

Ingrid Westin Wallinder and Roger Asserståhl. Kjell Ormegard chairs the Committee.

The Committee held three meetings in 2010 and the Board receives minutes from the Compensation Committee.

PRESIDENT/CEO

The President's responsibility as stipulated by 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 implement the measures necessary to ensure that the company's bookkeeping is managed in a satisfactory manner. The President also ensures that the Board receives the information it needs on an ongoing basis to monitor the company's and the Groups' 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 President manages the business within the frameworks established by the Board in the special Terms of Reference for the President. These Terms of Reference include the President'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 President's responsibility for presenting financial reports to the Board.

The President works with the Chair to produce the materials required for information and decisions at Board meetings, and also presents matters for discussion and justifies recommendations.

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

GROUP MANAGEMENT

The President leads the work of Group management and makes decisions in consultation with other members of the management team. This team comprises the President and six additional individuals: two heads of subsidiaries and four heads of Group staff. Information about the President and Group management is shown on pages 54–55 of the 2010 Annual Report. The management team has regular business reviews led by the President, often in conjunction with visits to the various units belonging to the Group.

GUIDELINES FOR REMUNERATION OF SENIOR EXECUTIVES

The AGM decided on guidelines to determine remuneration for the President and other senior

executives. The Board's proposed guidelines are stated below. At present, 'other senior executives' refers to the six people who, together with the President, make up Group management. These individuals are presented on the company's website and pages 54–55 of the 2010 Annual Report.

The remuneration paid to the President and other senior executives comprises fixed salary, possible variable component of remuneration, other benefits and pension contributions. The total remuneration package must be in line with market rates and competitive in the labour market in which the executives work. Fixed salary and variable remuneration are related to the responsibilities and powers held by each executive. The variable component of remuneration, which is cash, is based on outcomes in relation to defined and measurable targets and is capped in relation to fixed salary. The variable component of remuneration for the President is capped at 50 percent of fixed salary, excluding the special 'South Africa bonus' referred to below, and the variable component of remuneration for other senior executives is capped at 30 percent of fixed salary. The programme for the variable component of remuneration shall be designed so that the Board can impose conditions, restrict or decline to make payments of variable component of remuneration in exceptional financial circumstances if such measure is considered to be reasonable and compatible with the duties of the company in relation to shareholders, employees and other interested parties.

The period of notice is between six months and one year should notice be given by the executive, and between one and two years should notice be given by the company. The President 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 are either defined benefit or defined contribution plans or a combination thereof and executives are entitled to receive a pension no earlier than from the age of 62.

Matters relating to remuneration principles, remuneration and other terms of employment for the executive management are dealt with by the Compensation Committee, except as regards the President and principles for variable remuneration and other terms of employment 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 his or her

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

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

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

It is intended that a special capped, performance-based bonus linked to the project in South Africa be paid to the President, capped at 12 monthly salaries at the 2008 salary level and, following a decision by the Compensation Committee, to other senior executives involved in this project.

Pay and remuneration for the President and other senior executives in 2010 can be found in Note 6 of the 2010 Annual Report for Rottneros.

Variable remuneration

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

Variable remuneration is dependent on the achievement of targets that are determined annually. 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 objectives, which mean that the variable remuneration is related to the individual's efforts and performance.

Variable remuneration for the President is capped at 50 percent of fixed salary and the special

performance-based bonus linked to the project in South Africa is capped at 12 monthly salaries at the 2008 salary level. Variable remuneration for other senior executives is capped at 30 percent of fixed salary.

As a benchmark, variable remuneration is not qualifying income for pension purposes. The Board can impose conditions, restrict or decline to make payments of variable remuneration in exceptional financial circumstances if the Board considers such measure to be reasonable and compatible with the duties of the company in relation to shareholders, employees and other interested parties.

Incentive programme

The 2010 AGM of Rottneros resolved to issue no more than 30 million subscription warrants to be used for an incentive programme for eight senior executives. In total, 12 million of these subscription warrants were transferred to those entitled to subscribe. The price per warrant amounted to SEK 0.10, and ten subscription warrants are required to subscribe for one new ordinary share. The issue price amounts to SEK 9.75 per share and shares can be subscribed for during the period 17 May 2011 to 16 May 2013. Rottneros has cancelled subscription warrants that were not transferred. The dilution effect will amount to 0.8 percent in the event that all warrants are exercised.

FURTHER INFORMATION IS AVAILABLE FROM WWW.ROTTNEROS.COM.

- Articles of Association
- Information from past AGMs from and including 2005 (notices, minutes, resolutions, the President's statements)
- Information about the Nominating Committee
- Information on corporate governance from 2004 to 2007 (included in the Annual Report for the respective year)
- Corporate governance reports from 2008 and 2009 (included in the 2008 and 2009 Annual Reports)

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

The Board is responsible for the company's internal control in accordance with the Swedish Companies Act and the Code. According the Swedish Companies Act, the Corporate Governance Report shall include information about the most important elements of the company's system for internal

control and risk management regarding financial reporting.

Rottneros' internal control structure is predominantly based on the COSO model, according to which reviews and assessments are made in the following areas: control environment, risk

assessment, control activities, information, communication and monitoring.

CONTROL ENVIRONMENT

The Board has drawn up a number of documents with respect to the Company's internal control and governance, including Rules of Procedure for the Board and Terms of Reference for the President and the Board's committees, reporting instructions and a Financial Policy. All of these documents are intended to ensure a clearly defined distribution of roles and responsibilities. Financial information is reported through a Group-wide reporting system.

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

RISK ASSESSMENT

Rottneros continuously updates its risk analysis with respect to assessing the risk of errors occurring in 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 elevated risk of errors occurring.

CONTROL ACTIVITIES

Monthly financial reports are prepared for all of the companies in the Group as well as consolidated financial reports. These form the basis of the monthly conference calls made between the CFO and representatives of the Group's and each subsidiary's accounting staff. Areas emphasised for analysis are order status, cost follow-up, investments and cash flow. Quarterly meetings are held at each mill, where the President, CFO and Group Controller review the quarterly accounts and the subsidiary's forecast update with the respective company's management team. The CFO also visits the subsidiaries several times a year and the Chief Auditor accompanies the CFO at least once a year. These meetings are supplemented several times a year with Heads of Finance meetings, where the CFO, financial manager of each subsidiary and the Group's Chief Accountant and Controller meet. At these meetings, particular emphasis is placed on monitoring any problems and ensuring the accuracy of financial reporting. Forecasts are updated every quarter for all Group companies and there are controllers working on

financial matters both locally and centrally, comparing these forecasts with outcomes and ensuring that the financial information is true, fair and correct.

The Board's Audit Committee meets regularly to discuss identified risks. The control environment has been created through common values, Rottneros' corporate culture, rules and policies, communication and follow-up as well as the way in which the business is organised. The main task of Group staff is to implement, develop and maintain the Group's control routines and to introduce internal control routines aimed at business-critical issues.

Rottneros' auditors examine both the financial information for the third quarter and the annual accounts. Every year the auditors also examine a selection of the company's control activities and processes and report any areas for improvement to both Group management and the management team of the respective subsidiary. The Chief Auditor also attends meetings of the Audit Committee.

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.

FOLLOW-UP

Each company has its own finance department and reports through a Group-wide reporting system. The Group's Chief Accountant and Controller also work closely with the Heads of Subsidiaries in matters concerning the annual accounts and reporting.

A self-assessment was conducted in 2010 concerning the status of internal control in respect of financial reporting. Work began with a risk analysis, which identified a number of areas of particular interest. Within these areas, tests were designed of the controls available to minimise identified risks and Group companies were asked about how these controls functioned. The companies' responses generally showed that most of the risks within the areas identified were being managed by sufficient and reliable controls. Follow-ups will continue in 2011 and improvements will be made where these are deemed necessary. The Board of Directors is of the opinion that the Group's current scope and complexity does not warrant an internal audit.

PROPOSED APPROPRIATION OF PROFITS

AT THE DISPOSAL OF THE AGM:	
Retained earnings	495,400,252
Net profit for the year	6,469,523
SEK	501,869,775

THE BOARD OF DIRECTORS PROPOSES:	
A total ¹ dividend of SEK 0.20 per share to be paid to shareholders	30,514,385
To be carried forward	471,355,390
SEK	501,869,775

¹Following adjustment for repurchased treasury shares

The dividend proposed corresponds to around 25 percent of the Group's net income for the year. It has been assessed by the Board that the proposed dividend allows scope for the Group to fulfil their obligations and implement desired investments and is quite justified considering the company's financial position. The record day proposed for the right to dividends is 26 April 2011.

The consolidated income statement and balance sheet will be submitted to the AGM on 19 April 2011 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 and describes significant risks and uncertainties faced by the parent company and companies included in the Group.

STOCKHOLM, 24 FEBRUARY 2011
ROTTNEROS AB (PUBL), CORPORATE ID NO. 556013-5872

Kjell Ormegard
Chair of the Board

Roger Asserståhl
Board member

Bengt Unander-Scharin
Board member

Ingrid Westin Wallinder
Board member

Bengt-Åke Andersson
Board member

Mikael Lilja
Board member

Ole Terland
President and CEO

Our audit report was submitted on 3 March 2011
Öhrlings PricewaterhouseCoopers AB

Magnus Brändström
Chief Auditor

Board of Directors, auditors and management team

COMPOSITION OF THE BOARD



Kjell Ormegard

Born 1949, MBA.
Chair of the Board since 2010
Member of the board since 2007
Previous assignments/positions: Board member and Chairman of Getupdated Internet Marketing AB. Board member of Ormegard Corporate AB. Board member and Chairman of Handelsbanken Mezzanine Management AB. Chairman of Handelsbanken Capital Markets. Member of the Investment Committee of East Capital Financial Institutions. Senior positions at Alfred Berg and Consensus. Partner at Affärsvärlden. Board member of the Stockholm Stock Exchange.
Holdings, own and those of closely related persons, of financial instruments on 31 December 2010: 94,889 shares, 13,564 call options



Roger Asserstål

Born 1943, M.Sc. Forestry
Member of the board since 2008
Other assignments/positions: CEO of Asserstål Partners AB. Board member of Bergvik Skog AB.
Previous assignments/positions: Board member of Södra Timber Aktiebolag, Nordic Paper Bäckhammar AB, Södra Wood Products Aktiebolag, Nordic Paper Åmotfors AB, Invision Media Gr. AB and Nordic Paper AB. Member of the Royal Swedish Academy of Agriculture and Forestry, Chairman of the Swedish Society of Forest History. Previous positions include Deputy CEO of AssiDomän AB.
Holdings, own and those of closely related persons, of financial instruments on 31 December 2010: 12,000 shares, 27,128 call options



Ingrid Westin Wallinder

Born 1957, LL.M.
Member of the Board since 2006
Other assignments/positions: Attorney and partner at Ramberg Advokater AB. Board member of Uppsala University's trusteeship and cooperative association, and board member of Uppsala Akademiförvaltning.
Previous assignments/positions: Attorney and partner at Advokatfirman Lindahl KB/Rydin Carlsten Advokatbyrå AB. Chief legal counsel and board secretary for Avesta Sheffield AB and Avesta AB. Company Legal Counsel at Nordstjernan AB.
Holdings, own and those of closely related persons, of financial instruments: –



Bengt Unander-Scharin

Born 1943, MBA
Member of the board since 2010
Other assignments/positions: Chair of Ljungträ AB.
Previous assignments/positions: Marketing Director of Södra Skogsägarna, Managing Director of Aspa Bruk, Board member of Skogsindustrierna, Sydved and Handelshuset Ekmans Europa. *Holdings, own and those of closely related persons, of financial instruments:* –



Bengt Åke Andersson

Born 1951, System Technician, Vallviks Bruk AB. Employee representative. Member of the board since 2009.

Other assignments/positions: -

Previous assignments/positions: -

Holdings, own and those of closely related persons, of financial instruments in Rottneros: -



Mikael Lilja

Born 1966, Mechanic, Rottneros Bruk AB. Employee representative. Member of the board since 2008.

Other assignments/positions: Member of the executive committee of the Swedish Paper Workers' Union.

Previous assignments/positions: -

Holdings, own and those of closely related persons, of financial instruments in Rottneros: -



Tord Strömberg

Born 1950, Shift Supervisor, Rottneros Bruk AB. Employee representative. Deputy board member since 2009.

Other assignments/positions: Member of Ledarna (Swedish Organization for Managers) Deputy General Examiner at Sunne Bostads Aktiebolag.

Previous assignments/positions: -
Holdings, own and those of closely related persons, of financial instruments in Rottneros: -



Thomas Wasberg

Born 1962, Operator, Vallviks Bruk AB. Employee representative. Deputy board member since 2009.

Other assignments/positions: Member of the Swedish Paper Workers' Union

Previous assignments/positions: -

Holdings, own and those of closely related persons, of financial instruments in Rottneros: -

AUDITORS

Öhrlings Pricewaterhouse-Coopers AB

Elected in 2007 until 2011 AGM.

Chief auditor: Magnus Brändström, since 2004.

Born 1962, Authorised Public Accountant and member of FAR.

SENIOR EXECUTIVES

*Ole Terland*

Born 1958, Licentiate of Engineering President and CEO, employed since 2008 Member of the board of the Swedish Forest Industries Federation.

Previous assignments/positions: Senior positions within the SCA Group in the fine paper, magazine paper, packaging and tissue paper divisions; most recently Head of the Corporate Technology Department at SCA's head office.

Holdings, own and those of closely related persons, of financial instruments on 31 December 2010: 440,237 shares, 92,879 call options and 5 million subscription warrants; 400,000 of shares held are invested in endowment insurance.

*Olle Dahlin*

Born 1954, M.Sc. Engineering and MBA.

MD of Rottneros Bruk AB, employed since 2005.

Other assignments/positions: Member of the board of Svenska Skidskytteförbundet (Swedish Biathlon Association)

Previous assignments/positions: Senior positions within the SCA Group, AssiDomän, Frantschach and Arctic Paper.

Holdings, own and those of closely related persons, of financial instruments on 31 December 2010: 125,576 shares, 7,739 call options and 1.5 million subscription warrants.

*Ingemar Eliasson*

Born 1956, M.Sc. Forestry.

Wood Procurement Director, employed since 1987.

Other assignments/positions: Deputy board member of VMF Qbera economic association.

Previous assignments/positions: Positions at Mellanskog Skogsägarna and STORA.

Holdings, own and those of closely related persons, of financial instruments on 31 December 2010: 46,223 shares and 2.5 million subscription warrants.

*Tomas Hedström*

Born 1960, MBA

CFO, employed since 2010.

Other assignments/positions: Owner New Horizons AB Member of the board of Provrummet AB.

Previous assignments/positions: Senior positions within the several of the SCA Group's areas of operation, latest as head of the corporate finance department at SCA's head office and before that as CFO for American business.

Holdings, own and those of closely related persons, of financial instruments on 31 December 2010: 2.5 million subscription warrants.

*Robert Jensen*

Born 1956, Production engineer.

MD of Vallviks Bruk AB, employed since 1999.

Other assignments/positions: Owner of the sole proprietorship Larm och Drift Service.

Previous assignments/positions: Held various positions at Rockhammar Mill.

Holdings, own and those of closely related persons, of financial instruments on 31 December 2010: 0.5 million subscription warrants.

***Ragnar Lundberg***

Born 1947, M.Sc. Engineering.
Technical Director, employed since 2000.

Other assignments/positions: Board member and Chairman of JLR Pulping Systems AB. Deputy board member of Annalunda AB.

Previous assignments/positions: Previously worked with research, development, technical customer service, production and sales at STFI, the MoDo Group and SCA Packaging.

Holdings, own and those of closely related persons, of financial instruments on 31 December 2010: 29,312 shares

***Ann Olhede***

Born 1958, Financial Accountant.
Purchasing Director, employed since 2007.

Other assignments/positions: Deputy board member of Olhede & Co i Stockholm AB.

Previous assignments/positions: Senior positions at companies within MTG (Modern Times Group) and most recently Nordic Purchasing Manager at Accenture.

Holdings, own and those of closely related persons, of financial instruments on 31 December 2010: 22,223 shares.

Income statements – Group

CONSOLIDATED INCOME STATEMENT 1 JANUARY–31 DECEMBER			
Amounts in SEK m	NOTE	2010	2009
Net turnover	1, 9	1,684	1,508
Change in inventories of finished goods		-25	-179
Other income	2	121	138
		1,780	1,467
Operating expenses			
Raw materials and consumables	3	-961	-881
Other costs	7, 8, 9	-393	-413
Personnel costs	5, 6	-202	-235
Depreciation/amortisation and write-downs of intangible and tangible fixed assets	13, 14	-86	-104
Operating profit/loss		138	-166
Financial items			
Financial income	10	6	124
Financial expenses	11	-6	-27
Total financial items		0	97
Profit/loss after financial items		138	-69
Tax on profit for the year	12	-13	0
NET PROFIT/LOSS FOR THE YEAR		125	-69
Earnings per share ¹		0.82	-2.59
Average number of shares		152,572	26,884

¹ No programmes exist that result in dilution.

STATEMENT OF COMPREHENSIVE INCOME – GROUP 1 JANUARY – 31 DECEMBER		
Amounts in SEK m	2010	2009
PROFIT/LOSS FOR THE YEAR	125	-69
Comprehensive income		
Cash flow hedging, income before tax	20	2
Cash flow hedging, tax effect	-5	-1
Exchange rate differences	-2	-1
Reclassification adjustment, deconsolidated subsidiaries ¹	1	-54
Total comprehensive income	14	-54
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	139	-123

¹ Accumulated exchange rate differences posted to the result in accordance with IAS 21.

Balance sheets – Group

CONSOLIDATED BALANCE SHEET ON 31 DECEMBER			
Amounts in SEK m	NOTE	2010	2009
ASSETS			
Fixed assets			
Intangible fixed assets	13	2	8
Tangible fixed assets	14, 15	720	677
Deferred tax assets	12	82	100
Other financial fixed assets	17	63	64
Total fixed assets		867	849
Current assets			
Inventories, etc.	18	213	215
Accounts receivable	19	150	138
Other current receivables	20	80	80
Tax assets		4	7
Derivative instruments	4	25	5
Cash and cash equivalents	21	155	111
Total current assets		627	556
TOTAL ASSETS		1,494	1,405

CONSOLIDATED BALANCE SHEET ON 31 DECEMBER			
Amounts in SEK m	NOTE	2010	2009
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	22		
Share capital		153	153
Other injected capital		730	730
Buy-back of treasury shares		-69	-69
Other reserves		10	-4
Profit brought forward		404	279
Total shareholders' equity		1,228	1,089
Non-current liabilities			
Interest-bearing liabilities	15	10	57
Non-interest-bearing liabilities		—	1
Total non-current liabilities		10	58
Current liabilities			
Interest-bearing liabilities	15	29	44
Accounts payable		92	98
Other non-interest-bearing liabilities	25	128	102
Other provisions	23	7	14
Total current liabilities		256	258
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		1,494	1,405
Pledged assets	15, 26	686	713
Contingent liabilities	26	6	6

Statement of changes in shareholders' equity – Group

2009 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY – GROUP

Amounts in SEK m	Share capital	Other injected capital	Buy-back of treasury shares	Other reserves		Profit brought forward, incl. profit/loss for the year	Total shareholders' equity
				Hedging reserve	Translation differences		
Opening balance, 1 January 2009	94	387	-69	3	47	348	810
Net income							
Loss for the year						-69	-69
Comprehensive income							
Cash flow hedging, income before tax				2			2
Cash-flow hedging, tax effect				-1			-1
Exchange rate differences					-1		-1
Reclassification adjustment, Miranda					-54		-54
Comprehensive income	-	-	-	1	-55	-	-54
Total comprehensive income	-	-	-	1	-55	-69	-123
Transactions with shareholders							
Payment of newly issued ordinary shares	90	112				-	202
Offset new issue of ordinary shares	44	156					200
Total shareholders' contributions	134	268	-	-	-	-	402
Reduction in share capital	-75	75					-
Total transactions with shareholders	59	343	-	-	-	-	402
CLOSING BALANCE, 31 DECEMBER 2009	153	730	-69	4	-8	279	1,089

2010 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY – GROUP

Amounts in SEK m	Share capital	Other injected capital	Buy-back of treasury shares	Other reserves		Profit brought forward, incl. profit/loss for the year	Total shareholders' equity
				Hedging reserve	Translation differences		
Opening balance, 1 January 2010	153	730	-69	4	-8	279	1,089
Net income							
Profit for the year						125	125
Comprehensive income							
Cash flow hedging, income before tax				20			20
Cash-flow hedging, tax effect				-5			-5
Exchange rate differences					-2		-2
Reclassification adjustment, Rottneros GmbH					1		1
Comprehensive income	-	-	-	15	-1	-	14
Total comprehensive income	-	-	-	15	-1	125	139
Transactions with shareholders							
Payment of newly-issued subscription warrants		1					1
Issue expenses		-1					-1
Total shareholders' contributions	-	0	-	-	-	-	0
CLOSING BALANCE, 31 DECEMBER 2010	153	730	-69	19	-9	404	1,228

Cash flow statements – Group

CASH FLOW STATEMENTS – 1 JANUARY–31 DECEMBER – GROUP				
Amounts in SEK m	Note	2010	2009	
OPERATING ACTIVITIES				
Operating profit/loss		138	-166	
<i>Adjustment for items not included in cash flow</i>				
Depreciation/amortisation/write-downs		86	104	
Gains/losses on sale of fixed assets		-21	-59	
Gains/losses on sale of emission rights		—	-3	
Other items not affecting the cash flow		4	37	
		207	-87	
Interest received and similar income items		1	0	
Interest paid and similar income items		-6	-28	
Income tax received/paid		2	5	
Cash flow from operating activities before working capital changes		204	-110	
<i>Working capital changes</i>				
Change in inventories		2	159	
Change in current receivables		123	23	
Change in current liabilities (non-interest-bearing)		-127	12	
Total working capital changes		-2	194	
CASH FLOW FROM OPERATING ACTIVITIES		202	84	
Investing activities				
Acquisition of intangible fixed assets		-1	—	
Acquisition of tangible fixed assets		-124	-10	
Sale of intangible fixed assets		14	—	
Sale of tangible fixed assets		8	120	
Increase in long-term receivables		-10	—	
Change in long-term receivables		5	5	
CASH FLOW FROM INVESTING ACTIVITIES		-108	115	
Financing activities				
Payment from issue of ordinary shares		—	182	
Payment from issue of subscription warrants		1	—	
Borrowings		—	92	
Repayment of debt		-51	-407	
CASH FLOW FROM FINANCING ACTIVITIES		-50	-133	
Cash flow for the year		44	66	
Cash and cash equivalents at beginning of year		111	45	
Exchange rate differences in cash and cash equivalents		0	0	
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	21	155	111	
Unutilised credit facilities		108	114	
Available liquidity at the end of the year		263	225	

Income statements – Parent company

INCOME STATEMENT FOR PARENT COMPANY 1 JANUARY–31 DECEMBER			
Amounts in SEK m	NOTE	2010	2009
Net turnover	1, 9	1,533	1,516
Change in inventories of finished goods		—	0
Other income	2	70	50
		1,603	1,566
Operating expenses			
Raw materials and consumables	3	-1,512	-1,487
Other expenses	7, 9	-64	-142
Personnel costs	5, 6	-25	-32
Depreciation/amortisation and write-downs of intangible and tangible fixed assets	13, 14	-2	-3
Operating profit/loss		0	-98
Financial items			
Financial income	10	32	175
Financial expenses	11	-6	-44
Total financial items		26	131
Profit after financial items		26	33
Tax on profit for the year	12	-20	-27
PROFIT FOR THE YEAR		6	6

Balance sheets – Parent company

BALANCE SHEET FOR PARENT COMPANY ON 31 DECEMBER			
Amounts in SEK m	NOTE	2010	2009
ASSETS			
Fixed assets			
Intangible fixed assets	13	—	1
Tangible fixed assets	14	1	1
Financial assets	17	373	386
Total fixed assets		374	388
Current assets			
Accounts receivable	19	36	127
Tax assets		1	0
Other current receivables	20	670	693
Cash and cash equivalents	21	79	23
Total current assets		786	843
TOTAL ASSETS		1,160	1,231

BALANCE SHEET FOR PARENT COMPANY ON 31 DECEMBER			
Amounts in SEK m	NOTE	2010	2009
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	22	153	153
Statutory reserve		440	440
Profit brought forward		496	335
Profit for the year		6	6
Total shareholders' equity		1,095	934
Long-term liabilities			
Interest-bearing liabilities	15	—	42
Total long-term liabilities		—	42
Current liabilities			
Interest-bearing liabilities	15	25	38
Accounts payable		3	22
Other non-interest-bearing liabilities	25	37	195
Total current liabilities		65	255
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		1,160	1,231
Pledged assets	15, 26	567	563
Contingent liabilities	26	6	6

Statement of changes in shareholders' equity – Parent company

2009 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY – PARENT COMPANY

Amounts in SEK m	Share capital	Statutory reserve	Share premium reserve	Non-restricted capital	Total
Opening balance, 1 January 2009	94	365	–	91	550
New issue of ordinary shares – cash	90		112		202
New issue of ordinary shares – conversion of liabilities	44		156		200
Reduction of the share capital	-75	75			–
Group contributions paid				-33	-33
Tax on Group contributions				9	9
Profit for the year				6	6
CLOSING BALANCE ON 31 DECEMBER 2009	153	440	268	73	934

2010 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY – PARENT COMPANY

Amounts in SEK m	Share capital	Statutory reserve	Share premium reserve	Non-restricted capital	Total
Opening balance on 1 January 2010	153	440	268	73	934
Payment of newly-issued subscription warrants			1		1
Issue expenses			-1		-1
Group contributions paid/received				155	155
Profit for the year				6	6
CLOSING BALANCE ON 31 DECEMBER 2010	153	440	268	234	1,095

See also Note 22, Shareholders' equity, on page 82.

Cash flow statements – Parent company

CASH FLOW STATEMENTS – 1 JANUARY–31 DECEMBER – PARENT COMPANY			
Amounts in SEK m	Note	2010	2009
OPERATING ACTIVITIES			
Operating profit/loss		0	-98
<i>Adjustment for items not included in cash flow</i>			
Depreciation/amortisation/write-downs		2	3
Gains/losses on sale of fixed assets		0	0
Write-down of receivables		–	42
Other items not affecting the cash flow		-1	0
		1	-53
Interest received and similar income items		10	12
Interest paid and similar income items		-6	-27
Income tax received/paid		0	0
Cash flow from operating activities before working capital changes		5	-68
<i>Working capital changes</i>			
Change in inventories		–	3
Change in current receivables		270	215
Change in current liabilities (non-interest-bearing)		-176	-49
Total working capital changes		94	169
CASH FLOW FROM OPERATING ACTIVITIES		99	101
Investing activities			
Acquisition of tangible fixed assets		0	0
Sale of tangible fixed assets		0	1
Dividends from subsidiaries		18	–
Change in long-term receivables		-11	–
CASH FLOW FROM INVESTING ACTIVITIES		7	1
Financing activities			
Payment from issue of ordinary shares		–	182
Payment from issue of subscription warrants		1	–
Borrowings		–	92
Repayment of debt		-51	-358
CASH FLOW FROM FINANCING ACTIVITIES		-50	-84
Cash flow for the year		56	18
Cash and cash equivalents at beginning of year		23	5
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	21	79	23
Unutilised credit facilities		108	114
Available liquidity at the end of the year		187	137

Supplementary disclosure and notes

Accounting and Valuation Principles

BASIS OF THE REPORTS' PREPARATION

These consolidated accounts have been prepared in accordance with the Swedish Annual Accounts Act, International Financial Reporting Standards (IFRS) and the interpretation statements issued by the International Financial Reporting Interpretations Committee (IFRIC), which have been adopted by the European Union. RFR 1 on supplementary accounting rules for groups has also been applied.

PRECONDITIONS FOR THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The parent company's functional currency is Swedish kronor, which is also the reporting 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 principles applied when preparing the consolidated accounts are described below. These principles have been applied consistently for all years presented, unless otherwise indicated.

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

AMENDMENTS OF ACCOUNTING PRINCIPLES AND DISCLOSURE

New and amended standards applied by the Group

The Group has applied the following new and amended IFRS since 1 January 2010:

- IFRS 3 (revised), Business Combinations and consequential amendments to IAS 27, Consolidated and Separate Financial Statements (applicable from 1 July 2009). The revised standard continues to prescribe that the acquisition method is applied to business combinations, but with some significant amendments. For example, all payments relating to the purchase of a business are recognised at acquisition-date fair values, including conditional purchase

prices, which are classified as a liability and subsequently remeasured through the comprehensive income report. For each business combination, the acquirer shall measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All costs related to the acquisition are carried as an expense. IFRS 3 (revised) had no effect on the current period as no business combinations were implemented over the year.

IAS 27 (revised) requires that the consequences of all transactions with non-controlling interests are presented within equity as long as there is still a controlling interest and these transactions do not result in goodwill or any profits or losses. The standard also states that when a parent company loses control of a subsidiary, any investment that remains is remeasured at its fair value and any gain or loss is recognised in the income statement. IAS 27 (revised) has had no effect on the current period.

New and amended standards, and interpretations that will apply for the first time in the financial year starting 1 January 2010, but that have no current relevance for the Group (but that may affect the reporting of future business transactions).

The following standards and amendments of existing standards have been published and are mandatory for the financial year starting 1 January 2010, but do not currently have any relevance for the Group:

- IFRIC 9 and IAS 39 (amendment), Embedded Derivatives (applies to the financial year ending on 30 June 2009 or later). This amendment requires an entity to assess whether an embedded derivative is required to be separated from the host contract when the entity reclassifies a compound financial asset out of the fair value through profit and loss category.
- IAS 38 (amendment), Intangible Assets (applies to the financial year starting 1 January 2010 or later). This amendment provides guidance when measuring the fair value of an intangible asset acquired in a business combination and allows the recognition of a group of assets as a single asset provided the individual assets have similar useful lives.
- IFRS 5 (amendment) Non-current Assets Held for Sale and Discontinued Operations. This

amendment clarifies that IFRS 5 details the disclosure requirements for non-current assets (or disposal groups) classified as non-current assets held for sale or discontinued operations. It also clarifies that the general requirement contained in IAS 1 still applies.

- IFRIC 17, Distributions of Non-cash Assets to Owners; IFRIC 18, Transfers of Assets from Customers; IFRIC 16, Hedges of a Net Investment in a Foreign Operation; IAS 1, Presentation of Financial Statements; IAS 36, Impairment of Assets; IFRS 2, Share-based Payment.

New standards, amendments and interpretations of existing standards that have not yet taken effect and that have not been applied in advance by the Group

The assessments made by the Group and parent company of the consequences of these new standards and interpretations are referred to below:

- IFRS 9, Financial Instruments (published in November 2009). This standard is the first step in the process to replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 introduces two new requirements for recognising and measuring financial assets. The effective date of the standard is the financial year starting 1 January 2013 but earlier application is permitted. However, the standard has not yet been adopted by the EU. The Group still needs to evaluate the full impact of IFRS 9 on the financial statements, but the initial assessment is that the effect of the standard will be minor.
- IAS 24 (revised) Related Party Disclosures, issued in November 2009. This replaces IAS 24, Related Party Disclosures, which was issued in 2003. The effective date of IAS 24 (revised) will be the financial year starting 1 January 2011 or later. Earlier application is permitted both for the entire or a certain part of the standard. The revised standard clarifies and simplifies the definition of 'related party'. The Group will apply the revised standard from 1 January 2011. It is not currently possible to provide any details of the potential impact of the revised standard for Related Party Disclosures.
- IAS 32, Classification of Rights Issues; IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments; IFRIC 14, Prepayments of a Minimum Funding Requirement. It is not considered that any of these amendments or new interpretations will have any impact on the Group's financial statements.

Consolidated accounting principles

COMPOSITION OF THE GROUP

The consolidated annual accounts include the annual accounts of the parent company and all subsidiaries in which Rottneros AB is entitled to govern the financial and operating policies in a way that normally accompany a shareholding amounting to more than half of the voting rights. Rottneros AB owns 100 percent of the participating interests in the Spanish company Rottneros Miranda S.A. Up to 31 March 2009, this company was included in the consolidated accounts for Rottneros and was consolidated according to the acquisition accounting contained in IFRS 3 Business Combinations and IAS 27, Consolidated and Separate Financial Statements. In April 2009, Rottneros Miranda S.A. became the subject of proceedings for restructuring in accordance with insolvency legislation in Spain. In conjunction with this, Rottneros AB no longer has any controlling influence over Rottneros Miranda S.A., as the parent company has lost the power to govern the financial and operating policies of a subsidiary so as to obtain economic benefits from its activities. As at this point in time, the participating interests in Rottneros Miranda S.A. are recognised as a financial asset instead that can be sold in accordance with IAS 39, Financial Instruments: Recognition and Measurement. This means that participating interests are measured at fair value and that any changes in value are reported in general comprehensive income.

PRINCIPLES OF CONSOLIDATION

Acquisition accounting is used when preparing the consolidated accounts. This method means that the equity in the subsidiary at the time of acquisition shall be eliminated in full. Only the profit arising after the time of acquisition is included in the Group's equity. The equity in the acquired subsidiary is determined based on a market value of the assets and liabilities at the time of acquisition. In cases where the market values of assets and liabilities differs significantly from the acquired company's book value, these market values constitute the Group's acquisition cost. The difference between the cost of the subsidiary's shares and the estimated value of the equity at the time of acquisition is recognised as goodwill on consolidation where applicable.

Intra-group profits are eliminated in full.

All subsidiaries are wholly-owned. In other words, there are no holdings without a controlling influence in the subsidiaries.

UNTAXED RESERVES/ APPROPRIATIONS

When preparing the consolidated accounts, the untaxed reserves and appropriations recorded for the individual companies are divided between deferred tax and equity. The deferred tax liability is calculated at the current tax rate. The estimated tax thus arrived, which is attributable to this year's appropriations, is included in the Group's reported tax as 'deferred tax'. See also Note 12.

TRANSLATION OF FOREIGN SUBSIDIARIES

The local currency is the functional currency for the company for all companies within the Group. The Swedish krona, which is the parent company's functional currency and reporting 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 Group equity. When a foreign subsidiary is no longer included in the consolidated accounts, the accumulated exchange difference is recognised as a reclassification adjustment from the report of the comprehensive income for the Group to the consolidated income statement.

INCOME

Sales of goods are recognised when products are delivered to the customer in accordance with the terms of the sale. Sales are recognised net of VAT and discounts. Inter-group sales are eliminated in the consolidated accounts.

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

Interest income is recognised as income applying the effective interest method, and dividend income is recognised when the right to receive payment has been determined.

SEGMENT REPORTING

IFRS 8, Operating Segments, requires that an operating segment is reported in a manner consistent with the internal reporting delivered 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. Rottneros does not report any segments in its internal reporting and consequently not in its Annual Report.

RECEIVABLES AND LIABILITIES IN FOREIGN CURRENCIES

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

INVENTORIES

Inventories mainly comprise raw materials and consumables together with pulp.

Inventories are measured at the lower of cost (in accordance with the FIFO principle) or net selling price. Net selling price is the sales price after deductions for selling expenditure.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash, bank balances and current investments. Current investments comprise temporary investments of surplus reserves in accordance with the Group's financial policy that can be sold or otherwise converted into cash and cash equivalents within a three-month period. The Group had no current investments in 2009 and 2010. Blocked bank accounts are included under the balance sheet item 'cash and cash equivalents'.

REPORTING OF LEASE CONTRACTS

Where a lease contract 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. The corresponding obligation to make lease payments in the future is recognised as a liability.

Other leasing is recognised as an operating lease and is carried as an expense on a straight-line basis.

TANGIBLE FIXED ASSETS

Tangible fixed assets are carried at cost following deductions for accumulated depreciation and write-downs according to plan. Expenditure for repairs and maintenance is recognised as a cost in the period it arises. Additional expenditure is added to the asset's carrying amount or recognised as a separate asset.

INTANGIBLE ASSETS

Trademarks and licences acquired are carried at cost. Software licences acquired are capitalised on

the basis of the costs that arose when the software was commissioned. These intangible assets have limited useful lives.

DEPRECIATION/AMORTISATION

Depreciation/amortisation according to plan is based on the cost and the estimated useful life of the assets. The linear depreciation method is used for all kinds of fixed asset.

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

The residual value and useful life of the assets are reviewed on each reporting date and adjusted if appropriate. If there are indications that an asset's value is greater than its estimated recoverable amount, an impairment test is carried out. The recoverable amount is the asset's net selling price or its value in use, whichever is higher.

PROVISIONS

A provision is recognised in the balance sheet where there is: a legal or informal commitment as a result of an event that has occurred; it is likely that an outflow of resources will be required in order to settle the commitment; and the amount can be reliably estimated.

Provisions for restructuring measures are made when there is a detailed, formal plan and well-founded expectations have been created among those affected by the measures.

TAXES

Income taxes recognised include tax that will be paid or received in respect of the current year, adjustments in respect of current tax for the previous year, as well as changes in deferred tax.

Tax receivables/liabilities are valued at nominal amounts in accordance with the tax provisions and tax rates that have been 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, the associated tax effects are also recognised in the income statement. The tax effects of items credited directly

to shareholders' equity are also recognised as equity.

Deferred tax is calculated and recognised according to the balance sheet method for all temporary differences arising between the tax base and the carrying amount of assets and liabilities, and also the accumulated loss carry-forward. Deferred tax is calculated using the tax rates (and laws) that have been established or where notice has been given as at the reporting date and that are expected to apply when the relevant deferred tax asset is recognised or the deferred tax liability is adjusted.

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

EMPLOYEE BENEFITS

Apart from the ITP plan, the Group only has defined contribution plans. The Group's contributions to defined contribution plans are recognised as a cost during the period when the employees performed the services to which the contribution relates.

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 the Swedish Financial Accounting Standard Council's Emerging Issues Task Force (URA 42) is a defined benefit plan that covers a number of employers. However, information in accordance with the provisions of Section 29 of IAS 19 cannot be disclosed since the insurance provider is unable to provide the necessary information. Accordingly, the ITP plan is recognised in accordance with Section 30 of IAS 19 as a defined contribution plan. This year's pension insurance premiums according to ITP that have been taken out with Alecta amount to SEK 5 million (SEK 5 million). Alecta's surplus can be distributed to policyholders and/or the insured parties. At the end of 2010 Alecta's surplus in the form of the collective consolidation level amounted to 143 percent (141 percent). The collective consolidation level is determined by 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-based payment transactions with employees where the company receives

services from employees as consideration for the Group's equity instrument.

GOVERNMENT GRANTS

Government grants is recognised at fair value if it is reasonably certain that such grant will be obtained and that the Group will satisfy all of the associated conditions.

Government grants relating to the acquisition of assets is recognised in the balance sheet by reducing the carrying amount of the asset.

Government grants relating to costs is recognised as deferred income and is taken up as income in pace with costs arising, which the grant is intended to compensate. Government grants is recognised as other income where the grants does not relate to either the acquisition of assets or compensation for costs.

EMISSION RIGHTS

Emission rights received are recognised in accordance with the rules for government grants. During allocation, emission rights are recognised as current receivables at cost, which is deemed to correspond to the market value of the emission rights 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. Income from emission rights is recognised for emissions made at the value at which they were recognised on allocation. Any remaining emission rights (not required to cover own emissions) are taken up as income when sold.

ELECTRICITY CERTIFICATES

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

RESEARCH AND DEVELOPMENT COSTS

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

BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form 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. Recorded cash flow only covers transactions involving cash paid or received. This means that there may be variances when compared with changes to individual items in the balance sheet.

In addition to cash and bank balances, cash and cash equivalents also include current financial investments that carry only an insignificant risk of fluctuations in value and that mature within three months of the date on which they were acquired.

FINANCIAL ASSETS

Financial assets recognised in the balance sheet include derivative instruments and accounts receivable. Rottneros has no financial assets measured at fair value via the income statement. Financial assets are removed from the balance sheet when the right to receive cash flows from the instrument has expired or has been transferred and the Group has transferred essentially all risks and benefits associated with ownership.

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 remeasured. The method for recording the gain or loss arising from remeasurement depends on whether the derivative has been identified 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 kinds of hedging are used at any given time to protect the value of future cash flows. Hedging instruments are taken up as income in the income statement in pace with them expiring.

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 hedging and continuously, of whether the derivative instruments used in hedging transactions are

effective in respect of cash flows attributable to the hedged items.

Information about the fair value of the various derivative instruments used for hedging purposes can be found in Note 4. Changes in the hedging reserve in equity are shown in Note 22. The entire fair value of derivatives that constitute hedging instruments is classified as a fixed asset or long-term liability when the hedged item has a remaining maturity of more than 12 months, and as a current asset or current liability when the hedged item has a remaining maturity of less than 12 months.

The effective portion of the changes in fair value of a derivative instrument that has been identified as cash flow hedging and that meets the conditions for hedge accounting is otherwise recognised in comprehensive income. The gain or loss attributable to the ineffective portion is recognised directly 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.

Loan receivables and accounts receivable

The only balance sheet item that is covered by this category is 'Accounts receivable'. Accounts receivable are amounts to be paid by customers for goods sold in operating activities. They are included in current assets with the exception of items maturing more than 12 months after the reporting date, which are classified as 'fixed assets'. Accounts receivable are recognised initially at fair value and subsequently at amortised cost less any provisions for depreciation. The fair value of accounts receivable with short credit periods is the same as the nominal value. A provision is made for depreciation when there is objective proof that the Group will not be able to receive all amounts due for payment. This provision is recognised in the income statement and included under the item 'Other costs'.

ACCOUNTS PAYABLE

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

BORROWING

Borrowing 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 transaction 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 12 months from the reporting date.

OFFSET ISSUE

Rottneros converted liabilities into shares in 2009. These shares were valued at the carrying amount of the converted liabilities and thus did not have any effect on the result.

IMPORTANT ASSESSMENTS AND ASSUMPTIONS

When preparing financial statements, a number of important assessments must be made for accounting purposes, and the management team needs to make certain assessments when applying the Group's accounting principles. Assessments and assumptions are evaluated on an ongoing basis and are based on historical experience and other factors, including expectations for future events that are deemed reasonable under the existing circumstances.

The Group makes assessments and assumptions regarding the future. The resulting assessments for accounting purposes, by definition, seldom correspond to the actual outcome. The valuation of the deferred tax assets in addition to the valuation of the claim on the wholly-owned company Rottneros Miranda S.A. are among the areas which involve a high level of assessment on the part of Rottneros and where assumptions and estimates are material for the consolidated accounts. The assessments and assumptions that involve a considerable risk of significant adjustments having to be made to the carrying amounts for assets and liabilities over the next financial year are discussed below.

Deferred tax assets

Deferred tax assets are recognised for tax losses to the extent that it is likely that they can be used through future taxable gains. There were no tax losses for which deferred tax assets have not been recorded. Note 12 provides further information about the assessment of the opportunities to utilise loss carry-forwards.

Impairment tests – receivable from Rottneros Miranda S.A.

At the end of each reporting period, the Group's financial assets are tested for impairment under IAS 39. It was announced on 16 April 2009 that Rottneros had decided to wind up the operation at

its pulp mill in Spain, Rottneros Miranda S.A. The operation and company are being wound up in accordance with Spanish insolvency legislation. One stage of this winding up is Rottneros Miranda S.A. having stopped its payments. Rottneros' total receivables from the Miranda Group amounted to SEK 89 million on 31 December 2010. Rottneros' claim was written down in 2009 as it exceeds the management team's assessment of the value of the Miranda Group's net assets. The claim has been written down at the amount estimated to be received based on the assessment of the management team regarding the value of the Miranda Group's net assets. The write-down amounts to EUR 4 million and the recorded claim amounted to SEK 52 million on 31 December 2010.

PARENT COMPANY'S ACCOUNTING PRINCIPLES

The parent company applies the same accounting principles as the Group with the exceptions described below.

Changes in the value of derivative instruments are not recognised during the term of a contract, but in connection with the actual transaction instead. Premiums/discounts for futures are distributed over the term of the contract as interest. When hedging currency for future budgeted flows, the hedging instruments are not remeasured when exchange rates fluctuate. The full effect of exchange rate fluctuations is recognised in the income statement when the hedging instruments mature.

Participating interests in subsidiaries are carried at cost less any write-downs.

Rottneros complies with statement UFR 2 issued by the Swedish Financial Report Board concerning the accounting treatment of Group contributions. Accordingly, Group contributions are recognised on the basis of their financial content. Group contributions paid or received for the purpose of minimising the Group's tax are recognised respectively as a reduction of or increase in non-restricted equity. An adjustment is made for the tax effect of Group contributions by both the donor and the recipient.

All leases are recognised as operating leases.

Dividends received are recognised when the right to receive a dividend is deemed to be certain.

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

Note 1 Geographical distribution of turnover

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

	2010	%	2009	%
Sweden	192	11.4	183	12.2
Other Nordic countries	97	5.7	94	6.3
Italy	357	21.2	386	25.6
Germany	301	17.9	167	11.1
Spain	40	2.4	46	3.1
France	31	1.8	24	1.6
Great Britain	19	1.1	19	1.2
Poland	46	2.7	39	2.5
Austria	11	0.7	10	0.6
Rest of Europe	222	13.2	163	10.8
US	190	11.3	170	11.3
China	27	1.6	59	3.9
Rest of world	151	9.0	148	9.8
TOTAL	1,684	100.0	1,508	100.0

Revenue of SEK 283m relates to an individual external customer with several recipient paper mills.

Note 2 Other income

OTHER OPERATING INCOME	Group		Parent company	
	2010	2009	2010	2009
Profit/loss from sale of fixed assets	22	67	0	0
Sale of by-products	15	23	–	–
Commission revenue	–	–	14	27
Transportation revenue	3	2	7	9
Currency futures – cash-flow hedging	41	-5	41	-5
Pulp futures – cash-flow hedging	–	3	–	3
Sale of green electricity certificates	27	36	–	–
Emission rights	5	6	–	–
Exchange rate differences	–	–	–	11
Other	8	6	8	5
TOTAL	121	138	70	50

Note 3 Raw materials and consumables

RAW MATERIALS AND CONSUMABLES	Group		Parent company	
	2010	2009	2010	2009
Electricity futures – cash-flow hedging	3	6	3	6
Other costs for raw materials and consumables	-964	-887	-1,515	-1,493
TOTAL	-961	-881	-1,512	-1,487

Note 4 Financial instruments

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

-Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).

-Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2)

-Inputs for assets or liabilities that are not based on observable market inputs (i.e. unobservable inputs) (Level 3).

The following table shows the Group's assets and liabilities measured at fair value as at 31 December 2010.

	Level 1	Level 2	Level 3	Total
Assets				
Derivative instruments used for hedging purposes	–	25	–	25
Total	–	25	–	25
Liabilities				
Derivative instruments used for hedging purposes	–	–	–	–
Total	–	–	–	–

The following table shows the Group's assets and liabilities measured at fair value as at 31 December 2009.

	Level 1	Level 2	Level 3	Total
Assets				
Derivative instruments used for hedging purposes	–	5	–	5
Total	–	5	–	5
Liabilities				
Derivative instruments used for hedging purposes	–	–	–	–
Total	–	–	–	–

FINANCIAL INSTRUMENTS FOR EACH CATEGORY

31 December 2010	Loan and account receivables	Derivatives for hedging purposes	Total
Assets			
Derivative instruments	–	25	25
Accounts receivable and other receivables, excluding accrued receivables	266	–	266
Cash and cash equivalents	155	–	155
Total	421	25	446
		Other financial liabilities	Total
Borrowing		25	25
Liabilities relating to finance leases		14	14
Accounts payable and other liabilities excluding non-financial liabilities		108	108
Total		147	147

FINANCIAL INSTRUMENTS FOR EACH CATEGORY

31 December 2009	Loan and account receivables	Derivatives for hedging purposes	Total
Assets			
Derivative instruments	–	5	5
Accounts receivable and other receivables, excluding accrued receivables	251	–	251
Cash and cash equivalents	111	–	111
Total	362	5	367
Liabilities			
		Other financial liabilities	Total
Borrowing		80	80
Liabilities relating to finance leases		19	19
Accounts payable and other liabilities excluding non-financial liabilities		111	111
Total		210	210

DERIVATIVE INSTRUMENTS

	2010		2009	
	Assets	Liabilities	Assets	Liabilities
Currency futures – cash flow hedging	8	–	5	–
Pulp futures – cash flow hedging	–	–	–	–
Electricity futures – cash flow hedging	17	–	–	–
Total	25	–	5	–
Less long-term portion:				
Currency futures – cash flow hedging	–	–	–	–
Pulp futures – cash flow hedging	–	–	–	–
Electricity futures – cash flow hedging	–	–	–	–
Current portion	25	–	5	–

The full fair value of a derivative instrument that constitutes a hedging instrument is classified as a fixed asset or long-term liability if the hedged item has a remaining maturity of more than 12 months and as a current asset or current liability if the hedged item has a remaining maturity of less than 12 months.

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

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

*Market value of hedging derivatives,
31 December 2010*

HEDGE

	Hedged volume	Hedging level	Market value	Reference value, spot rate
Currency USD	USD 14m	SEK 7.26/USD	8	SEK 6.80/USD
Electricity	80,875 MWh	SEK 0.397/kWh	17	SEK 0.771/kWh
TOTAL MARKET VALUE			25	

*Market value of hedging derivatives,
31 December 2009*

HEDGE

	Hedged volume	Hedging level	Market value	Reference value, spot rate
Currency USD	USD 7m	SEK 7.22/USD	1	SEK 7.21/USD
Currency EUR	EUR 34m	SEK 10.42/EUR	6	SEK 10.35/EUR
TOTAL MARKET VALUE			7	

The market valuation was conducted by independent parties and refers to the break-up value of futures on the reporting date. The reference value refers to spot rates on the reporting date.

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

A more detailed description of opportunities and risks, together with a sensitivity analysis, can be found in a separate section, see page 27–31.

Note 5 Personnel

	2010		2009	
	Average no. of employees	Of whom men %	Average no. of employees	Of whom men %
Parent company	12	75.0	18	72.2
Subsidiaries	296	84.5	369	87.0
Group total	308	84.1	387	86.3
Of which				
Sweden	303	84.5	339	86.1
Latvia	5	60.0	5	60.0
Portugal	–	–	1	100.0
Spain	–	–	42	90.5
	308	84.1	387	86.3

	2010			2009		
	Pay and other remuneration	Social security contributions	(of which pension expenses) ¹	Pay and other remuneration	Social security contributions	(of which pension expenses) ¹
Parent company	18.6	10.7	4.1	20.7	12.2	4.8
Subsidiaries	120.3	47.9	6.7	146.9	58.4	9.6
GROUP TOTAL²	138.9	58.6	10.8²	167.6	70.6	14.4

¹ SEK 3.5 (3.7) million of the Parent Company's pension expenses relates to the President and other senior executives. There are no pension expenses or pension commitments for the Board.

² SEK 4.9 (7.3) million of the Group's pension expenses relates to the managing directors and other senior executives.

Salaries and other remuneration distributed between the Board and managing directors/Presidents and other employees:

SEK m	2010				2009			
	Board, President, managing directors and other senior executives (of which variable remuneration)	Other employees	(of which variable remuneration)	Board, President, managing directors and other senior executives (of which variable remuneration)	Other employees	(of which variable remuneration)		
Parent company								
Sweden	15.8	(3.3)	2.8	(–)	13.4	(0.9)	7.3	(–)
Subsidiaries								
Sweden	6.9	(–)	111.9	(–)	7.4	(–)	122.8	(–)
Latvia	0.9	(–)	0.6	(–)	1.0	(–)	0.9	(–)
Portugal	–	(–)	–	(–)	0.3	(–)	0.3	(–)
Spain	–	(–)	–	(–)	1.8	(–)	12.4	(–)
GROUP TOTAL	23.6	(3.3)	115.3	(–)	23.9	(0.9)	143.7	(–)

In 2009, the President of the parent company received a salary and other remuneration of SEK 5.7 (4.1) million and the Chair of the Board SEK 0.6 (0.6) million.

SICKNESS ABSENCE AT THE PARENT COMPANY

	2010	2009
Sickness absence for a continuous period of 60 days or more	0.0%	0.0%
Sickness absence:		
Average total sickness absence	0.6%	0.5%

Detailed information on sickness absences for various categories of employee at the parent company is not provided, as no single group of employees comprises more than ten individuals.

Note 6 Remuneration of senior executives

Principles

The Chair and members of the Board, including work in Board committees, are remunerated in accordance with decisions taken at the AGM. The Board may in certain cases decide that a separate fee be paid for work over and above ordinary Board work in accordance with the guidelines for remuneration adopted by the AGM. Employee representatives receive a small fee as determined by the AGM for the time needed to read materials prior to meetings.

Remuneration to the President 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 remuneration, other benefits and pension benefits. 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' are the six people who, together with the President, make up Group management. See pages 54–55 for the composition of Group management.

Variable remuneration

The variable component of pay 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 objectives, which mean that the variable remuneration is related to the individual's efforts and performance. Variable remuneration for the President is capped at 50 percent of fixed salary and the special performance-based bonus linked to the project in South Africa is capped at twelve monthly salaries at the 2008 salary level. Variable remuneration for other senior executives is capped at 30 percent of fixed salary. As a benchmark, variable remuneration is not qualifying income for pension purposes. The Board can impose conditions, restrict or decline to make payments of variable remuneration in exceptional financial circumstances if the Board considers such measure to be reasonable and compatible with the duties of the company in relation to shareholders, employees and other interested parties.

Pensions

The retirement age for the President is 65 years. The pension premium amounts to 35 percent of the basic salary. Other senior executives are covered by current collective agreements between the Confederation of Swedish Enterprise and the

Federation of Salaried Employees in Industry and Services (PTK) and they have a retirement age of 65.

Severance pay

The President is entitled to a period of notice of six months if notice is given by the President. If notice is given by the company, the President of the parent company is entitled to 24 monthly salaries. For other senior executives, a period of notice of between six months and one year applies if notice is given by the employee. If notice is given by the company, the period of notice is between one and two years.

Decision-making process

All matters relating to the remuneration of the executive management are dealt with by the Compensation Committee, except in respect of the President 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 over and above his or her regular Board and committee duties, the Board shall determine the level of remuneration for this work. Such remuneration must be reasonable and in line with market rates.

REMUNERATION AND OTHER BENEFITS IN 2010 (SEK M)	Basic salary/Directors' fees	Variable remuneration	Other benefits	Pension expenses	Other remuneration	Total
Chairman of the Board Kjell Ormegard	0.6	0.0	0.0	0.0	0.0	0.6
Board Member Roger Asserstahl	0.3	0.0	0.0	0.0	0.0	0.3
Board Member Bengt Unander-Scharin	0.2	0.0	0.0	0.0	0.0	0.2
Board Member Ingrid Westin Wallinder	0.3	0.0	0.0	0.0	0.0	0.3
President Ole Terland	3.8	1.9	0.1	1.3	0.0	7.1
Other senior executives (nine people)	8.0	1.4	0.2	2.7	0.0	12.3
TOTAL	13.2	3.3	0.3	4.0	0.0	20.8
TOTAL 2009	15.3	0.4	0.3	5.7	0.9	22.6

Comments on the table

- Variable remuneration in 2010 refers to what is charged to the result for 2010. In 2010, SEK 900,000 of this amount was paid to the President, and SEK 308,000 to other senior executives, for variable remuneration in 2009. The rest of this variable remuneration relates to 2010, which will be paid out in 2011.
- Other benefits refer to company cars and benefits in the form of free travel.
- A share-related incentive programme was issued to senior executives in 2010. Twelve million subscription warrants were transferred in total, five million of which for the President and seven million to other senior executives. More details are provided in Note 22.
- Kjell Ormegard (Chair of the Board) and Bengt Unander-Scharin (Board member) have invoiced their respective fees,

together with social security contributions and VAT, via their own companies. This process is cost-neutral for Rottneros.

- The company purchased legal services on market terms for SEK 291,000 from the law firm Advokatfirman Lindahl, where Board member Ingrid Westin Wallinder has been employed.
- The group 'Other senior executives' includes three people who left the corporate management team over the year. The amounts included relate to the period when these people formed part of the management team.
- The Group's senior executives included seven people at the end of the year, comprising one woman and six men. The Board included four people at the end of the year, comprising one woman and three men. This information applies to both the parent company and the Group.

Note 7 Audit expenses

	Group		Parent company	
	2010	2009	2010	2009
PwC				
Audit engagement	1.0	1.7	0.4	0.6
Audit business in addition to the audit engagement	0.2	0.4	0.2	0.4
Tax consultancy	0.4	1.0	0.3	0.9
Other services	0.1	0.1	0.0	0.1
TOTAL	1.7	3.2	0.9	2.0

Note 8 Research and development expenditure

As part of our normal customer relationship, work is conducted at Rottneros' mills on measures to improve processes and quality to adapt our product offering to the needs of customers. This development work forms an integral part of production and is carried as an expense when it occurs. The total amount of the measures to improve processes and quality that are carried as an expense over the year is insignificant.

Note 9 Intra-Group buying and selling transactions

Three (4) percent of the parent company's net turnover comprised turnover from subsidiaries and 94 (90) percent of its operating costs related to purchases from subsidiaries.

Note 10 Financial income

	Group		Parent company	
	2010	2009	2010	2009
Financial income				
Interest income	1	0	0	0
Interest income from Group companies	–	–	10	13
Dividends from subsidiaries	–	–	17	38
Loan write-off	–	110	–	110
Exchange rate differences on receivables and liabilities	5	14	5	14
TOTAL	6	124	32	175

Note 11 Financial expenses

	Group		Parent company	
	2010	2009	2010	2009
Financial expenses				
Interest expenses	-6	-27	-6	-27
Write-down of shares in subsidiaries	–	–	–	-17
TOTAL	-6	-27	-6	-44

Note 12 Tax on income for the year

	Group		Parent company	
	2010	2009	2010	2009
Current tax	0	0	–	-9
Deferred tax	-13	–	-20	-18
TOTAL	-13	0	-20	-27

DEFERRED TAX FOR THE YEAR

	Group		Parent company	
	2010	2009	2010	2009
Deferred tax relating to untaxed reserves	13	22	–	–
Deferred tax expense relating to other temporary differences	-26	-22	-20	-18
DEFERRED TAX IN THE INCOME STATEMENT	-13	–	-20	-18

DIFFERENCE BETWEEN THE GROUP'S TAX EXPENSE AND THE TAX EXPENSE BASED ON THE APPLICABLE TAX RATE

	Group		Parent company	
	2010	2009	2010	2009
Pre-tax profit/loss for the year	138	-69	26	33
Tax at applicable tax rate	-36	18	-7	-9
Tax effect of non-deductible items	0	0	0	0
Tax effect of non-taxable income	0	0	4	0
Tax effect of adjusting temporary differences	4	-18	-35	-18
Tax effect of non-capitalised tax loss carry-forwards	19	–	18	–
Effect of foreign tax rates	0	0	–	–
TOTAL	-13	0	-20	-27

Tax rate

The applicable tax rate is 26.3 percent (26.3 percent).

Temporary differences

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

DEFERRED TAX LIABILITIES

Group	Excess depreciation	Derivative instruments	Other Total
As at 1 January 2009	-37	-3	-40
Recognised in income statement	22	–	22
Recognised otherwise in comprehensive income	–	1	1
As at 31 December 2009	-15	-2	-17
Recognised in income statement	13	–	13
Recognised otherwise in comprehensive income	–	-5	-5
AS AT 31 DECEMBER 2010	-2	-7	-9

DEFERRED TAX ASSETS

Group	Tax differences in fixed assets	Loss carry-forwards	Derivative instruments	Other	Total
As at 1 January 2009	0	141	0	3	144
Recognised in income statement	–	-22	–	–	-22
Reduction through deconsolidated subsidiary	–	-2	–	-3	-5
As at 31 December 2009	0	117	0	0	117
Recognised in income statement	–	-26	–	–	-26
As at 31 December 2010	0	91	0	0	91

Deferred tax assets are recognised for tax losses to the extent that it is likely that they can be used through future taxable gains. There were no loss carry-forwards for which deferred tax assets have not been recorded. Rottneros operates in a market where the volatility of pulp prices and exchange rates mean that the result can vary significantly between different years. However, the assessment is that a positive return is provided viewed over a business cycle. A large positive result was reported for 2010 and the market outlook is also good for the coming year. If we continue to have results at the 2010 level, the recorded deferred tax assets will have been utilised within three years. All loss carry-forwards are attributable to Swedish legal persons and have no predetermined due date according to applicable tax provisions.

	Group		Parent company	
	2010 31 Dec	2009 31 Dec	2010 31 Dec	2009 31 Dec
Deferred tax assets, current	–	–	–	–
Deferred tax assets, long-term	91	117	24	44
Deferred tax liabilities, current	–	–	–	–
Deferred tax liabilities, long-term	-9	-17	–	–
TOTAL	82	100	24	44

Deferred tax assets and tax liabilities are offset where there is a legal right of offset for 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	
	2010 31 Dec	2009 31 Dec	2010 31 Dec	2009 31 Dec
Deferred tax assets	82	100	24	44
Deferred tax liabilities	–	–	–	–
TOTAL	82	100	24	44

Note 13 Intangible fixed assets

GROUP	2010-12-31				2009-12-31				
	Software	Trademarks	Licences	Total	Software	Trademarks	Emission rights	Licences	Total
Opening acquisition value	37	25	8	70	37	25	12	6	80
Acquisitions for the year	1	–	–	1	–	–	–	–	–
Sales/disposals	–	–	-6	-6	–	–	-12	–	-12
Reclassification from tangible fixed assets	–	–	–	–	–	–	–	2	2
Closing accumulated acquisition value	38	25	2	65	37	25	–	8	70
Opening amortisation	-34	-25	-3	-62	-29	-25	–	-2	-56
Sales/disposals	–	–	2	2	–	–	–	–	–
Amortisation for the year	-3	–	0	-3	-5	–	–	-1	-6
Closing accumulated amortisation	-37	-25	-1	-63	-34	-25	–	-3	-62
CLOSING RESIDUAL VALUE ACCORDING TO PLAN	1	–	1	2	3	–	–	5	8

Software includes maintenance systems and production control systems.

PARENT COMPANY	2010-12-31		2009-12-31	
	Software	Total	Software	Total
Opening acquisition value	15	15	16	16
Sales/disposals	–	–	-1	-1
Closing accumulated acquisition value	15	15	15	15
Opening amortisation	-14	-14	-11	-11
Amortisation for the year	-1	-1	-3	-3
Closing accumulated amortisation	-15	-15	-14	-14
CLOSING RESIDUAL VALUE ACCORDING TO PLAN	–	–	1	1

Note 14 Tangible fixed assets

GROUP	31 December 2010							31 December 2009						
	Land	Land improve- ments	Buildings	Machinery	Equip- ment	Constr. in progress/ advances	Total	Land	Land improve- ments	Buildings	Machinery	Equip- ment	Constr. in progress/ advances	Total
Opening acquisition value	3	19	84	1,581	51	8	1,746	27	22	188	2,552	128	130	3,047
Translation difference	–	–	–	–	–	–	–	–	–	-13	-142	-8	-12	-175
Purchases/advances	0	–	1	16	1	106	124	–	–	–	4	6	–	10
Sales/disposals	–	–	–	-41	-1	–	-42	-24	-4	-105	-838	-75	-88	-1,134
Items transferred during the year	–	3	–	3	1	-4	3	–	1	14	5	–	-22	-2
Closing accumulated acquisition value	3	22	85	1,559	52	110	1,831	3	19	84	1,581	51	8	1,746
Opening depreciation	–	-5	-32	-896	-38	–	-971	–	-4	-113	-1,543	-86	–	-1,746
Translation difference	–	–	–	–	–	–	–	–	–	9	117	5	–	131
Sales/disposals	–	–	–	37	1	–	38	–	–	77	635	50	–	762
Reclassifications	–	-3	–	–	–	–	-3	–	–	–	–	–	–	–
Depreciation for the year	–	-1	-5	-88	-4	–	-98	–	-1	-5	-105	-7	–	-118
Closing accumulated depreciation	–	-9	-37	-947	-41	–	-1,034	–	-5	-32	-896	-38	–	-971
Opening write-down	–	–	–	-101	1	2	-98	–	–	-5	-291	-5	2	-299
Sales/disposals	–	–	–	6	–	–	6	–	–	5	158	3	–	166
Write-down for the year	–	–	–	-14	–	–	-14	–	–	–	–	–	–	–
Translation difference	–	–	–	–	–	–	–	–	–	–	15	–	–	15
Reversed write-downs	–	–	–	29	0	–	29	–	–	–	17	3	–	20
Closing accumulated depreciation	–	–	–	-80	1	2	-77	–	–	–	-101	1	2	-98
CLOSING RESIDUAL VALUE ACCORDING TO PLAN	3	13	48	532	12	112	720	3	14	52	584	14	10	677
Tax assessment value in Sweden	21	–	289	–	–	–	–	21	–	289	–	–	–	–

The Group did not receive any government support attributable to tangible fixed assets in 2009 and 2010.

PARENT COMPANY	31 December 2010		31 December 2009	
	Equipment	Total	Equipment	Total
Opening acquisition value	1	1	3	3
Purchases	1	1	0	0
Sales/disposals	0	0	-2	-2
Closing accumulated acquisition value	2	2	1	1
Opening depreciation	0	0	-1	-1
Sales/disposals	0	0	1	1
Depreciation for the year	-1	-1	0	0
Closing accumulated depreciation	-1	-1	0	0
CLOSING RESIDUAL VALUE ACCORDING TO PLAN	1	1	1	1

Note 15 Interest-bearing liabilities

LONG-TERM INTEREST-BEARING LIABILITIES	Group		Parent company	
	2010	2009	2010	2009
	31 Dec	31 Dec	31 Dec	31 Dec
Bank loans	–	42	–	42
Liability relating to finance leases	10	15	–	–
CLOSING BALANCE	10	57	–	42

CURRENT INTEREST-BEARING LIABILITIES	Group		Parent company	
	2010	2009	2010	2009
	31 Dec	31 Dec	31 Dec	31 Dec
Bank overdraft facility	–	–	–	–
Bank loans	25	38	25	38
Liability relating to finance leases	4	4	–	–
Other	–	2	–	–
CLOSING BALANCE	29	44	25	38
TOTAL INTEREST-BEARING LIABILITIES	39	101	25	80

'Bank loans' refers to amounts drawn on the syndicated loan and run up until 30 September 2012 with a floating rate set every three months. In January 2011 Rottneros terminated the credit and repaid the entire outstanding debt. A new secured financing agreement has been concluded, which means that Rottneros can borrow up to an amount corresponding to SEK 100m.

Pledged assets for bank loans are described below:

	Group		Parent company	
	2010	2009	2010	2009
	31 Dec	31 Dec	31 Dec	31 Dec
Floating charges	275	275	275	275
Shares in subsidiaries	407	438	288	288
CLOSING BALANCE	682	713	563	563

Interest on reporting date as follows:

	31 Dec 2010			31 Dec 2009		
	SEK	USD	EUR	SEK	USD	EUR
Bank loans	2.20	–	2.34	2.18	–	2.41

Carrying amounts and fair value for long-term borrowing are as follows:

	Carrying amount		Fair value	
	2010	2009	2010	2009
	31 Dec	31 Dec	31 Dec	31 Dec
Bank loans	–	42	–	35

The fair value of short-term borrowing corresponds to its carrying amount, as the effect of discounting is insignificant. Fair value is determined on discounted cash flow at an interest rate based on the loan rate.

Carrying amounts by currency for the Group's borrowing are as follows:

	2010	2009
	31 Dec	31 Dec
SEK	0	18
EUR	25	62
TOTAL	25	80

The Group has the following unutilised credit:

	2010	2009
	31 Dec	31 Dec
Floating rate:		
– expires within one year	–	–
– expires in more than one year	108	114
TOTAL	108	114

Consolidated tangible fixed assets includes lease objects held under finance leases as follows:

	Acquisition value		Accumulated depreciation	
	2010	2009	2010	2009
	31 Dec	31 Dec	31 Dec	31 Dec
Plant and machinery	43	43	-30	-26
TOTAL	43	43	-30	-26

Future minimum lease payments have the following maturities:

	Nominal value		Present value	
	2010	2009	2010	2009
	31 Dec	31 Dec	31 Dec	31 Dec
Within one year	4	4	4	4
Later than one year but within five years	10	15	9	13
Later than five years	–	–	–	–
TOTAL	14	19	13	17

Future minimum lease payments are recognised as a liability to credit institutions, partly as current liabilities and partly as long-term liabilities.

Consolidated results include contingent rent relating to finance lease contracts of SEK 5 (5) million.

Note 16 Operating leases

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

	Group		Parent company	
	2010	2009	2010	2009
	31 Dec	31 Dec	31 Dec	31 Dec
Due within one year	1	1	0	0
Due later than one year but within five years	0	0	0	0
TOTAL	1	1	0	0

Lease payments and lease income relating to operating leases over the year are as follows:

	Group		Parent company	
	2010	2009	2010	2009
Lease payments	1	2	0	0
Of which minimum lease payments	1	2	0	0

Note 17 Financial assets

	Group		Parent company	
	2010 31 Dec	2009 31 Dec	2010 31 Dec	2009 31 Dec
Participating interests in group companies			297	297
Deferred tax assets			24	43
Other long-term receivables	63	64	52	46
CLOSING RESIDUAL VALUE ACCORDING TO PLAN	63	64	373	386

The items above are specified below:

PARTICIPATING INTERESTS IN GROUP COMPANIES					Book value	
Parent company holdings	Corporate identity number	Reg. office	No. of participating interests	Votes/share of equity %	31 Dec 2010	31 Dec 2009
Rottneros Bruk AB	556014-4502	Sunne	2,100,000	100	89	89
Utansjö Bruk AB	556012-7994	Härnösand	500,000	100	79	79
Vallviks Bruk AB	556445-8163	Söderhamn	415,000	100	101	101
Rockhammars Bruk AB	556150-8366	Lindesberg	145,000	100	19	19
Rottneros Packaging AB	556307-5356	Stockholm	10,000	100	1	1
SIA Rottneros Baltic	000319171	Latvia	100	100	6	6
Aspen Tree Re AG	CH-170.3.025.640-6	Switzerland	1,000	100	1	1
Rottneros S.A.	RC-Brussels 660940	Belgium	615	95	1	1
TOTAL					297	297

PARENT COMPANY		
	2010 31 Dec	2009 31 Dec
Opening acquisition value	761	761
Closing accumulated acquisition value	761	761
Opening write-downs	-464	-464
Closing accumulated write-downs, net	-464	-464
CLOSING BOOK VALUE	297	297

DEFERRED TAX ASSETS		
	2010 31 Dec	2009 31 Dec
Deferred tax on temporary differences	24	43
TOTAL	24	43

OTHER LONG-TERM RECEIVABLES				
	Group		Parent company	
	2010 31 Dec	2009 31 Dec	2010 31 Dec	2009 31 Dec
Opening acquisition value	64	19	46	–
Acquired during the year	10	1	10	–
Translation difference	-4	–	-4	–
Transferred from/to current receivables	-2	46	–	46
Amortisation/dissolutions for the year	-5	-2	–	–
CLOSING RESIDUAL VALUE ACCORDING TO PLAN	63	64	52	46

Other long-term receivables in the parent company include a claim against the wholly-owned company Rottneros Miranda SA of SEK 52 million. This relates to total receivables corresponding to SEK 89 million. When Rottneros Miranda SA became the subject of reconstruction proceedings according to Spanish insolvency legislation in April 2009, the Board and President made the assessment that a write-down of the claim was necessary. The write-down made in 2009 amounted to EUR 4.1 million on 31 December 2010. As Rottneros Miranda is not included in the consolidated accounts for Rottneros after March 2009, this claim is also included under other long-term receivables for the Group.

Note 18 Inventories

	Group	
	2010 31 Dec	2009 31 Dec
Raw materials and consumables	121	101
Pulp ¹	92	114
CLOSING BALANCE	213	215

¹ Twenty-one (3) percent of the total pulp inventories has been valued at net selling price. There have been no write-downs.

Note 19 Accounts receivable

SPECIFICATION FOR ACCOUNTS RECEIVABLE				
	Group		Parent company	
	2010 31 Dec	2009 31 Dec	2010 31 Dec	2009 31 Dec
Accounts receivable, gross	150	142	36	131
Provision for doubtful receivables	0	-4	0	-4
ACCOUNTS RECEIVABLE, NET	150	138	36	127

CHANGES IN THE PROVISION FOR DOUBTFUL RECEIVABLES ARE AS FOLLOWS:

	Group		Parent company	
	2010 31 Dec	2009 31 Dec	2010 31 Dec	2009 31 Dec
Opening balance	-4	-4	-4	-4
Receivables written off over the year as uncollectable	4	-	4	-
CLOSING BALANCE	-	-4	-	-4

The book value of accounts receivable is the same as fair value and corresponds to the nominal amount. No receivables have been provided as collateral for liabilities or contingent liabilities.

As at 31 December 2010, accounts receivable included SEK 13 million (2009: SEK 11 million) which was due but for which no write-down requirement was deemed necessary. These refer to a number of independent customers that have previously not had any difficulties in meeting their payment obligations. These receivables are also covered by credit insurance, which recovers most of any bad debt losses. The ageing of these accounts payable is as follows:

	Group		Parent company	
	2010 31 Dec	2009 31 Dec	2010 31 Dec	2009 31 Dec
Less than 3 months from the due date	13	8	13	8
3 to 9 months from the due date	0	0	0	0
9 to 12 months from the due date	0	2	0	2
13 to 15 months from the due date	-	1	-	1
TOTAL	13	11	13	11

CARRYING AMOUNTS BY CURRENCY FOR ACCOUNTS RECEIVABLE ARE AS FOLLOWS:

	Group		Parent company	
	2010 31 Dec	2009 31 Dec	2010 31 Dec	2009 31 Dec
SEK	37	31	9	21
USD	44	58	8	58
EUR	64	45	18	44
Other currencies	5	4	1	4
CLOSING BALANCE	150	138	36	127

Note 20 Other current receivables

	Group		Parent company	
	2010 31 Dec	2009 31 Dec	2010 31 Dec	2009 31 Dec
Receivables from Group companies	-	-	627	643
Current receivables	53	49	33	39
Prepaid expenses and accrued income.	27	31	10	11
CLOSING BALANCE	80	80	670	693

SPECIFICATION OF PREPAID EXPENSES AND ACCRUED INCOME.

	Group		Parent company	
	2010 31 Dec	2009 31 Dec	2010 31 Dec	2009 31 Dec
Prepaid insurance premiums	4	5	0	1
Accrued income from hedging	8	1	8	1
Prepaid expenses	9	10	1	1
Accrued income from sale of green electricity	5	7	-	-
Other accrued income	1	8	1	8
CLOSING BALANCE	27	31	10	11

Note 21 Cash and cash equivalents

	Group		Parent company	
	2010 31 Dec	2009 31 Dec	2010 31 Dec	2009 31 Dec
Cash and bank balances	155	111	79	23
CLOSING BALANCE	155	111	79	23

Note 22 Shareholders' equity

Share capital and other injected capital

Parent company	Number of shares ¹	Share capital	Other injected capital	Total
As at 1 January 2009	180,212,464	94	387	481
Reduction of the share capital		-75	75	–
New issue of ordinary shares – cash	901,062,320	90	112	202
New issue of ordinary shares – offset of liabilities	444,444,444	44	156	200
As at 31 December 2009	1,525,719,228	153	730	883
New issue of ordinary shares – cash	31	0	–	0
Reverse share split	-1,373,147,334	–	–	–
Issue expenses		–	-1	-1
Payment of newly-issued subscription warrants		–	1	1
As at 31 December 2010	152,571,925	153	730	883
¹ Excluding the parent company's holding of treasury shares				
Average number of shares, 2009 ¹	26,883,870			
Average number of shares, 2010	152,571,925			

¹ Adjusted for the reverse share split implemented in April 2010.

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

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

The AGM on 22 April 2010 resolved to carry out a reverse share split, where ten existing shares are combined as one share. The AGM also resolved to have a directed new issue of 31 shares with a view to achieving a number of shares that was evenly divisible by ten. In April 2010 the directed new issue resolved at the AGM was implemented and the record day for the reverse split was 7 May 2010.

A reduction of the share capital was carried out in 2009 as well as two new share issues. The first issue was a cash issue with priority rights for the company's existing shareholders. Each existing share entitled the holder to subscribe for five new shares at SEK 0.25 per share. The issue increased Rottneros' share capital by SEK 90 million and other injected capital by SEK 112 million. The second issue was a new share issue directed at Rottneros' bank syndicate which involved offsetting loans equivalent to SEK 200 million, where the subscription price per share was SEK 0.45. The issue increased Rottneros' share capital by SEK 44 million and other injected capital by SEK 156 million. The total transaction costs relating to these issues amounted to SEK 24 million. SEK 23 million of this was deducted from issue proceeds in 2009 and SEK 1 million was charged to shareholders' equity in 2010.

Share-based incentive programme

The AGM on 22 April 2010 resolved to issue no more than 30 million subscription warrants to be used for an incentive programme for eight senior executives. Ten subscription warrants entitle the holder to subscribe for one new ordinary share in Rottneros. The subscription warrants were issued

without payment and could only be subscribed for by Rottneros wholly owned subsidiary Utansjö Bruk AB. Following subscription, eight senior executives were offered the opportunity to acquire to varying extents subscription warrants for SEK 0.10 per subscription warrant. In total, 12 million of these subscription warrants were transferred to those entitled to subscribe. Rottneros has cancelled subscription warrants that were not assigned and the dilution effect will amount to 0.8 percent in the event that all warrants are exercised.

The issue price for each ordinary share is based on the average latest price paid for a Rottneros share on NASDAQ OMX Stockholm during the period 23 April 2010 to 6 May 2010 and is determined considering Black & Scholes' valuation model so that the warrant premium amounts to SEK 0.10 at the time the subscription warrant is transferred. The issue price thus amounts to SEK 9.75 per share. Warrants may only be subscribed for during the periods 17 May 2011 to 31 March 2013 and 1 April 2013 to 16 May 2013. The lowest subscription for each warrant holder and on each occasion during the period 17 May 2011 to 31 March 2013 is ten thousand shares. Each warrant holder may only call for subscription on one occasion during the period 1 April 2013 to 16 May 2013.

A share added through subscription entitles the holder to a profit dividend from and including the first record day for dividends that occurs after the subscription has been executed to such an extent that the share is entered in the company's register of shareholders.

Dividends

A proposal will be made at the AGM on 19 April 2011 for a dividend of SEK 0.20 per share relating to the financial year 2010 (approximately SEK 31 million in total). The proposed dividend has not been recognised as a liability in these financial statements.

Management of capital risk

Rottneros' objective in respect of capital structure is to ensure that the Group is able to continue its operations 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 cost of capital down.

In order to maintain or adjust its capital structure, the Group may decide to change the dividend paid to shareholders, repay capital to shareholders, issue new shares or sell assets to reduce its debt.

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

The debt/equity ratios on 31 December 2010 and 2009 are shown below:

	2010 31 Dec	2009 31 Dec
Interest-bearing net receivables(-) /liabilities(+)	-116	-10
Equity	1,228	1,089
DEBT/EQUITY RATIO	-0.09	-0.01

CHANGE IN HEDGING RESERVE	31 DEC 2010	31 DEC 2009
Opening balance	4	3
Cash flow hedging		
- fair value gains over the year	63	5
- tax on fair value gains	-16	-1
- transfers to income statement	-43	-4
- tax on transfers to income statement	11	1
CLOSING BALANCE	19	4

Note 23 Provisions

	Group		Parent company	
	2010 31 Dec	2009 31 Dec	2010 31 Dec	2009 31 Dec
Short-term provisions				
Provision for restructuring costs	7	14	-	-
TOTAL	7	14	-	-

Provisions for restructuring costs refer to a provision for staff redundancies in conjunction with converting the control room at Rottneros in accordance with the decision made on 26 July 2007, and a provision related to the closure of Utansjö Bruk in accordance with the decision made on 8 January 2008. All provisions for converting the control room at Rottneros were utilised on 13 December 2010. Most of the provisions for the closure of Utansjö Mill are expected to be utilised in 2011 and any remainder in 2012.

PROVISION FOR RESTRUCTURING COSTS	Group		Parent company	
	2010 31 Dec	2009 31 Dec	2010 31 Dec	2009 31 Dec
Provisions at beginning of year	14	30	-	-
Provisions utilised	-7	-16	-	-
PROVISIONS AT THE END OF YEAR	7	14	-	-

Note 24 Approved credit facilities

Approved credit facilities for the parent company amount to SEK 136 (201) million and for the Group SEK 136 (201) million. Utilised credit facilities at year-end amounted to SEK 28 million (31 Dec 2009: SEK 86 million).

UTILISED CREDIT FACILITIES	Group		Parent company	
	2010 31 Dec	2009 31 Dec	2010 31 Dec	2009 31 Dec
Falling due later than one year	-	46	-	46
Falling due within one year	28	40	28	40
Of which:				
Bank overdraft facility	-	-	-	-
Syndicated loan	28	86	28	86
TOTAL	28	86	28	86

A new syndicated loan was raised in 2008 corresponding to USD 83.3 million. In December 2009, the equivalent of SEK 200 million of credit was converted into equity and the

entire syndicated loan was renegotiated at the same time. The renegotiated syndicated loan is structured in two tranches equivalent to SEK 91 million, together with a 'revolver facility', which may be used as required of up to the equivalent of approximately USD 16 million. This credit applies until 30 September 2012. The average interest rate was 2.3 per cent on 31 December 2010. The loan facility is linked to a number of financial conditions and key ratios.

In January 2011 Rottneros terminated the syndicated loan and repaid the entire outstanding debt. A new secured financing agreement has been concluded, which means that Rottneros can borrow up to an amount corresponding to SEK 100 million.

Note 25 Other non-interest-bearing liabilities

	Group		Parent company	
	2010 31 Dec	2009 31 Dec	2010 31 Dec	2009 31 Dec
Liabilities to Group companies	-	-	25	178
Other liabilities	16	11	1	1
Accrued expenses and deferred income	112	91	11	16
CLOSING BALANCE	128	102	37	195

SPECIFICATION OF ACCRUED EXPENSES AND PREPAID INCOME

	Group		Parent company	
	2010 31 Dec	2009 31 Dec	2010 31 Dec	2009 31 Dec
Holiday pay liability	23	24	2	3
Social security contributions	7	8	2	3
Payroll liability	8	8	-	-
Excise duties	1	2	-	-
Interest expenses	0	0	0	0
Delivery costs	10	6	6	6
Accrued cost of repairs	10	1	-	-
Waste disposal charges	4	8	-	-
Raw material costs and input goods	21	14	-	-
Emission rights	4	1	-	-
Other accrued expenses	24	19	1	4
CLOSING BALANCE	112	91	11	16

Note 26 Contingent liabilities

The parent company and the Group have contingent liabilities relating to guarantees that amount to SEK 6 (6) million. Collateral has been provided for this year's contingent liabilities in the form of blocked bank accounts of SEK 4 (0) million.

Note 27 Other information

For information about events occurring after the end of the financial year, please refer to page 36 of the Directors' report.

For information about risks faced by the company, see the 'Risk' section on page 27 and in the Directors' Report, page 36.

Audit report

To the annual general meeting of the shareholders of

Rottneros AB (publ)

Corporate identity number 556013-5872

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the managing director of Rottneros AB (publ) for the year 2010. The company's annual accounts and consolidated accounts are included in the printed version of this document on pages 36–83. The board of directors and the managing director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards (IFRSs) as adopted by the European Union and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration of the company based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director and significant estimates made by the board of directors and the managing director when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the managing director. We also examined whether any board member or the managing director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with international financial reporting standards (IFRSs) as adopted by the European Union, as well as the Annual Accounts Act, and give a true and fair view of the Group's financial position and results of operations. A corporate governance report has been prepared. The directors' report and corporate governance report are consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual meeting of shareholders that the income statements and balance sheets of the parent company and the Group be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the directors' report and that the members of the board of directors and the managing director be discharged from liability for the financial year.

Stockholm, 3 March 2011

Öhrlings PricewaterhouseCoopers AB

Magnus Brändström

Authorised Public Accountant
Chief Auditor

Six-year review

GROUP PERFORMANCE IN SUMMARY

	2010	2009	2008	2007	2006	2005	
						Remaining operations	Total
FACTORS AFFECTING TURNOVER							
Pulp price, NBSK list price (USD) ¹	930	657	852	794	675	611	
USD/SEK ²	7.21	7.65	6.58	6.76	7.37	7.48	
Pulp price, NBSK list price in SEK	6,705	4,989	5,617	5,368	4,977	4,565	
Rottneros' deliveries (tonnes)	330,300	376,700	617,900	714,700	699,500	666,700	
Sales and income (SEK m)							
Net turnover	1,684	1,508	2,663	2,927	2,690	2,411	2,429
Operating profit/loss before depreciation	224	-62	-82	75	148	9	48
Depreciations and write-downs	-86	-104	-224	-435	-155	-138	-138
Operating profit/loss after depreciation	138	-166	-306	-360	-7	-129	-90
Net financial items	0	97	-79	-24	-16	-12	-13
Profit/loss after net financial items	138	-69	-385	-384	-23	-141	-103
Profit/loss after tax	125	-69	-331	-301	-8	-91	-63
Balance sheet items (SEK m)							
Fixed assets	867	849	1,149	1,123	1,363	1,435	
Inventories	213	215	447	493	397	430	
Current receivables	259	230	391	572	570	595	
Cash and cash equivalents	155	111	45	121	122	125	
Assets attributable to discontinuing operations	-	-	-	-	-	26	
Shareholders' equity	1,228	1,089	810	1,050	1,403	1,523	
Long-term interest-bearing liabilities	10	57	692	173	177	180	
Long-term non-interest-bearing liabilities	0	1	14	49	85	118	
Current interest-bearing liabilities	29	44	82	452	304	375	
Current non-interest-bearing liabilities	227	214	434	585	483	405	
Liabilities attributable to discontinuing operations	-	-	-	-	-	10	
Total assets	1,494	1,405	2,032	2,309	2,452	2,611	
Key ratios							
Operating margin (%)	8.2	-11.0	-11.5	-12.3	-0.3	-5.3	-3.7
Profit margin (%)	8.2	-4.6	-14.4	-13.1	-0.9	-5.8	-4.2
Return on capital employed (%)	11.6	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
Return on equity after tax (%)	10.8	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
Equity/assets ratio (%)	82	78	40	45	57	58	58
Debt/equity ratio (ratio)	-0.1	0.1	1.0	0.6	0.3	0.4	0.4
Interest coverage ratio (ratio)	26.2	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
Other							
Investments (SEK m)	125	10	191	163	113	234	234
Average no. of employees (no.)	308	387	667	718	754	804	804

¹ PIX price was the source for the NBSK list price

² Source: The Riksbank's yearly average

Glossary

GLOSSARY			
AOX	Absorbable organic halogens.	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.
BEK	Bleached Eucalyptus Kraft, bleached eucalyptus pulp.	NBSK	Northern Bleached Softwood Kraft: bleached long-fibre sulphate pulp. The leading indicator of world market prices.
BOD	Biological Oxygen Demand, biological method for measuring oxygen-demanding substances.	Norscan	Canada, the United States, Sweden and Finland.
Bulk	Volume, inverted value for density expressed as cm ³ /g.	Nutrient salts	These consist of various phosphorus and nitrogen compounds which have a fertilising effect in the recipient.
Chemical pulp	Pulp produced by cooking pulpwood together with chemicals. Has higher brightness and strength than mechanical pulp.	Opacity	Degree of opaqueness.
COD	Chemical Oxygen Demand, chemical method for measuring oxygen-demanding substances.	Scm ub	Solid cubic metre under bark, used to measure pulpwood.
CTMP	Chemi-Thermo-Mechanical Pulp. Development of TMP, where the raw material is impregnated with chemicals. Stronger than TMP.	Shives content	Proportion of unseparated fibres found in the pulp.
ECF	Elemental Chlorine Free, sulphate pulp bleached using chlorine dioxide only.	Sulphate	Method for producing chemical pulp.
EPIS	European Pulp Industry Sector.	Sulphite	Like sulphate, but using a different cooking technique, different chemicals and with a different chemical recovery.
Grammage	Weight of paper per surface unit, expressed as g/m ² .	TCF	Totally chlorine-free bleached sulphate pulp.
Groundwood pulp (SGP)	Mechanical pulp made from roundwood.	TMP	Thermo-Mechanical Pulp: mechanical pulp produced using a technique in which the chips are preheated with steam.
Latency	The deformed condition of pulp fibre.	ULWC	Ultra Light Weight Coated. Similar to LWC but with a lower grammage.
Lignin	Polymer compound consisting mainly of phenylpropane units; the main binding agent for wood fibre.	UKP	Unbleached Kraft Pulp: unbleached sulphate pulp.
LWC	Light Weight Coated, a type of coated paper often used for catalogues and magazines.		

Definitions of key ratios

Equity/assets ratio	Shareholders' equity as a percentage of the balance sheet total.
Interest-bearing net receivables/liabilities	Liquid assets minus interest-bearing liabilities.
Debt/equity ratio	Interest-bearing net receivables/liabilities divided by shareholders' equity.
Operating margin	Operating profit after depreciation as a percentage of net turnover for the year.
Profit margin	Profit after net financial items as a percentage of net turnover for the year.
Net profit/loss	Net profit/loss is the profit/loss after tax.
Earnings per share	Net profit/loss divided by the average number of shares.
Return on capital employed	Profit after net financial items, plus interest expense divided by average capital employed.
Capital employed	Balance sheet total less non-interest-bearing operating liabilities including deferred tax liabilities.
Return on equity	Net profit as a percentage of average shareholders' equity.
Interest coverage ratio	Profit after net financial items plus interest expense divided by interest expense.
P/E ratio	Closing share price at year-end in relation to earnings per share after tax.
Direct yield	Dividend as a percentage of the closing share price at year-end.
Operating cash flow/share	Cash flow from operations and normal investments divided by the number of shares.

Annual general meeting

Shareholders are welcome to attend the Annual General Meeting of Rottneros AB at 10 am on Tuesday 19 April 2011 at Hotel Selma Spa in Sunne, Sweden. Registration for the AGM will commence at 9.30 am.

Shareholders wishing to attend the AGM must

- be registered in the register of shareholders maintained by Euroclear Sweden AB on Wednesday 13 April 2011, and
- notify the company no later than Wednesday 13 April 2011 via Rottneros' website www.rottneros.com, by telephone +46 8 590 010 00 or by fax +46 8 590 010 01. Notification can also be given in writing to Rottneros AB, Box 70 370, SE-107 24 Stockholm, Sweden. When registering, please provide your name, personal/corporate ID number, address, telephone number, together with the number of any assistants (no more than two).

Shareholders who have their shares registered in the name of a nominee through a bank or another manager must ask to be temporarily entered in the register of shareholders on Wednesday 13 April 2011 in order to be entitled to attend the AGM. Shareholders must notify the nominee of this well in advance of this date.

A shareholder may appoint one or more proxies and shall in this case issue an authorisation for the proxy that is dated and in writing. This authorisation shall apply for no more than one year from issue, unless a longer period of validity is specifically stated, though no longer than five years. If the authorisation is issued by a legal entity, a copy of the registration certificate should be attached or, if no such document exists, a corresponding document confirming authorisation. This document confirming authorisation must be dated within the past year. To facilitate entry to the AGM, an original authorisation together with a registration certificate and other documents confirming authorisation should be submitted to the above address no later than Friday 15 April 2011. Authorisation forms in Swedish and English are available from the company's website, www.rottneros.com.

The Annual Report

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