

# Annual General Meeting Report

## SUMMARY OF THE PRESIDENT'S STATEMENT

### Major challenges

“2006 brought a number of major challenges for Rottneros. In addition to a long period of time with no real boom in the economy, electricity prices were unacceptably high and wood prices were also high during the latter part of the year. The high wood prices were mainly due to disruptions in the wood flow resulting from wet and warm weather in Sweden, the Baltic region, Finland and the western part of Russia.” These were comments by Rottneros’ President Lars Blecko in his statement at the Annual General Meeting in Sunne on Wednesday, 25 April.

He added that the 2006 result, a loss of SEK 23 million after net financial items, was unsatisfactory, even though the trend turned around at the end of the year resulting in a profit of SEK 21 million for the last quarter. The positive aspects to report for 2006 include the fact that Rottneros now has a strong balance sheet with an equity/assets ratio of 57 % and that the Group, as a result of the cost-cutting programme announced in February 2006, was able to reduce costs by SEK 40 million in 2006.

When Lars Blecko summed up 2006, he said that the ongoing investment in a new steam turbine at Vallvik Mill combined with greater energy efficiency use will reduce the Group’s energy consumption per tonne by almost 20 % in 2008. He also pointed out that Rottneros set new production records during the year and that the Group started producing food packaging made from pulp fibre in 2006 under the SilviPak brand. Lars Blecko added that the Group entered into trade union negotiations during the autumn regarding ceasing operations at Utansjö Mill and moving the plant overseas as a response to the high electricity prices in Sweden.

### Strategic measures

Lars Blecko described a number of strategic measures aimed at achieving better results.

- The ongoing *cost-cutting programme*, through energy savings, increased productivity, more efficient raw material use and reduced fixed costs etc. will result in savings of SEK 100 million in 2008. The plan for 2007 is for savings to reach up to SEK 85 million.
- *The niche strategy*, which the Group has been working with for a long period of time, will be further intensified through, among other things, more investment in technical marketing, an increased focus on Europe by the sales organisation, and improving customer support.
- *Energy efficiency measures*, which in 2006 led to a reduction in energy consumption per tonne of pulp by 6 %, will continue and will lead to a reduction so that in 2008 the Group will use 20 % less electricity per tonne of pulp produced. This will be achieved through, among other things, energy savings, building up the Group’s own energy production and technological developments.

- In March it was announced that the Rottneros Group and the South African forest company NCT had signed a letter of intent to jointly evaluate the possibility of building a jointly-owned mill for the production of mechanical pulp of the CTMP type in South Africa. If the outcome of the evaluation is positive, the CTMP line at *Utansjö Mill* will be moved to South Africa. If Rottneros enters into an agreement with NCT at the end of 2007/beginning of 2008, a new mill could be up and running in 2009, which would mean that Utansjö Mill would continue to operate at its current capacity until the end of 2008. The part of Utansjö Mill that would be moved is the CTMP line, which has only been in operation since April 2005. Negotiations on the closure are still under way and no definitive plan has been drawn up as yet. The benefits of establishing an operation in South Africa include an ample supply of wood and good infrastructure in Richards Bay where the mill is planned to be located. There is an established paper industry in South Africa and energy and wood prices are low.
- In 2006 the *Rottneros Packaging* business area was launched to produce food packaging made from fibre pulp under the SilviPak brand. The aim was to reduce dependence on the pulp market situation and the USD rate. One year after the launch, we now know that the business concept and the product are viable. We are currently delivering the product to a number of customers and are looking into the possibility of producing the packaging solution in Spain as well.

### **Problematic electricity and wood prices**

Lars Blecko also described the Group's situation with respect to electricity. Rottneros is one of Sweden's biggest electricity consumers and the Group's costs rise as the electricity price hedging levels subside. For 2007 around 90 % of the consumption is hedged at SEK 0.31/kWh, but the levels will subsequently fall as it has not been possible to enter into long-term forward contracts at reasonable price levels.

Lars Blecko emphasised the fact that electricity prices in Sweden are increasing more than in competitor countries and that this is partly due to the Government's energy policy and partly to a lack of competition among producers, which is detrimental to the basic industries and poses a serious threat to mechanical pulp production.

Addressing the wood issue, Lars Blecko said that, despite long-term relationships with forest owners and the Group's own purchasing organisations in the Baltic region and Portugal, the problems are both short term and long term in nature. In the short term, the prices have been affected by the warm weather in Sweden, the Baltic region and Russia, by the storm "Per" and by the fact that there is currently a high demand for wood in both the paper & pulp and the sawmill industries. In the long term, the main problems are Russian export duties for wood, competition from the bioenergy market and the effects of the storms "Gudrun" and "Per."

### **Strong cash flow**

Lars Blecko returned to the 2006 result and stated that a loss of SEK 23 million is, of course, unsatisfactory, but that the fourth quarter was the first period since the second quarter of 2005 to show a profit. It is important to note that the cash flow from current operations has improved

considerably, with an increase of SEK 204 million compared to 2005. This has been used to lower the level of indebtedness, which has resulted in an equity/assets ratio of 57 %.

The result for the first quarter of 2007 – a profit after net financial items of SEK 14 million – is, according to Lars Blecko, too low but acceptable. The quarter was characterised by a strong market, good production and delivery volumes, but a sharp increase in the cost of wood. He pointed out that the cost-cutting programme reduced costs for the quarter by around SEK 15 million.

### **Several strength factors**

Lars Blecko identified a number of the Group's strength factors moving into 2007:

- The status of the market is still positive and well balanced
- The cash flow and financial position are strong
- The production volumes are high
- The cost-cutting programme is effective
- A solution for Utansjö has been initiated
- The packaging division is growing

He pointed out, however, that the electricity price situation, despite assiduous efforts to find a solution, is unchanged with high prices being sustained in the long term. Around 90 % of electricity consumption is hedged at SEK 0.31 in 2007. Lars Blecko considers the wood issue to be the major challenge of 2007 with the sustained high prices and increased competition with the fuel sector for wood. In this respect, he regards the fact that 50 % of the pulp produced by Rottneros is mechanical pulp as an advantage because this process utilises almost all of the wood raw material. Unfortunately this area is heavily impacted by the high price of electricity.

Entering into 2007, Lars Blecko sees electricity prices, the weak USD rate and wood prices as problematic, while he regards Rottneros' strong financial position, a balanced market with rising prices, the good condition of the Group's plants and the cost-cutting programme as strength factors.

Although there are many positive factors at this time, Lars Blecko pointed out that it is difficult to run mechanical pulp production operations in Sweden and this is the reason Rottneros is spreading the risk by manufacturing food packaging and has plans to establish an operation in South Africa.

### **APPROPRIATION OF PROFITS**

The Annual General Meeting approved the proposal from the Board and the President on a dividend for the 2006 financial year of SEK 18,021,246, which is equivalent to SEK 0.10 (0.10) per share, and for SEK 618,501,610 to be carried forward. The record date for entitlement to dividend will be 30 April and the dividend is expected to be paid out by the Swedish Securities Register Centre (VPC) on 4 May 2007.

### **BOARD OF DIRECTORS**

At the Annual General Meeting Lars Blecko, Johan Holmgren, Ingrid Lindquist, Bengt Nordin and Ingrid Westin Wallinder were re-elected to the Board, and Per Eiritz, Rune Ingvarsson and

Kjell Ormegard were elected as new members. Bengt Nordin was elected as Chairman of the Board.

### **AUDITORS**

At the Annual General Meeting the registered auditing firm, PricewaterhouseCoopers AB, was reappointed as the Group's auditor for a period of four years until the conclusion of the 2011 Annual General Meeting. Magnus Brändström was named as Senior Auditor until further notice.

### **AUTHORISATION TO TRANSFER TREASURY SHARES**

The Annual General Meeting authorised the Board, for the period until the next AGM, on one or more occasions, to take decisions regarding the transfer of shares in the company (shares previously acquired under the company's buy-back programme). The company may transfer no more than the amount of treasury shares held by the company at any given time.

### **NOMINATING COMMITTEE**

The Annual General Meeting resolved that the Nominating Committee will consist of the Chairman of the Board and two members. The Chairman of the Board may not be appointed Chairman of the Nominating Committee. One of the independent committee members shall be a representative of the company's biggest shareholder and one shall be a representative of one of the company's four other biggest shareholders.

### **THE BOARD'S COMMITTEES**

The Board is authorised to appoint members from within its ranks to serve on the Audit Committee, the Finance Committee and the Compensation Committee.

Upplands Väsby, 25 April 2007  
Rottneros AB (Publ.)

Rottneros is one of the world's leading independent producers of market pulp. The Group comprises the parent company Rottneros AB, listed on the Stockholm Stock Exchange, and its subsidiaries Rottneros Bruk AB, Rockhammars Bruk AB, Utansjö Bruk AB and Vallviks Bruk AB in Sweden and Rottneros Miranda, S.A. in Spain, all with operations involving the production and sale of market pulp. The Group also includes the wood procurement companies SIA Rottneros Baltic in Latvia and Rottneros Madeiras in Portugal, as well as the sales company Rottneros S.A. in Belgium. The Group now has a new business area, Rottneros Packaging, which produces food packaging made from paper pulp. The Group has around 750 employees and a net turnover of approximately SEK 2.7 billion.