# KORSNÄS AB

Corporation registration number
556023-8338

Annual report 2011

# Board of Directors, Senior Executives and Auditors

**Vigo Carlund**
**Chairman**
*Board member since 2001 and Chairman since 2002.*
Born 1946. Member of the Board of Investment AB Kinnevik since August 2006, President and CEO of Kinnevik 1999-2006. Chairman of the Board of Tele2 AB since 2006 and member of the board since 1995. Member of the Board of Academic Work Solutions AB since 2006 and Net Entertainment NE AB since 2008. CEO of Korsnäs 1998-2000.

**Mia Brunell Livfors**
*Board member since 2006.*
Studies Business Administration at Stockholm University, born 1965. President and CEO of Investment AB Kinnevik since August 2006. Chairman of the Board of Metro International S.A. since 2008, member of the board since 2006. Member of the Board of Mellersta Sverige Lantbruks AB since 2006, Tele2 AB since 2006, Transcom WorldWide S.A. since 2006, Millicom International Cellular S.A. since 2007, Modern Times Group MTG AB since 2007 and H & M Hennes & Mauritz since 2008.

**Leif Brodén**
*Board member since 2007.*
International Economics, Gothenburg School of Economics and MBA Stockholm School of Economics, born 1960. President and CEO of Södra Skogsägarna. Chairman of the Swedish Forest Industries Federation. Chairman of the Board of Södra Cell, Södra Timber and Gapro. Member of the Board of Växjö University.

**Ole Kjörrefjord**
*Board member since 2004.*
MBA Harvard Business School, USA, born 1955. Chairman of the Board of Hector Rail AB, Fleetech AB and Fleet 101 AB. CEO of EuroMaint AB.

**Wilhelm Klingspor**
*Board member 1999-2000 and since 2003.*
Forest Engineer, Skinnskatteberg, Swedish University of Agricultural Sciences, born 1962. Member of the Board of Investment AB Kinnevik since 2004, Industriförvaltnings AB Kinnevik 1999-2004. CEO of Hellekis Säteri AB.

**Stig Nordin**
*Board member between 1992-2000 and since 2004.*
M.Sc. Engineering, Chalmers University of Technology, born 1943. Member of the Board of Investment AB Kinnevik, since 2004 and Industriförvaltnings AB Kinnevik 1992-2004. President and CEO of Industriförvaltnings AB Kinnevik 1992-1999 and CEO of Korsnäs 1993-1998.

**Hannu Ryöppönen**
*Board member since 2010.*
Business Administration, Gothenburg School of Economics, born 1952. Deputy CEO at Stora Enso oyj until March 2009. Former Financial Director of Ahold, Industrikapital and IKEA. Chairman of the Board of Altors Private Equity funds and Tiimari Oyj, Boardmember for Amer Sport Corporation Oyj, Novo Nordisk A/S, Neste Oil Oyj and Vice Chairman of the Board of Rauta ruukki.

**Ola Hallberg**
*Employee representative/Board member since 2007 and Employee representative/Deputy since 2006.*
Timber controller, born 1965.

**Bo Myrberg**
Employee representative/Deputy since 2009 and Employee representative Board Member since 2008.
Process operator, born 1967. Employee representative/Board member in Investment AB Kinnevik since 2009 and was Employee representative/Deputy 2008.

**Hans Holmén**
*Employee representative/Deputy since 2007.*
Mechanic, born 1955.

**Per Eriksson**
*Employee representative/Board member since 2009 and Employee representative/Deputy since 2006.*
Assistant boiler-man, born 1955.

**Christer Simrén**
*Chief Executive Officer.*
(Not a member of the board)
Dr Science Industrial Management and Economics and M.Sc. Electral & Computer Engineering at Chalmers University of Technology, BA Accounting and Financial Control at Gothenburg School of Economics, born 1961. Started present position as Chief Executive Officer of Korsnäs on September 1, 2008. Previously President and CEO of Mediabricks (today Handmark US), vice President and CEO of Korsnäs 1999 2001, Managing Director Applied Value Scandinavia, Managing Director CHAMPS (Chalmers Advanced Management Programs). Chairman of the Board of Sia Latgran. Member of the Board of AB Gevenko.

**Auditors**
At the Annual General Meeting 2008 the Audit firm Ernst & Young AB with Thomas Forslund as auditor in charge, was appointed Company auditor for the period extending to the close of 2012 Annual General Meeting.

**Thomas Forslund**
Authorized Public Accountant, born 1965.
Thomas Forslund has audit engagements in a number of listed companies such as Feelgood, Systemair and WeSC.

# Board of Directors´ Report

Korsnäs AB is a wholly-owned subsidiary of Investment AB Kinnevik 556023-8338, corporate registration number 556047-9742 with registered office in Stockholm.

The financial reports were approved by the Board on 19 March 2012 and the Board of Directors and CEO herewith present the annual and consolidated financial statements for the financial year 2011. The balance sheets and the income statements for the Group and Parent Company will be presented at the Annual General Meeting to be held on 20 April 2012 for approval.

| Key data (SEK million) | 2011 | 2010 |
|---|---|---|
| Revenue | 8 254 | 8 178 |
| Operating profit, EBIT | 907 | 926 |
| Investments in tangible fixed assets | 687 | 604 |
| Depreciation | -608 | -602 |
| Operational capital employed, average | 8 251 | 7 810 |
| Return on operational capital employed | 11,0% | 11,9% |
| Number of employees | 1 772 | 1 760 |

**History**

Korsnäs was established as a company in 1855, with sawmill operations commencing in 1858 in Korsnäs in the province of Dalarna. In 1899, operations moved to Gävle and in 1910 pulp manufacturing got under way at the Korsnäs mill in Gävle, followed in 1925 by the installation of the company's first paper machine. Paperboard and paper manufacturing were steadily expanded to become Korsnäs' primary operations and Korsnäs Industrial is today one of the leading manufacturers of virgin fiber-based packaging materials, primarily for consumer products. As part of the expansion in packaging materials, Korsnäs acquired the Frövi paperboard mill in 2006. The industrial operations center on the Korsnäs mill in Gävle and on the production facility in Frövi with annual capacity of 700 thousand tons and 425 thousand tons, respectively, of paper and paperboard products. The company currently has four production machines: Paper Machine ("PM") 2, 4 and 5 in Gävle as well as the Board Machine ("BM") 5 in Frövi. The plant in Gävle is self-sufficient in pulp, while the annual pulp capacity in Frövi is 300 thousand tons. In 2009, Korsnäs acquired a facility for production of CTMP pulp in Rockhammar. After implementation of existing plans to increase production in Rockhammar, Korsnäs will become self-sufficient in pulp for its entire production of paper and carton board.

Korsnäs has long pursued a targeted strategy of focusing on highly processed products. As a result, paperboard has become the largest product area in terms of volume, with liquid packaging board used for beverage packaging and White Top Kraft Liner ("WTL") used as the outer layer in corrugated packaging, while carton board is used primarily for packaging cosmetics, luxury drinks, confectionery and frozen food.

In 2002 Korsnäs terminated its involvement in the sawmill business by selling the Kastet sawmill. During 2002 and 2004, Swedish forest holdings were also sold via two transactions. In 2002, more than a third of the forest holdings were sold to Sveaskog and in 2004 the remainder was transferred to Bergvik Skog, a newly established company in which Korsnäs holds 5% of the shares. After these divestments, Korsnäs Swedish forest holdings consist of about 15,000 hectares of special land and rights.

**Consolidated earnings**

Total revenue for the year amounted to SEK 8,254 million, compared with SEK 8,178 million in the preceding year.

Operating profit amounted to SEK 907 million (926). Operating profit for 2011 includes an insurance compensation of SEK 45 m, relating to damage to the soda recovery boiler in Frövi which caused some shorter production shutdowns in 2009 and 2010. Operating profit for the current year has been negatively affected by disruptions in a turbine in Gävle (included below in costs of energy). The disruptions is estimated to have caused additional costs of SEK 40 m. Operating profit was also negatively affected by higher costs for wood and chemicals which was not fully compensated for by higher sale prices. Costs of energy where, despite the negative effects from the dispruptions in the turbine, lower than previous year due to energy investments in Gävle and lower electricity prices. The result for 2010 included a strike remuneration of SEK 84 m from Svenskt Näringsliv as a compensation for direct costs resulting from an labour dispute.

Other financial income and expenses amounted to a net expense of SEK -55 million (-7), of which net interest expenses were SEK 137 million (expense of 64). The increased net interest expenses is mainly explained by an increased interest rate.

Profit after financial items amounted to SEK 852 million (919).

Reported tax expense amounted to SEK -191 million (-218)

| Explanation to change in operating profit (SEK m) | |
|---|---|
| Operating profit 2010 | 926 |
| Delivery and production volumes and changed in product mixture | 76 |
| Sales prices including currency effects | 142 |
| Cost changes for chemicals | -73 |
| Cost changes for pulpwood and external pulp | -182 |
| Cost changes for energy | 95 |
| Change in fixed costs | -63 |
| Insurance compensation | 45 |
| Received strike renumeration | -84 |
| Other | 25 |
| **Operational profit current year** | **907** |

**Cash flow and investments**

The Group's cash flow from current operations excluding change in working capital amounted to SEK 1,270 million (1,201) during the year. The improved cash flow is attributable mainly to lower tax payments (SEK 64 million) compared to the previous year. Working capital increased by SEK 438 million (decreased 113). Working capital includes an negative effect from an increased inventory of SEK 472 million (decreased by 59).

Investments in tangible fixed assets amounted to SEK 687 million (604) during the year.

Investments in shares and other securities amounted to SEK 112 million (115) and relates to the investment in Bomhus Energi AB.

**Liquidity and financing**

The Group's available liquidity, including short-term investments and available credit facilities, totaled SEK 902 million on 31 December, 2011 and SEK 792 million at 31 December, 2010.

The Group's interest-bearing net debt amounted to SEK 2,948 million at 31 December, 2011 and SEK 2,322 million at 31 December, 2010. All loans have fixed interest terms of no longer than three months and carry an interest rate according to Stibor or similar base rate and an average margin of 1,7%. On 31 December 2011, the average remaining duration for all credit facilities amounted to 3,9 years

Of the Group's interest expenses and other financial costs of SEK- 224 million (-135), interest expenses amounted to SEK -206 million (-125). This means that the average interest rate for the year was 4.2% (2.5%) (calculated as interest expense in relation to average interest-bearing liabilities).

The Group's borrowing is primarily arranged in SEK. On an annual basis, the net flow in foreign currencies is a net inflow of about SEK 600 million, comprised mainly of Korsnäs' sales in EUR and GBP.

**Korsnäs Industrial**

| Key data (SEK million) | 2011 | 2010 |
|---|---|---|
| Revenue | 7 129 | 7 148 |
| Operating profit, EBIT | 859 | 879 |
| Investments in tangible fixed assets | 674 | 595 |
| Depreciation | -601 | -596 |
| Operational capital employed, average | 7 893 | 7 458 |
| Return on operational capital employed | 10.9% | 11.8% |
| Number of employees | 1 550 | 1 527 |

**Key events during 2011**

**Market**

From a stable market position in the first quarter, the market since the second quarter has been characterized by uncertainty with caution among the customers who reduced their inventory volumes and delayed their orders due to uncertainty of the direction of the market. Compared with 2010, which was characterized by strong demand, the demand in 2011 was generally lower.

At the beginning of the year, Korsnäs´ inventory levels were low and during the second quarter the Frövi mill experienced production problems. This meant that the deliveries in the first six months of 2011 were impacted by a shortage of materials, while deliveries during the second half of the year were affected by uncertainty in the market.During the year, sales of paper and cartonboard amounted to 1,002,000 tons, compared with 1,021,000 tons in 2010. Price increases were implemented from 1 January 2011 in accordance with the contracts with major liquid packaging board customers and price increases where also implemented in other product areas during the first nine months. During the fourth quarter prices remained unchanged.

As of today customers are increasingly demanding various types of products and delivery solutions and Korsnäs is seeking to meet these demands using high quality and lower overall customer cost. Korsnäs´ long-term strategy of focusing on growth markets and offering differentiated, niche products that meet high standard requirements in terms of strength, printability, formability and runnability in converting, proved successful during the year with increase volumes within prioritized growth areas.

**Liquid Packaging Board**

Liquid Packaging Board is used to manufacture packaging, primarily for dairy products and other beverages, a market that is continuing to grow, mainly in Asia and Eastern Europe. Primarily, coated Liquid Packaging Board is showing growth, as a result of end-users' increased demand for print quality on the finished packaging. Korsnäs deliveries of liquid packaging board has increased with 6% compared to prior year. Price increases were implemented in accordance with the multi-year agreements that Korsnäs has with a number of customers regarding Liquid Packaging Board deliveries. Other major suppliers of Liquid Packaging Board include Stora Enso and Klabin. There is also competition from other packaging materials, primarily plastic bottles.

**Carton board**

Korsnäs carton board is used primarily in selected segments for packing cosmetics, luxury drinks and confectionery. Within carton board, deliveries declined compared with 2010 due to lower demand at the end of the year in combination with a reduction of customer inventory levels. Deliveries of carton board with white reverse side, Korsnäs White, increased in line with the company´s target.. Carton board competitors include Stora Enso, M-Real and Holmen.

**White Top Kraft Liner (WTL)**

WTL is used as the surface layer on corrugated packaging. The market for WTL in Europe declined in 2011. Korsnäs´ total sales of WTL declined during the year as a result of a decreased demand. However, deliveries of coated WTL increased in line with the company´s long-term strategy. There are a number of suppliers in the market, with M-Real as the main competitor.

**Sack and kraft paper**

Sack and kraft paper are used for sacks, carrier bags and food packaging. The demand for sack and kraft paper weakened during the later part of the year. The market for white paper, which is the segment on which Korsnäs has been focusing for a couple of years, now has a relatively good balance between supply and demand and has therefor not decreased in the same extent. Korsnäs sales of white paper increased in 2011, while total volumes of sack and kraft paper decreased somewhat.

Billerud and UPM Kymmene are the main competitors in this area.

**Production**

Production for 2011 amounted to 1,061,000 tons, compared with 1,019,00 tons in 2010. The produced volumes during 2011 have been effected by a number of minor operational problems at the Gävle plant during the fourth quarter which resulted in a production loss of approximately 15,000 tons (in addition to the production loss due to the 11 days maintenance stop), as well as production problems at the Frövi plant during the second quarter resulting in a production loss of approximatly 10,000 tons of paper and carton products. During 2010, Korsnäs production was impacted by production losses of approximately 59,000 ton (whereof 21,000 tons during the fourth quarter) due to unscheduled maintenance stops as well as a labour conflict.

As a result of energy investments in Gävle the energy costs have been reduced significantly compared with 2010. The new evaporation plant that came into operation in May 2010 has decreased the oil consumption well in line with the anticipated savings of 19,000 m3 annually. However, in April 2011 a turbine in Gävle broke down which resulted in an operational stop of the turbine that lasted until the end of July. The stop is estimated to have resulted in additional costs of approximately SEK 40 m.

**Investments and maintenance stop**

In March 2010, Korsnäs signed an agreement with Gävle kommun to invest in Bomhus Energi AB (“Bomhus”), a jointy owned company which will perform the construction of a new bioenergy facility at the Korsnäs plant in Gävle. The aim of the new bioenergy facility is to, from 2013, assure delivery of eco-friendly electricity and steam to Korsnäs’ plant in Gävle as well as district heating to Gävle Energi’s customers. All main components have been purchased within the project’s budget and construction is proceeding as planned. For Korsnäs, the investment of 50% of the shares and subordinated loans in Bomhus will amount to approximately SEK 320 m, of which SEK 115 m was paid during 2010 and SEK 112 m during the 2011. In addition to the investment in Bomhus Energi, Korsnäs is making further energy investments of about SEK 145 m in the existing plant for the delivery of waste heat to Gävle Energi AB, of which SEK 66 m was paid in 2010 and SEK 29 m in 2011.

During the third quarter 2011, a decision was made to invest SEK 270 m in the rebuilding of PM5 in Gävle. The rebuild will affect several parts of the machine and is an quality investment to improve carton board quality. The rebuild will be performed during the scheduled maintenance stop in autumn 2012.

Decisions have also been made to install a new wash press and to modify the oxygen phase in Fiber-line 3 in Gävle. The reconstruction is expected to increase the wood replacement and decrease requirements of bleaching chemicals. The investment amounts to SEK 95 m, of which SEK 29 m was paid in 2011.

In July, a court decision from Miljödomstolen was issued. According to the decision, Korsnäs must additionally reduce emissions of TOC (Total Organic Carbon, oxygen-consuming substances) from the plant in Gävle. Consequently, Korsnäs must invest approximately SEK 200-300 m in its external purification facility in 2014. Korsnäs has appealed the decision from Miljödomstolen and a review dispensation was granted in November.

**Korsnäs Forestry**

| Key data (SEK million) | 2011 | 2010 |
|---|---|---|
| Revenue | 1125 | 1030 |
| Operating profit, EBIT | 48 | 47 |
| Investments in tangible fixed assets | 13 | 9 |
| Depreciation | -7 | -5 |
| Operational capital employed, average | 359 | 352 |
| Return on operational capital employed | 13,4% | 13,4% |
| Number of employees | 222 | 277 |

Korsnäs Forestry is responsible for the purchase of wood and fiber for Korsnäs’ pulp and paper mills and for the performance of forestry services in line with agreements with Bergvik Skog. Korsnäs Forestry’s external customers are primarily sawmills and spruce fiber users in central Sweden and Latvia.

Pulpwood prices was increased as of 1 January 2011 by SEK 10-30/m3fub depending on the range and catchment area.. During the summer, additional price increases of SEK 10-25/m3fub were announced but before these had an impact on Korsnäs’ purchase prices a price reduction of up to SEK 15/m3fub from Korsnäs’ earlier price level was announced in September. In mid-December, an additional price reduction of SEK 20/m3fub for coniferous pulpwood and SEK 15-20/m3fub for birch pulpwood was implemented. The price increases in pulpwood have a negative impact on Korsnäs’ operating income with a delay of approximately three to six months.

**Research and development**

During the year, Korsnäs has intensified the cooperation with its largest customers, with a focus on expansion in terms of volumes for these customers. In several instances, work was performed through direct cooperation projects with the customer with the value chain as the starting point for the development efforts. Work on the coating concept has resulted in optimized products in all coated segments. The work performed with convertibility has generated good results for existing products, which is expected to additionally increase the interchangeability between the plants. In cooperation with the marketing and production departments has several development efforts been implemented resulting in a stronger market positions, with excellent results. Work with added-value concept in all end-user areas has been initiated. The volumes relating to newly launched products has increased during the year and additional concepts have been prepared for future qualifications and launches. Korsnäs invested SEK 76 m (76) in research and development during the year, calculated as total consumption of resources including pupl and paper, forest and energy.

**Environmental work**

For Korsnäs, the environmental work is an improvement process that is always in progress. Korsnäs goal is to operate in a sustainable balance with nature.

All Korsnäs’ products are based on renewable raw materials from the forest. This places demands on the environmental considerations in the company's forest operations, where, without being a major forest owner, Korsnäs nevertheless has a major impact through its forest management organization, as well as in the production of carton board and paper.

**Certified forestry management**

Environmental- and climate friendly products has an increased demand in a society that strives towards a sustainable growth. A forestry that combine economic forest production and social aspects is therefor of stratigical importance for Korsnäs.

Korsnäs forestry was already in 1997 certified according to the standard FSC forest management which relates to a responsible forestry with a sustainable vision. Later was also certification according to FSC, chain of custody and FSC, controlled wood added. Today all raw material can be traceble back to its origin to ensure that it is not derived from controversial sources. Korsnäs is also certified according to PEFC whichalso strives for a responsible and sustainable forest management.

Korsnäs own supply of forestry as of today is small an mainly relates to nature conservation. Korsnäs is although also handling the forrest owned by Bergvik Skog and performs therefor an extensive forestry business in mid-Sweden. In this area Korsnäs also purchase raw material from several minor private forrest owners for who Korsnäs performs logging and maintenance as well as councelling and service. In this business Korsnäs has, besides from what is determinded by legislation and forestry certification, set its own goals in based on ISO 14001 and Korsnäs environmental policy. The aim is an countinuing environmental adjustment where Korsnäs Forestry through the years has strived to reduced the damages caused on the ground, guarantee the quality of thinning and analyze the fuel consumption.

The demand for certified products as increased. Korsnäs ambition is therefore to increase the share of certified wood in the companys total wood consumption.

**Climate impact**

Korsnäs conduct industrial operations in Gävle, Frövi and Rockhammar requiring permits from relevant authorities with threshold limit values regarding environmental impact on air and water, which is followed-up and disclosed on a regular basis. The current concession for Gävle covers 700 thousand tons of pulp and 755 thousand tons of end products in the form of paper and carton board. For Frövi did Miljödomstolen approve a new concession in the end of 2008 for 300 thousand tons of kraft pulp production, of which 140 thousand tons may be bleached. Rockhammar received in February 2010 permission to produce 90 thousand tons of CTMP pulp.

During 2011, Korsnäs has performed a successful work in maintaining a solid margin between limits and emission levels.

During the past 20-year period, Korsnäs has significantly decreased the fossil carbon-dioxide impact from the manufacturing process of pulp, paper and carton board. In 2007, Korsnäs set a target to reduce the CO2 impact by an additional 25%, per unit of produced end product by 2020. The new evaporation plant that was taken into operation during 2010 has, combined with several other actions, reduced the fossil carbon-dioxide per ton produced by 44% between 2007 and 2011. The target to reduce the CO2 impact by 2020 has therefore been well aboved achived. The impact will be reduced ever further when the new bio-enery plant is taken into operation during 2013, see section on Investments and maintanence stop, and in accordance to this a new environmental target will be decided.

Since 2010 Kornäs also report according to Global Reporting Initiative (GRI), the most used standard in the world to sustainability accounting.

Korsnäs complete GRI report can be found at www.kornas.com

**Risk management**

The Group's financing and management of financial risks is centralized within Kinnevik's finance function and is conducted on the basis of a finance policy established by the Board of Directors. The Group's operational risks are primarily evaluated and managed within the particular business area and then reported to the Board. The group has a model for handling financial risks which aims at identifying, controlling and reducing risks. Identified risks and respons to these are reported quarterly to the Board of directors.

Korsnäs' operational risks consist primarily of customer relations in respect of payment capacity and the risk of losing established relationships, as well as with suppliers in terms of reliability, quality and price, in addition to major accidents in the production. Korsnäs conducts regular surveys of customers and suppliers and undertakes extensive checks and maintenance to minimize the risk of production disruptions.

The risk that customers fail to fulfill their payment obligations is limited by means of credit checks, whereby all customers are analyzed by sales managers and a credit council monthly. Customers are also monitored continuously by the credit function using, for example, information from Dun & Bradstreet. Deviations in relation to concluded agreements are managed on an ongoing basis by the credit council.

Within production operations, risk analyses are conducted with the focus on areas that could be expected to give rise to serious production disruptions. For identified risk areas, plans are drawn up regarding how these can be prevented as far as possible and how the management of abnormal situations is to be done. A corresponding analysis is also made for safety purposes and the work environment.

Korsnäs' net purchases of power during 2011 totaled 1,057 GWh. In addition, 393 GWh of in-house generated power was consumed. Since the Nordic electricity market was deregulated, financial hedging has been used to reduce exposure to temporary fluctuations in electricity prices. At the end of 2009, a decision was made to cease financial hedging since most other cost items, as well as a large portion of revenue, are immediately impacted by changes in market prices, and that electricity costs represent a small, and – following the conclusion of on-going energy investments – ever smaller portion of the company's cost base. Consequently, no new hedging contracts will be signed and the result of the portfolio held at year-end will be recognized as they fall due. As of 31 December 2011, the market value of financial hedges amounted to a negative SEK 8 m (positive 75), and comprises 17% of the estimated net power purchases in Sweden for 2012.

With regard to the purchase of pulpwood during 2011, approximately half of Korsnäs' pulpwood consumption was supplied from Bergvik Skog and Sveaskog. The remaining pulpwood derives from purchases in Sweden, Åland and the Baltic States. Most of the Swedish wood consists of softwood fiber, with most of the imported material consisting of hardwood fiber. Korsnäs' agreement with Bergvik is long term and prices are updated continually.

For 2011, Korsnäs' net flow in foreign currencies was a net inflow of about SEK 600 m, comprised mainly of sales in Euro and GBP. The corresponding figure for 2012 is expected to amount to approximately SEK 800 m. The Group's policy is not to hedge this transaction exposure. The reason for this approach is that the Group is dealing with a continuously even net inflow of foreign currency for which, over time, hedging measures would also be affected by exchange rate changes.

For a more detailed description of the management of financial risks, refer to Note 30.

**Employees and organization**

During 2011, Korsnäs started the work on strategic competency and staff planning. This work mean that staffing issues will be handled in a more structured manner with adequate advance planning.

In line with Korsnäs strategic personnel work a group of trainees has been hired to, in the long-term, be included in the ordinary workforce.

All Korsnäs' managers participated in three of six management modules during the year aimed at increasing knowledge of general leadership but also specific change management. The management program was conducted as part of the effort to implement KOM (Korsnäs Operative Target Management). In parallel with the management program, individual coaching is conducted, using both internal and external coaches. During the year, group-level development efforts were conducted.A new method for career-development discussions was initiated with representatives of the trade union organizations. All employees were informed during information meetings, followed by interactive training.

**Parent Company**

The Parent Company's revenue for the year amounted to SEK 7,945 million (7,933). Operating profit amounted to SEK 696 million (713). Dividends received amounted to SEK 5 million (4). The net of other financial income and expenses amounted to an expense of SEK 152 million (78).

The Parent Company's earnings after financial items amounted to a profit of SEK 549 million (638). I

Investments in tangible fixed assets amounted to SEK 651 million (577).

The Parent Company's interest-bearing external liabilities amounted to SEK 4,360 million (4,473).

**Future developments**

For 2012, customers are hesitant and the demand situation on the market is uncertain.

Price reductions in the middle of December with SEK 20/m3 for softwood pulp and SEK 15-20/m3 for birch pulpwood will affect Kornsäs earnings positive with a 3-6 months delay.

**Event after the end of the reporting period**

No significant events affecting the Company's financial position have occurred after the reporting period.

**Proposed treatment of unappropríated earning**

The following amount in SEK is at disposal of the Parent Company's annual general meeting:

| | |
|---|---|
| Unrestricted earnings | 955,551,295 |

The board and the CEO propose that the unappropriated earnings and share premium at the disposal of the Annual General Meeting be disposed of as follows:

| | |
|---|---|
| Carried forward | 955,551,295 |
| **Total** | **955,551,295** |

# Consolidated Statement of Income

For the period 1 January-31 December (SEK million)

| | Note | 2011 | 2010 |
|---|---|---|---|
| Revenue | 2 | **8 254** | 8 178 |
| Cost of goods and services | | **-7 100** | -7 022 |
| **Gross profit** | | **1 154** | 1 156 |
| | | | |
| Selling costs | | **-124** | -128 |
| Administration costs | | **-182** | -179 |
| Research and development costs | | **-76** | -76 |
| Other operating income | 3 | **138** | 311 |
| Other operating expenses | 3 | **-4** | -158 |
| **Operating profit** | 2, 3, 4 | **907** | 926 |
| | | | |
| Dividend received | 5 | **4** | 4 |
| Change in fair value of financial assets | 6 | **97** | 64 |
| Interest income and other financial income | 7 | **70** | 61 |
| Interest expenses and other financial expenses | 7 | **-224** | -135 |
| **Profit after financial items** | | **852** | 919 |
| | | | |
| Taxes | 8 | **-191** | -218 |
| **Net profit of the year** | | **661** | 701 |
| | | | |
| Attributable to the shareholders of the Parent Company | | 661 | 701 |
| **Earnings per share before and after dilution, SEK** | | 12 | 13 |
| Proposed dividend per share, SEK | | 0 | 0 |
| Average number of shares outstanding before/after dilution | | 53 613 270 | 53 613 270 |

# Consolidated Statement of Comprehensive Income

| for the period 1 January-31 December (SEK million) | 2011 | 2010 |
|---|---|---|
| Net profit of the year | 661 | 701 |
| **Other comprehensive Income for the year** | | |
| Translation reserve | 1 | -14 |
| Cash flow hedging transferred to income statement | -14 | -46 |
| Cash flow hedging transferred to other comprehensive income | -69 | 143 |
| Actuarial gain/loss | -14 | 6 |
| Tax attributable to other comprehensive income | 25 | -27 |
| **Total other comprehensive income for the year** | **-71** | **62** |
| | | |
| **Total comprehensive income for the year** | **590** | **763** |
| Total comprehensive income for the year attributable to: | | |
| Shareholders of the Parent Company: | 590 | 763 |

## Consolidated Balance Sheet

As of 31 December (SEK million)

**ASSETS**

| | Note | 2011 | 2010 |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | 10 | **771** | 771 |
| Tangible assets and biological fixed assets | 10 | **6 058** | 5 980 |
| Financial assets accounted at fair value through profit and loss | 11 | **656** | 560 |
| Receivables from Group company | 11 | **1 837** | 2 577 |
| Investment in companies accounted for using the equity method | 12 | **231** | 119 |
| **Total fixed assets** | | **9 553** | **10 007** |
| | | | |
| **Current assets** | | | |
| Inventories | 14 | **2 048** | 1 576 |
| Trade and other receivables | 15,16 | **967** | 1 009 |
| Prepayments | 17 | **37** | 37 |
| Cash and cash equivalents | 18 | **76** | 86 |
| **Total current assets** | | **3 128** | **2 708** |
| | | | |
| **TOTAL ASSETS** | | **12 681** | **12 715** |
| | | | |
| **SHARE HOLDERS´ EQUITY AND LIABILITIES** | | | |
| | | | |
| **Shareholders´ equity** | 19 | | |
| **Shareholders´ equity attributable to equity holders of the Parent Company** | | | |
| Share capital | | **54** | 54 |
| Other contributed capital | | **17** | 17 |
| Reserves | | **-18** | 42 |
| Retained earnings including net profit for the year | | **4 775** | 4 491 |
| **Total shareholders´ equity** | | **4 829** | **4 605** |
| | | | |
| Long-term liabilities | | | |
| Interest-bearing loans | 20 | **4 366** | **4 481** |
| Provisions for pensions | 21 | **496** | **504** |
| Other provisions | 22 | **5** | **22** |
| Deferred tax liability | 8 | **1 052** | **1 115** |
| Total long-term liabilities | | **5 919** | **6 122** |
| | | | |
| Short-term liabilities | | | |
| Interest-bearing loans | 20 | **1** | **0** |
| Provisions | 22 | **19** | **36** |
| Liabilities to Parent company | | **505** | **530** |
| Trade creditors and other payable | 23 | **1 403** | 1 395 |
| Income tax payable | | **5** | 27 |
| **Total short-term liabilities** | | **1 933** | **1 988** |
| | | | |
| **Total liabilities** | | **7 852** | **8 110** |
| | | | |
| **TOTAL SHAREHOLDERS´ EQUITY AND LIABILITIES** | | **12 681** | **12 715** |
| | | | |
| **Pledged assets** | 25 | | |
| **Contingent liabilities** | 26 | | |

## Movements in Shareholders´ equity of the Group

| | Share capital | Other contributed capital | Hedging reserve | Translation reserve | Retained earn-ings including net profit for the year | Total share-holders´ equity |
|---|---|---|---|---|---|---|
| **Opening balance, 1 January 2010** | **54** | **17** | **-16** | **1** | **4 170** | **4 227** |
| Other comprehensive income | - | - | 71 | -14 | 5 | 62 |
| Profit for the year | | | | | 701 | 701 |
| **Total comprehensive income for the year** | **-** | **-** | **71** | **-14** | **706** | **763** |
| **Other changes in shareholders' equity** | | | | | | |
| Effect of employee share saving program | | | | | 2 | 2 |
| Group contribution | | | | | -525 | -525 |
| Tax on group contribution | | | | | 138 | 138 |
| **Closing balance, 31 December 2010** | **54** | **17** | **55** | **-13** | **4 491** | **4 605** |
| Other comprehensive income | - | - | -61 | 1 | -10 | -70 |
| Profit for the year | | | | | 661 | 661 |
| **Total comprehensive income for the year** | **-** | **-** | **-61** | **1** | **651** | **591** |
| Effect of employee share saving program | | | | | 2 | 2 |
| Group contribution | | | | | -500 | -500 |
| Tax on group contribution | | | | | 131 | 131 |
| **Closing balance, 31 December 2011** | **54** | **17** | **-6** | **-12** | **4 775** | **4 829** |

# Consolidated Statement of Cash Flow

for the period 1 January-31 December (SEK million)

| | Note | 2011 | 2010 |
|---|---|---|---|
| **Operations** | | | |
| Operating profit for the year | | 907 | 926 |
| Adjustment for depreciation | | 608 | 602 |
| Change in restructuring reserve | | -33 | -38 |
| Other non-cash items | | -23 | -36 |
| Taxes paid | | -189 | -253 |
| **Cash flow from operations before change in working capital** | | **1 270** | **1 201** |
| Change in inventories | | -472 | 59 |
| Change in accounts receivables and other operating assets | | 34 | -96 |
| Change in accounts payable and other operating liabilities | | 0 | 150 |
| **Cash flow from operations** | | **832** | **1 314** |
| **Investing activities** | | | |
| Acquisition of subsidiaries | | -112 | -115 |
| Investment in tangible and biological fixed assets | | -687 | -604 |
| Sales of tangible and biological fixed assets | | 7 | 7 |
| Investments in intangible fixed assets | | - | - |
| Changes in loan receivables | | 0 | 2 |
| Dividend received | | 4 | 4 |
| Interest received | | 1 | 1 |
| **Cash flow from investing activities** | | **-787** | **-705** |
| **Financing activities** | | | |
| Borrowing | | 0 | 4 750 |
| Amortization of loans | | -114 | -4 728 |
| Change in Intra-Group balances | | 281 | -492 |
| Interest paid | | -222 | -134 |
| **Cash flow from financing activities** | | **-55** | **-604** |
| **Cash flow for the year** | | **-10** | **5** |
| Exchange rate differences in liquid funds | | 0 | 0 |
| **Cash and bank, opening balance** | | **86** | **81** |
| **Cash and bank, closing balance** | 18 | **76** | **86** |

# Parent Company's Statement of Income

for the period 1 January-31 December (SEK million)

| | Note | 2011 | 2010 |
|---|---|---|---|
| Revenue | 2 | **7 945** | 7 933 |
| Cost of goods and services | | **-6 978** | -6 988 |
| **Gross profit** | | **967** | 945 |
| | | | |
| Selling costs | | **-93** | -106 |
| Administration costs | | **-173** | -177 |
| Research and development costs | | **-76** | -50 |
| Other operating income | 3 | **75** | 259 |
| Other operating expenses | 3 | **-4** | -158 |
| **Operating profit** | 2, 3, 4 | **696** | 713 |
| | | | |
| Dividends received | 5 | **5** | 4 |
| Interest income and other financial income | 7 | **70** | 61 |
| Interest expenses and other financial expenses | 7 | **-222** | -140 |
| **Profit after financial items** | | **549** | 638 |
| | | | |
| Change of untaxed reserves | 9 | **-9** | 4 |
| **Profit before taxes** | | **540** | 642 |
| | | | |
| Taxes | 8 | **-157** | -186 |
| **Net profit for the year incl other comprehensive income** | | **383** | 456 |

## Parent Company Balance Sheet

31 December (SEK million)

| ASSETS | Note | 2011 | 2010 |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible fixed assets | 10 | **492** | 564 |
| Tangible fixed assets | 10 | | |
| Forest and agricultural property | | **3** | 3 |
| Buildings, land and land improvements | | **707** | 728 |
| Machineries and technical plants | | **4 708** | 4 696 |
| Equipment, tools, fixtures and fittings | | **29** | 32 |
| Finance leasing | | **3** | 4 |
| Constructions in progress and advance payments regarding tangible fixed assets | | **419** | 346 |
| **Total intangible/tangible fixed assets** | | **6 361** | 6 373 |
| | | | |
| **Financial fixed assets** | | | |
| Shares and participation in Group companies | 13 | **69** | 69 |
| Receivables from Group companies | 13 | **1 939** | 2 635 |
| Shares in associated companies | 13 | **227** | 115 |
| Receivables from associated companies | | **2** | 2 |
| Deferred tax | 8 | **21** | - |
| Other investments held as fixed assets | 13 | **181** | 182 |
| **Total financial fixed assets** | | **2 439** | 3 003 |
| | | | |
| **Total fixed assets** | | **8 800** | 9 376 |
| | | | |
| **Current assets** | | | |
| Inventories | 14 | **1 915** | 1 463 |
| Account receivables | 15 | **594** | 640 |
| Receivables from Group companies | 16 | **51** | 114 |
| Accrued income | 16 | **154** | 150 |
| Other receivables | 16 | **123** | 120 |
| Prepayments | 17 | **32** | 32 |
| Tax receivables | 8 | **68** | - |
| Cash and cash equivalents | 18 | **54** | 63 |
| **Total current assets** | | **2 991** | 2 582 |
| | | | |
| **TOTAL ASSETS** | | **11 792** | 11 958 |

| SHAREHOLDERS´ EQUITY AND LIABILITIES | | 2011 | 2010 |
|---|---|---|---|
| **Shareholders´ equity** | | | |
| *Restricted equity* | | | |
| Share capital (53 613 270 shares of SEK 1,00 each) | | **54** | 54 |
| Premium reserve | | **11** | 11 |
| | | **64** | 64 |
| *Unrestricted equity* | | | |
| Retained earnings | | **573** | 463 |
| Net profit for the year | | **383** | 456 |
| | | **956** | 919 |
| **Total shareholders´ equity** | | **1 020** | 983 |
| **Untaxed reserves** | 33 | **4 004** | 3 995 |
| **Long-term liabilities** | | | |
| Interest-bearing | 20 | **4 360** | 4 473 |
| Non interest-bearing | 20 | **1** | 1 |
| Provisions for pensions | 21 | **490** | 464 |
| Other provisions | 22 | **5** | 21 |
| Deferred tax | 8 | **-** | 38 |
| Liabilities to Group companies | 20 | **3** | 3 |
| **Total long-term liabilities** | | **4 859** | 5 000 |
| **Short-term liabilities** | | | |
| Provisions for pensions | 21 | **0** | 1 |
| Other provisions | 22 | **18** | 34 |
| Tax payable | | **-** | 22 |
| Liabilities to Group companies | | **548** | 577 |
| Trade creditors and other liabilities | 23 | **1 343** | 1 347 |
| **Total current liabilities** | | **1 909** | 1 980 |
| **TOTAL SHAREHOLDERS´ EQUITY AND LIABILITIES** | | **11 792** | 11 958 |
| **Pledged assets** | 25 | **2 727** | 2 792 |
| **Contingent liabilities** | 26 | **41** | 38 |

## Movements in Shareholders ´equity of the parent company (SEK million)

| | Share capital | Premium reserve | Unrestricted equity | Total equity |
|---|---|---|---|---|
| **Parent company** | | | | |
| **Opening balance, 1 January 2010** | **54** | **11** | **781** | **845** |
| Group contribution, net | | | -434 | -434 |
| Tax on group contribution | | | 114 | 114 |
| Employee share saving program | | | 2 | 2 |
| Net profit for the year, 2010 | | | 456 | 456 |
| **Closing balance, 31 December 2010** | **54** | **11** | **919** | **983** |
| Group contribution, net | | | -471 | -471 |
| Tax on group contribution | | | 124 | 124 |
| Employee share saving program | | | 1 | 1 |
| Net profit for the year, 2011 | | | 383 | 383 |
| **Closing balance, 31 December 2011** | **54** | **11** | **956** | **1 020** |

# Parent Company Statement of Cash Flow

for the period 1 January-31 December (SEK million)

| | Note | 2011 | 2010 |
|---|---|---|---|
| **Operations** | | | |
| Operating profit for the year | | 696 | 713 |
| Adjustment for depreciation | | 663 | 659 |
| Change in restructuring reserve | | -32 | -34 |
| Other non-cash items | | 20 | -10 |
| Taxes paid | | -182 | -253 |
| **Cash flow from operations before change in working capital** | | **1 165** | **1 075** |
| Change in inventories | | -453 | 63 |
| Change in accounts receivables and other operating assets | | 35 | -102 |
| Change in accounts payable and other operating liabilities | | -3 | 152 |
| **Cash flow from operations** | | **744** | **1 188** |
| **Investing activities** | | | |
| Acquisition of subsidiaries | | | - |
| Investment in tangible and biological fixed assets | | -651 | -577 |
| Sales of tangible and biological fixed assets | | 6 | 6 |
| Investments in intangible fixed assets | | -112 | -115 |
| Changes in loan receivables | | 0 | 3 |
| Dividend received | | 5 | 4 |
| Interest received | | 1 | 1 |
| **Cash flow from investing activities** | | **-750** | **-677** |
| **Financing activities** | | | |
| Borrowing | | 0 | 4 750 |
| Amortization of loans | | -114 | -4 727 |
| Change in Intra-Group balances | | 333 | -427 |
| - Interest paid | | -222 | -140 |
| **Cash flow from financing activities** | | **-3** | **-544** |
| **Cash flow for the year** | | **-9** | **-33** |
| **Cash and bank, opening balance** | | **63** | **96** |
| **Cash and bank, closing balance** | 18 | **54** | **63** |

## **Note 1** Summary of significant accounting policies

**Statement of compliance**

The consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRS).

Since the Parent Company is a company that is active in the EU, only EU-approved IFRS are applied. The consolidated accounts have also been prepared in accordance with Swedish law, with application of the Swedish Financial Reporting Board's recommendation RFR 1 Supplementary accounting regulations for Groups. No new or revised standards have been used to prepare the financial reports for 2011.

The Parent Company's annual accounts have been prepared in accordance with Swedish law, and with application of the Swedish Financial Reporting Board's recommendation RFR 2 Reporting for legal entities.

The Parent Company's accounting principles depart from the principles governing consolidated accounting in respect of the valuation of financial instruments and pension liabilities. The Parent Company applies RFR 2 in respect of the option not to apply IAS 39. Financial instruments are thus not valued at fair value as in the Group but at their acquisition cost. Pension liabilities are reported in accordance with Swedish principles.

**New and revised standards 2011**

No new or revised standards entered into force that affected Korsnäs to any major extent.

**Future IFRS amendments**

The IASB has published three new standards relating to consolidation; IFRS 10 Consolidated Financial Statements , IFRS 11, Joint Arrangements and reworked IAS 28 Investments in associates and joint ventures. The effective date for these standards and amendments for Korsnäs is as from 1 January 2013. EU has not yet endorsed these standards and amendments.

The main potential effect for Korsnäs is that the new definition of control in IFRS 11 Joint Arrangements can lead to a change in accounting for investments that are currently accounted in accordance with the equity method. The new standards furthermore include more extensive disclosure requirements which will have an impact on Korsnäs disclosures covering consolidated and unconsolidated entities.

Korsnäs has not finalized the investigation of the impact on the financial statements in the period of initial application or in subsequent periods due to the fact that the standards and amendments are not yet endorsed by the EU.

No other new or revised IFRS principles or interpretations are expected to have any effect on Korsnäs except for additional supplementary disclosures.

**Basis of preparation of consolidated accounts**

The consolidated financial statements have been prepared on a historical cost basis, except for investments in forest and other biological assets, derivative financial instruments and certain financial assets valued at fair value through profit and loss. The consolidated statements are presented in Swedish kronor (SEK) and all values are rounded to the nearest million except when otherwise indicated.

**Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Group as of 31 December each year. The financial statements of subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

The consolidated financial statements include the Parent Company and all companies in which the Parent Company controls more than 50% of the votes or in any other way exercises a controlling influence.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the result for the part of the reporting year during which the Group has control.

The consolidated accounts are prepared using the purchase method. The difference between the acquisition value of shares in a subsidiary and the fair value of identifiable assets and liabilities of that subsidiary at the time of acquisition is reported as goodwill.

Intercompany transactions, balance sheet items and unrealized gains on transactions between companies are eliminated. Unrealized losses are also eliminated, unless the transaction evidences the need to write down the transferred asset.

**Foreign currency translation**
The functional and presentation currency of the Parent Company and its Swedish subsidiaries is Swedish kronor (SEK). Transactions in foreign currencies are initially recorded in the functional currency exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the balance sheet date. Realized and unrealized exchange gains/losses on receivables and liabilities of an operating nature are reported in operating income, while exchange rate differences on financial assets and liabilities in foreign currencies are reported among financial items. Korsnäs has elements of its borrowing in foreign currency, which is aimed at balancing net exposure of current receivables and liabilities. The translation differences of these loans are recognized in operating profit.
As at the reporting date, the assets and liabilities of subsidiaries that have not the same functional currency as the Group are translated at the rate of exchange ruling at the balance sheet date. Their income statements are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken in other comprehensive income and as a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation are recognized in the income statement through Other comprehensive income.

Long-term monetary balances between the Parent Company and subsidiaries may be deemed to represent an extension or a contraction of the Parent Company's net investment in the subsidiary. Foreign currency differences arising on such balances are therefore charged as other comprehensive income as a translation difference.

**Intangible assets**
Intangible assets with a finite useful life are measured on initial recognition at cost and are then carried at cost less accumulated amortization and any accumulated impairment losses. Amortization is calculated on a straight-line schedule based on the acquisition value of the asset and its estimated useful life.

Goodwill consists of the amount by which the acquisition value exceeds the fair value of the Group's share in the identifiable net assets of the acquired subsidiary/associated company at the time of acquisition. Goodwill from the acquisition of subsidiaries is reported as intangible assets. Intangible assets including goodwill are tested for impairment annually to identify any possible need of a write-down and is reported at its acquisition value less accumulated write-downs. Gains or losses on the divestment of a unit include the remaining reported value of the goodwill relating to the divested unit.

Goodwill is distributed among cash-generating units when it is tested with respect to a possible need for a write-down.

**Tangible assets**
Tangible assets are recognized at cost less deduction of accumulated depreciation and any impairment. The cost includes the purchase price, as well as expenses and borrowing costs directly attributable to the asset being put into position and in working order for utilization according to the purpose of the acquisition. Depreciation is calculated on a straight-line schedule based on the acquisition value of the asset and its estimated useful life. The assets residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year-end.

Forest and other biological assets are recorded at their fair value.

**Additional expenses**
Additional expenses are added to the acquisition value only if probability implies future financial benefits associated therewith will be bestowed the group, and the acquisition value can be estimated in a reliable manner. All other additional expenses are reported as a cost in the period they arise. A decisive factor in assessing when an additional expense is added to the acquisition value is if the expense concerns exchange of identifiable components or parts thereof, in which case they can be treated as assets. The expense is also added to the acquisition value when new components are created. Any possible remaining reported value on replaced components or parts thereof, are disposed of and are written off in connection to the replacement. Repairs are written off currently.

**Impairment**
Assets are assessed with respect to the reduction in their value whenever events or changes in circumstances indicate that the reported value might not be recoverable.
To calculate the impairment requirement, assets are grouped in cash-generating units. An impairment loss is done in the amount by which the assets' reported value exceeds its recovery value. The recovery value is the higher of an assets' fair value, less the cost of sale and the value in use. The value in use comprises the present value of deposits and disbursements attributable to the asset during the time it is expected to be in use in operations, plus the present value of the net sales value at the end of the useful life.

**Financial instruments**
A financial asset or financial liability is recognized in the balance sheet when the company becomes a party to the instrument's contractual terms. Accounts receivable are recognized when the invoice is sent. A liability is recognized when

the counterparty has performed and there is a contractual obligation to pay, even if the invoice has not yet been sent. A financial asset is derecognized from the balance sheet when the rights in the contract are realized, expired or the Company loses control over them. The same applies for a portion of a financial asset. A financial liability is derecognized from the balance sheet when the obligation in the contract is met or in some other manner is extinguished. The same applies for a portion of a financial liability. Acquisition and divestment of financial assets are reported on the transaction date, which is the date on which the Company commits to acquire or divest the assets.

***Financial assets***
Financial assets, with the exception of loan receivables and trade receivables, are valued at their fair value through profit and loss. The fair value of financial instruments traded on an active market is based on the market prices listed on the closing date. The listed market price used for the Group's financial assets is the current bid price. When establishing the fair value of other financial instruments, methods that in every individual case are assumed to provide the best estimation of fair value have been used. For assets and liabilities maturing within one year, a nominal value adjusted for interest payments and premiums is assumed to provide a good approximation to fair value.

***Associates***
Companies in which the Group has significant influence and which is not a subsidiary are regarded as associated companies. Unlisted associated companies are accounted for using the equity method. Adjustments for intra-group profits/losses arising out of transactions with associated companies are made in connection with the calculation of the Group's consolidated interest in earnings and capital. Elimination of such intra-groups profits/losses occurs in pace with their realization through the sale of the particular assets to external parties and/or by reduction of the Group's ownership interest in the associated company.

***Joint ventures***
Joint ventures are defined as companies over which Korsnäs, through partnership agreements with one or more parties, exercises a joint controlling influence over the operational and financial control. Korsnäs account for joint ventures using the equity method.

***Loan receivables and trade receivables***
Loan receivables and other receivables are non-derivative financial assets with defined or definable payments and defined maturities that are not listed on an active market. The values established are amortized cost, and the valuation is based on the effective interest method (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument). Trade receivables, which generally have 30-90 day terms, are recognized and carried at invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified. Trade receivable pertains to a large number of customers mainly in Sweden and the rest of Europe. The Group deals solely with well-established and creditworthy counterparties, which reduces the credit risk. Credit risks pertaining to the Group's other financial assets, which include cash and cash equivalents, are the risks of failure to pay by counterparties. The maximum risk corresponds to the financial instruments' reported value.

***Financial liabilities***
Financial liabilities not held for trading are measured at accrued acquisition value, which is determined based on the effective interest rate calculated when the liability was assumed. This means that surplus and deficit values as well as direct costs in conjunction with assuming of loans are distributed over the term of the liability. Long-term liabilities have an expected term of exceeding one year, while current liabilities have a term of less than one year. Trade payables have short expected term and are valued at nominal value.

***Accounting for derivatives and hedging***
The Group`s derivative instruments consist primarily of futures contracts to cover the risk of changes in power prices. All derivatives are reported initially and continually at their fair value in the balance sheet. Changes in the value of derivatives categorized as a cash flow hedge are reported as other comprehensive income and are reversed to the income statement in pace with effect of the hedge cash flow on earnings. Any ineffective portion of the change in value is reported directly in the income statement.

***Inventories***
Inventory of raw materials, consumables, work in progress and finished goods are valued at the lower of cost and net sales value. Inventory is valued on a First-In, First-Out (FIFO) basis.
Felling rights, representing the cost to acquire the right to fell timber on land that the Group does not own, are valued at acquisition cost and are expensed when the corresponding wood is used in production or sold. Felling rights are reclassified

as raw materials (logs and timber) as the timber is harvested based on the relationship between the remaining book value of the felling rights and the estimated volume of recoverable timber.

The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than VAT), and transport, handling and other costs directly attributable to the acquisition of inventories. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

Net sales value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

**Employee remuneration**

Pension commitments are reported as a liability in the balance sheet. The liability is calculated on the basis of company-specific actuarial assumptions, with due consideration of such features as the estimated future pay adjustments.

The Group has one defined benefit multi-employer plan, which is insured with the mutual insurance company Alecta (ITP plan). There is a lack of information to permit the reporting of the Group's proportional share of the defined benefit commitment and of the plan assets and costs associated with this plan. Consequently, the plan is reported as if it were a defined contribution plan, which means that the expenses notes for the Group incurred are reported as a cost.

In addition, the Group has one defined benefit pension plan covering employees in Sweden. The cost of providing benefits in accordance with this plan is determined via the Projected Unit Credit Method (PUCM method) on the basis of actuarial assumptions. Deviation from the actual pension expenses and return represent actuarial gains and losses. All actuarial gains and losses, plus any supplements for payroll taxes, are charged to other comprehensive income.

**Share-based remuneration**

Kinnevik has share-saving programs for which the fair value, calculated on the date of allotment, of the allotted share-based instruments is expensed over the vesting period and is recognized directly in equity. Instrument issued within the Group's share-savings program consists of shares. Kinnevik classifies the share-related remuneration programs as transactions that will be regulated with equity instrument. The fair value of the shares consists of the market price on each allocation occasion. The cost is based on the Group's assessment of the number of shares that will be allotted. A new assessment of the anticipated number of allocated shares is performed at year-end. Fair value is restated on every balance-sheet date, to reflect calculations of social security costs expensed continuously over the vesting period in the various companies.

**Other provisions**

Provisions are reported when the Group has a legal or contractual obligation to fulfill the obligation, when it is likely that a payment or some other form of compensation is required to settle the undertaking and a reliable estimate of the amount can be made. Provisions are reported at their discounted present value when the time horizon exceeds two years. A provision for restructuring is reported when the Group has presented a detailed plan for the implementation of the measures and the plan has been communicated to the parties involved and soundly based anticipation is created.

**Revenue recognition**

***Sale of products***

Revenue from the sale of products, net of allowance for returns and discounts, is recognized when products are delivered and significant risks and benefits associated with ownership of the goods are transferred and can be reliably measured.

***Rendering of services***

Revenue from the sale of services is recognized at the time the service is rendered to the customer, after deductions for discounts.

***Interest***

Revenue is recognized as the interest accrues to the net carrying amount of the financial assets.

***Dividends received***

Dividends received are recognized when the shareholders' right to receive the payment is assessed as certain.

**Research and Development costs**

Research and development costs are charged to the income statement during the year they arise, unless the Company can demonstrate that the amount will be able to generate future economic benefit.

**Marketing costs**
Advertising costs and other marketing activities are expensed as they arise.

**Income tax**
The total tax on the year's income consists of current and deferred tax. Taxes are stated in the income statement except when the underlying transaction is charged to other comprehensive income or directly against equity, in which case the related tax effect is also stated in equity. Current tax expense is the tax that is to be paid or received for the year in question, plus correction of tax expense for earlier periods. Deferred tax is calculated on the basis of the temporary differences between the book values of assets and liabilities and their value for tax purposes. The amounts are calculated on the basis of how these differences can be expected to be evened out and using the tax rates and rules in effect or announced as of the closing date. Temporary differences are not recorded in the case of differences attributable to interests in subsidiaries and associated companies that are not expected to be taxable in the foreseeable future. In the consolidated financial statements, untaxed reserves are divided into deferred tax liability and equity. The deferred tax asset component of deductible temporary differences and tax loss carry forwards is only recorded in so far as it is likely that these will result in a lower tax payment in the future.

**Dividends paid**
For dividends in kind, the net assets market value is recorded as dividend. Cash dividends to shareholders are recorded in the accounting period the dividend is approved.

**Leases**
Leases are classified in the consolidated accounts as financial leases or operational leases. A financial lease is when the financial risk and benefits are associated with the ownership of an item is essentially transferred from the lessee to the lessor, regardless of whether or not the lessee retains the legal right of ownership of the asset. For financial leases, the leasing asset is reported as an asset and the obligation for future payments as a liability in the balance sheet. An operating lease is a lease that does not fulfill the conditions for financial leases. For operating leases, the rental expense is reported in the lessee's accounts distributed equally over the period during which the asset is used, even if the payments are made according to some other schedule.

**Cash flow statement**
For purposes of the Parent Company and the consolidated cash-flow statements, the Group includes cash and investments with original duration of maximum three months among cash and bank. The book value of these items corresponds to fair value.

**Significant judgments and assumptions**
The preparation of the annual financial statements and consolidated financial statements includes a number of estimates and assumptions. The application of these estimates and assumptions affects the reporting and disclosures. Accounting policies that require more significant judgments by the Board and the management in the application of IFRS, and assumptions and estimations in matters that are inherently uncertain, are summarized below.

Actuarial assumptions and other assumptions and estimations when estimating the provisions for pensions (Note 21) and other provisions (Note 22) could have a material impact on the financial statements. The estimates used are based on experience, market information and practice, and are regularly reviewed.

Fair value on financial assets valued to fair value through the income statement are based on a valuation from a third party based on generally accepted valuation methods for biological assets.

**Note 2** Segment Reporting

The segment reporting consists of two business areas, Korsnäs Industrial and Korsnäs Forestry. This distribution coincides with management's internal structure for controlling and monitoring the Group's operations. The accounting policies for the business segments coincide with the Group's accounting policies. The operations in the business areas are:

1. Korsnäs Industrial – following the acquisition of Frövi – conducts operations at two facilities: Korsnäs Gävle and Korsnäs Frövi, with annual capacity of 1,130,000 tons of paper and board products. Paperboard is the largest product area in terms of volume with Folding Carton, Liquid Packaging Board used for packaging beverages and White Top Kraft Liner used as the outer layer in corrugated board packaging.

2. Korsnäs Forestry supplies Korsnäs Industrial's pulp and paper mill with wood harvested from purchased felling rights, and wood purchased from outside suppliers, as well as purchasing forestry in line with external wood delivery agreements.

## Segment Reporting 2011

| | **Korsnäs Industrial** | **Korsnäs Forestry** | **Parent Company, Holding Company, eliminations** | **Total** |
|---|---|---|---|---|
| **Revenue** | | | | |
| External | 7 129 | 1 125 | | **8 254** |
| Internal | | 2 022 | -2 022 | **0** |
| **Total revenue** | **7 129** | **3 147** | **-2 022** | **8 254** |
| | | | | |
| **Profit/Loss** | | | | |
| Operating Profit | 859 | 48 | 0 | **907** |
| Dividends received | | | 4 | **4** |
| Change in fair value of financial assets | | | 96 | **96** |
| Financial net | | | -155 | **-155** |
| **Profit/Loss after financial items** | | | | **852** |
| Tax expense for the year | | | -191 | **-191** |
| **Net profit for the year** | | | | **661** |
| | | | | |
| **Assets and liabilities** | | | | |
| Operating assets | 9 381 | 727 | 0 | **10 108** |
| Financial fixed assets | | | 2 497 | **2 497** |
| Short-term investments, cash and cash equivalents | | | 76 | **76** |
| **Total assets** | | | | **12 681** |
| | | | | |
| Operating liabilities | 1 017 | 419 | 0 | **1 436** |
| Provision for pensions | | | 496 | **496** |
| Deferred tax liability | | | 1 052 | **1 052** |
| Short-term liabilities to Parent Company | | | 500 | **500** |
| Interest-bearing loans | | | 4 368 | **4 368** |
| **Total liabilities** | | | | **7 852** |
| **Depreciation** | -601 | -7 | | **-608** |
| **Investments in tangible fixed assets** | 674 | 13 | | **687** |

## Segment Reporting 2010

| | Korsnäs Industrial | Korsnäs Forestry | Parent Company, Holding Company, eliminations | Total |
|---|---|---|---|---|
| **Revenue** | | | | |
| External | 7 148 | 1 030 | | **8 178** |
| Internal | | 1 785 | -1 785 | **0** |
| **Total revenue** | **7 148** | **2 815** | **-1 785** | **8 178** |
| | | | | |
| **Profit/Loss** | | | | |
| Operating Profit | 879 | 47 | 0 | **926** |
| Dividends received | | | 4 | **4** |
| Change in fair value of financial assets | | | 64 | **64** |
| Financial net | | | -75 | **-75** |
| **Profit/Loss after financial items** | | | | **919** |
| Tax expense for the year | | | -218 | **-218** |
| **Net profit for the year** | | | | **701** |
| | | | | |
| **Assets and liabilities** | | | | |
| Operating assets | 8 816 | 673 | 0 | **9 489** |
| Financial fixed assets | | | 3 140 | **3 140** |
| Short-term investments, cash and cash equivalents | | | 86 | **86** |
| **Total assets** | | | | **12 715** |
| | | | | |
| Operating liabilities | 1 180 | 303 | 0 | **1 483** |
| Provision for pensions | | | 504 | **504** |
| Deferred tax liability | | | 1 115 | **1 115** |
| Short-term liabilities to Parent Company | | | 525 | **525** |
| Interest-bearing loans | | | 4 483 | **4 483** |
| **Total liabilities** | | | | **8 110** |
| | | | | |
| **Depreciation** | -596 | -5 | | **-602** |
| **Investments in tangible fixed assets** | 595 | 9 | | **604** |

Revenue comprises total sales proceeds net of sales discounts, VAT and other taxes directly connected to the revenue.

Of total revenue of SEK 8,254 million (8,178), SEK 8,160 million (8,090) is attributable to sale of goods and SEK 94 million (88) to sale of services.

Sales to one single customer represented 51% of total revenue for the years 2011 and 2010.

External revenue covers sales to all parties other than the Parent Company and its subsidiaries. For information on sales to related parties, refer to Note 29. Internal sales prices are set in the same manner as external sales, that is, on commercial terms.

Operating assets entail intangible and tangible fixed assets, investment in companies accounted for using the equity method, inventories and short-term non interest-bearing receivables. Operating liabilities entail other provisions and short-term non interest-bearing liabilities.

| | Parent company | |
|---|---|---|
| | **2011** | **2010** |
| **Net sale by business area** | | |
| **Korsnäs Forestry** | | |
| External | 848 | 819 |
| Internal | 1 936 | 1 697 |
| **Total Korsnäs Forestry** | **2 784** | **2 516** |
| | | |
| Korsnäs Industrial | | |
| External | 7 097 | 7 111 |
| Internal | - | 3 |
| **Total Korsnäs Industrial** | **7 097** | **7 114** |
| Eliminations | -1 936 | -1 697 |
| **Total** | **7 945** | **7 933** |
| | | |
| **Operating profit/loss by business area** | | |
| **Parent Company** | | |
| Korsnäs Forestry | **10** | **19** |
| Korsnäs Industrial | **686** | **694** |
| **Total** | **696** | **713** |

## Revenue distributed by geographic market

The geographic distribution of revenue is based upon the geographic location of the buyer.

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Sweden | 1 593 | 1 714 | 1 682 | 1 890 |
| Other Nordic countries | 115 | 134 | 115 | 134 |
| Rest of Europe | 4 685 | 4 822 | 4 287 | 4 398 |
| North and South America | 64 | 18 | 64 | 18 |
| Asia | 1 640 | 1 330 | 1 640 | 1 333 |
| Africa | 157 | 160 | 157 | 160 |
| | **8 254** | **8 178** | **7 945** | **7 933** |

## Distribution of assets by geographic market

| | Group | |
|---|---|---|
| | **2011** | **2010** |
| **Operating assets** | | |
| Sweden | 9 929 | 9 321 |
| Rest of Europe | 174 | 163 |
| Asia | 5 | 5 |
| **Other assets** | | |
| Financial fixed assets | 2497 | 3 140 |
| Short-term investment, cash and cash equivalents | 76 | 86 |
| | **12 681** | **12 715** |

Distribution of investments in tangible and intangible assets by geographic market

| | Group | |
|---|---|---|
| | 2011 | 2010 |
| Sweden | 676 | 596 |
| Rest of Europe | 11 | 8 |
| | **687** | **604** |

## **Note 3** Other operating income and other operating expenses

Other operating income

| | Group | | Parent company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Exchange gains on operating receivables/liabilities | 1 | 144 | 1 | 143 |
| Capital gains on disposal of tangible fixed assets | 7 | 7 | 7 | 6 |
| Freigh of external goods | - | 1 | - | 1 |
| Change in fair value of forest | 0 | 0 | - | - |
| Insurance compensation | 46 | 3 | 46 | 3 |
| Strike compensation | - | 85 | - | 85 |
| Other | 84 | 71 | 21 | 21 |
| **Other operating income** | **138** | **311** | **75** | **259** |

Other operating expenses

| | Group | | Parent company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Exchange losses on operating receivables/liabilities | -2 | -147 | -2 | -147 |
| Capital losses on disposal of tangible fixed assets | -2 | -11 | -2 | -11 |
| **Other operating expenses** | **-4** | **-158** | **-4** | **-158** |

## **Note 4 Depreciation**

Operating profit/loss includes depreciation as follows

| | Group | | Parent company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Goodwill | **-** | - | **-72** | -72 |
| Buildings, land and land improvements | **-57** | -57 | **-54** | -53 |
| Machinery and other technical plant | **-540** | -532 | **-527** | -523 |
| Equipment and tools | **-10** | -11 | **-9** | -10 |
| Leased assets | **-1** | -1 | **-1** | -1 |
| | **-608** | **-602** | **-663** | **-659** |

Depreciation: split per cost category as follows

| | Group | | Parent company | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Cost of goods and services | **-601** | -594 | **-656** | -652 |
| Selling costs | **0** | -1 | **-** | - |
| Administration costs | **-3** | -3 | **-3** | -3 |
| Research and development costs | **-3** | -3 | **-3** | -3 |
| | **-608** | **-602** | **-663** | **-659** |

## Note 5 Dividends received

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| **Group Companies** | | | | |
| Diacell | - | - | - | - |
| Korsnäs GmbH | - | - | - | - |
| Korsnäs Sales | - | - | 1 | 1 |
| | | | **1** | **1** |
| **Other Companies** | | | | |
| Bergvik Skog | 4 | 4 | 4 | 4 |
| Gävle Sjöfart | - | - | - | - |
| Gävle Stuveri | - | - | - | - |
| | **4** | **4** | **4** | **4** |
| | | | | |
| | **4** | **4** | **5** | **4** |

## Note 6 Change in fair value of financial assets

| | Group | |
|---|---|---|
| | **2011** | **2010** |
| Bergvik Skog | 97 | 64 |
| | **97** | **64** |

Valuation has been done by an external part according to an established valuation method, note 32.

## **Note 7** Financial income and expenses

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Interest income from third parties | **1** | 1 | **1** | 1 |
| Interest income from Group companies | **69** | 61 | **69** | 61 |
| **Financial income** | **70** | **61** | **70** | **61** |
| | | | | |
| Interest expenses to third parties | **-187** | -108 | **-186** | -108 |
| Interest expenses PRI | **-17** | -16 | **-20** | -22 |
| Interest expenses to group companies | **-2** | -1 | **0** | 0 |
| Loss in liquidation of group companies | **-** | 0 | **-** | 0 |
| Other financial expenses | **-18** | -10 | **-16** | -10 |
| **Financial expenses** | **-224** | **-135** | **-222** | **-140** |
| | | | | |
| **Net financial income/expenses** | **-155** | **-75** | **-151** | **-79** |

## Note 8 Taxes

| | Group | | Parent company | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| **Distribution of profit/loss after financial items** | | | | |
| Sweden | 813 | 891 | 540 | 642 |
| Outside Sweden | 39 | 28 | - | - |
| | **852** | **919** | **540** | **642** |
| **Distribution of current tax expense** | | | | |
| Sweden | -223 | -267 | -216 | -241 |
| Outside Sweden | -6 | -2 | - | - |
| | -229 | -269 | -216 | -241 |
| **Distribution of deferred tax expense** | | | | |
| Sweden | 38 | 51 | 59 | 55 |
| **Total tax charge for the year** | **-191** | **-218** | **-157** | **-186** |
| **Current tax expense** | | | | |
| Tax expense on group contribution | -131 | -138 | -124 | -114 |
| Tax expense for the period | -97 | -134 | -91 | -130 |
| Adjustment of tax expense for previous years | -1 | 4 | -1 | 3 |
| | **-229** | **-268** | **-216** | **-241** |
| **Deferred tax expense** | | | | |
| Deferred tax related to temporary differences | 38 | 51 | 59 | 55 |
| | 38 | 51 | 59 | 55 |
| **Total tax expense for the year** | **-191** | **-218** | **-157** | **-186** |

| | Group | | | | Parent Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **2011** | **%** | **2010** | **%** | **2011** | **%** | **2010** | **%** |
| **Reconciliation of effective tax rate** | | | | | | | | |
| Profit/Loss before tax | 852 | | 919 | | 540 | | 642 | |
| Income tax at statutory rate of Parent Company, 26,3% | -224 | - 26,3% | -242 | - 26,3% | -142 | - 26,3% | -169 | - 26,3% |
| Foreign tax rate differential | 5 | 1% | 5 | 1% | - | - | - | - |
| Change in fair value of financial assets | 25 | 3% | 17 | 2% | - | - | - | - |
| Non-taxable dividends received | 1 | 0% | 1 | 0% | 2 | 0% | 1 | 0% |
| Tax attributable to previous years | -1 | 0% | 4 | 0% | -1 | 0% | 3 | 0% |
| Effect of non-deductible costs and non taxable revenues | -2 | 0% | -2 | 0% | 1 | 0% | -2 | 0% |
| Tax loss carry forwards | - | - | - | - | - | - | - | - |
| Non-deductible depreciation | - | - | - | - | -19 | -4% | -19 | -3% |
| Other | 4 | 0% | -1 | 0% | 3 | 1% | - | - |
| **Effective tax/tax rate** | **-191** | **-22%** | **-218** | **-24%** | **-157** | **-29%** | **-186** | **-29%** |

| | Group | | Parent company | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| **Deferred tax assets** | | | | |
| Pensions and other provisions | 16 | 5 | 12 | 14 |
| | 16 | 5 | 12 | 14 |
| **Provisions for deferred tax** | | | | |
| Tangible and biological assets | -1 068 | -1 121 | 9 | -52 |
| **Net** | **-1 052** | **-1 115** | **21** | **-38** |

On deferred tax liabilities of SEK 1.068 million (1.121) for tangible and biological fixed assets, SEK 1.072 million (1.065) is attributable to untaxed reserves in the form of accumulated excess depreciation.

Deferred tax is not recorded for associated companies and subsidiaries as any dividend paid by these companies will not result in tax liability, and divestments may be made without giving rise to capital gains taxation.

Deferred tax assets and liabilities relates to companies in Sweden.

## **Note 9** Untaxed reserves

| **Parent company** | **2011** | **2010** |
|---|---|---|
| Difference between tax depreciation and depreciation according to plan | -9 | 4 |
| Change of tax allocation reserve | - | - |
| | **-9** | **4** |

## **Note 10** Intangible and tangible fixed assets

| | Group | | Parent Company | |
|---|---|---|---|---|
| *Intangible fixed assets, Goodwill* | **2011** | **2010** | **2011** | **2010** |
| Opening book value | 771 | 771 | 719 | 719 |
| Investments for the year | | | - | - |
| **Closing acquisition value** | 771 | 771 | 719 | 719 |
| Opening accumulated depreciation | - | - | -155 | -83 |
| Depreciation for the year | - | - | -72 | -72 |
| **Closing accumulated depreciation** | 0 | 0 | -227 | -155 |
| **Closing book value** | **771** | **771** | **492** | **564** |

Goodwill arising as a result of corporate acquisitions is distributed between two cash generating units: Korsnäs Industrial in respect of the acquisition of Frövi, Karskär Energi and Rockhammar and Korsnäs Forestry in respect of the acquisition of Latsin Sia in Latvia. A test to identify any impairment requirements was conducted at the end of 2011. The value in use for was calculated on the basis of discounted cash flows, assuming an annual growth rate of 2% (2%), and based on the budget for 2012 for both units and a pretax discount interest rate of 10% (10%), corresponding to the companies' average cost of capital. No impairment requirement for the goodwill on these units was identified. Nor did a sensitivity analysis, whereby the discount interest rate was increased by one percentage point and cash flow was reduced by 10%, give rise to any impairment requirement.

## Cash-generating units

| | Group | | Parent company | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Korsnäs Industrial | 756 | 756 | 492 | 564 |
| Korsnäs Forestry | 15 | 15 | - | - |
| | **771** | **771** | **492** | **564** |

**Tangible and biological fixed assets**
For purposes of calculating depreciation, fixed assets are classified on the basis of their estimated useful economic lives according to the following categories:

| | |
|---|---|
| Industrial buildings | 33 years |
| Office buildings | 50 years |
| Residential buildings | 50 years |
| Land improvements | 25 years |
| Machinery and equipment | 3 – 25 years |

Forestry and agricultural property are valued at fair value

| **Group 2011** | **Buildings, land, land-improvements** | **Forest and Agricultural properties** | **Machinery technical plants** | **Equipment, tools** | **Finance lease regarding machinery** | **Construction in progress, advances** | **Total** |
|---|---|---|---|---|---|---|---|
| Opening acquisition value | 1 827 | 10 | 11 356 | 341 | 7 | 351 | **13 894** |
| Investments for the year | 1 | 2 | 11 | 0 | - | 674 | **687** |
| Disposals/scrapping for the year | 0 | - | -9 | 0 | - | - | **-9** |
| Reclassification for the year | 32 | - | 544 | 6 | - | -582 | **0** |
| Translation difference | 0 | - | 0 | 1 | - | - | **2** |
| **Closing acquisition values** | **1 860** | **12** | **11 902** | **348** | **7** | **443** | **14 574** |
| Opening accumulated depreciation | -1 039 | 0 | -6 563 | -307 | -3 | 0 | **-7 914** |
| Disposals/scrapping for the year | 0 | - | 7 | 0 | - | - | **7** |
| Depreciation for the year | -57 | - | -540 | -10 | -1 | - | **-608** |
| Translation difference | 0 | - | 0 | 0 | - | - | **0** |
| **Closing accumulated depreciation** | **-1 096** | **0** | **-7 096** | **-317** | **-4** | **0** | **-8 515** |
| **Closing residual value** | **763** | **12** | **4 806** | **30** | **3** | **443** | **6 058** |

| Group 2010 | Buildings, land, land-improvements | Forest and Agricultural properties | Machinery technical plants | Equipment, tools | Finance lease regarding machinery | Construction in progress, advances | Total |
|---|---|---|---|---|---|---|---|
| Opening acquisition value | 1 752 | 9 | 10 650 | 333 | 6 | 556 | **13 308** |
| Investments for the year | 8 | 1 | 24 | 1 | 2 | 569 | **605** |
| Disposals/scrapping for the year | 0 | - | -6 | -1 | -1 | - | **-7** |
| Reclassification for the year | 72 | - | 692 | 9 | - | -773 | **0** |
| Translation difference | -5 | - | -5 | -1 | - | -1 | **-12** |
| **Closing acquisition values** | **1 827** | **10** | **11 356** | **341** | **7** | **351** | **13 894** |
| Opening accumulated depreciation | -985 | 0 | -6 036 | -297 | -2 | 0 | -7 322 |
| Disposals/scrapping for the year | - | - | 3 | 1 | 1 | - | 4 |
| Depreciation for the year | -57 | - | -532 | -11 | -1 | - | -602 |
| Translation difference | 2 | - | 3 | 1 | - | - | 6 |
| **Closing accumulated depreciation** | **-1 039** | **0** | **-6 563** | **-307** | **-3** | **0** | **-7 914** |
| **Closing residual value** | **788** | **10** | **4 793** | **34** | **4** | **351** | **5 980** |

| Parent Company 2011 | Buildings, land, land improvements | Forest and Agricultural properties | Machinery technical plants | Equipment, tools | Finance lease regarding machinery | Construction in progress, advances | Total |
|---|---|---|---|---|---|---|---|
| Operating acquisition value | 1 694 | 3 | 11 212 | 297 | 346 | 7 | 13 560 |
| Investments for the year | - | - | - | - | 651 | - | 651 |
| Disposals/scrapping for the year | 0 | 0 | -8 | 0 | - | - | -8 |
| Reclassification for the year | 32 | - | 541 | 6 | -578 | - | 0 |
| **Closing acquisition values** | **1 725** | **3** | **11 745** | **303** | **419** | **7** | **14 203** |
| Opening accumulated depreciation | -966 | 0 | -6 516 | -266 | 0 | -3 | -7 752 |
| Disposals/scrapping for the year | 0 | - | 6 | 0 | - | - | 7 |
| Depreciation for the year | -54 | - | -527 | -9 | - | -1 | -591 |
| **Closing accumulated depreciation** | **-1 020** | **0** | **-7 036** | **-275** | **0** | **-4** | **-8 336** |
| **Closing residual value** | **706** | **3** | **4 709** | **29** | **419** | **3** | **5 868** |

| Parent Company 2010 | Buildings, land, land-improvements | Forest and agricultural properties | Machinery technical plants | Equipment, tools | Finance lease regarding machinery | Construction in progress, advances | Total |
|---|---|---|---|---|---|---|---|
| Operating acquisition value | 1 622 | 3 | 10 531 | 288 | 535 | 6 | 12 986 |
| Investments for the year | - | - | - | - | 576 | 2 | 577 |
| Disposals/scrapping for the year | 0 | - | -2 | 0 | - | -1 | -4 |
| Reclassification for the year | 72 | - | 684 | 9 | -765 | - | 0 |
| **Closing acquisition values** | **1 694** | **3** | **11 212** | **297** | **346** | **7** | **13 560** |
| Opening accumulated depreciation | -913 | 0 | -5 994 | -256 | 0 | -2 | -7 166 |
| Disposals/scrapping for the year | 0 | - | 0 | 0 | - | 1 | 2 |
| Depreciation for the year | -53 | - | -524 | -10 | - | -1 | -588 |
| **Closing accumulated depreciation** | **-966** | **0** | **-6 516** | **-266** | **0** | **-3** | **-7 752** |
| **Closing residual value** | **728** | **3** | **4 696** | **32** | **346** | **4** | **5 809** |

## Note 11 Financial assets accounted at fair value through profit and loss and financial receivables in Parent Company

| Group 2011 | Reg. No | Registered office | Number of shares | Capital/ voting (%) | Book value |
|---|---|---|---|---|---|
| Bergvik Skog AB | 556610-2959 | Falun | 353 | 5 | 654 |
| | | | | | **654** |
| **Other financial assets** | | | | | |
| Financial receivables in Parent Company | | | | | 1 837 |
| Financial receivables in other associated companies | | | | | 2 |
| Other | | | | | - |
| | | | | | **1 839** |
| **Total** | | | | | **2 493** |

| Group 2010 | Reg. No | Registered office | Number of shares | Capital/ voting (%) | Book value |
|---|---|---|---|---|---|
| **Other companies** | | | | | |
| Bergvik Skog AB | 556610-2959 | Falun | 353 | 5 | 557 |
| | | | | | **557** |
| **Other financial assets** | | | | | |
| Financial receivables in Parent Company | | | | | 2 577 |
| Financial receivables in other associated companies | | | | | 2 |
| Other | | | | | 1 |
| | | | | | **2 580** |
| **Total** | | | | | **3 137** |

Reconciliation of book value

| | Shares in other companies | Other financial assets | Total |
|---|---|---|---|
| Opening balance, 1 January 2011 | 557 | 2 580 | 3 137 |
| Change in value of financial assets, note 6 | 97 | | 97 |
| Change in receivables Group companies | | -740 | -740 |
| Other | | -1 | -1 |
| **Closing balance, 31 December 2011** | **654** | **1 839** | **2 493** |

## Note 12 Investments in companies accounted for using the equity method

Group 2011

| Type of company | Company | Reg. No | Registered office | Number of shares | Capital/ voting (%) | Book value |
|---|---|---|---|---|---|---|
| Associated companies | Scand Fibre Logistics | 556253-1474 | Stockholm | 2000 | 20 | **1** |
| Joint venture | Bomhus Energi | 556793-5217 | Gävle | 148 | 50 | **227** |
| | VindIn AB | 556713-5172 | Stockholm | 100 | 7 | **4** |
| | | | | | | **231** |

Group 2010

| Type of company | Company | Reg. No | Registered office | Number of shares | Capital/ voting (%) | Book value |
|---|---|---|---|---|---|---|
| Associated companies | Scand Fibre Logistics | 556253-1474 | Stockholm | 2000 | 20 | **1** |
| Joint venture | Bomhus Energi | 556793-5217 | Gävle | 148 | 50 | **115** |
| | VindIn AB | 556713-5172 | Stockholm | 100 | 7 | **4** |
| | | | | | | **119** |

The group shares of joint venture´s balance sheet

| | **2011** | 2010 |
|---|---|---|
| Current assets | **96** | 161 |
| Fixed assets | **512** | 147 |
| Short-term liabilities | **-81** | -93 |
| Long-term liabilities | **-300** | -100 |
| **Net assets** | **227** | 115 |

The Group's share of joint venture´s  revenue and costs

| | **2011** | **2010** |
|---|---|---|
| Revenue | **0** | 0 |
| Costs | **0** | 0 |

## Note 13 Financial assets in Parent Company

Shares and participants in direct-owned subsidiaries

| | Reg. No | Registered office | Number of shares | Capital/ voting (%) | Book value |
|---|---|---|---|---|---|
| AB Stjernsunds Bruk | 556028-6881 | Gävle | 100 | 100 | **0** |
| Diacell AB | 556155-2786 | Gävle | 40000 | 100 | **7** |
| Korsnäs Advanced Systems AB | 556560-8527 | Gävle | 1000 | 100 | **5** |
| Korsnäs GmbH | | Germany | | 100 | **0** |
| Latsin Sia | | Latvia | | 100 | **43** |
| Sia Freja | | Latvia | | 100 | **9** |
| Korsnäs Sågverks AB | 556024-8477 | Gävle | 7000 | 100 | **1** |
| Marma Skog 31 AB | 556580-2203 | Gävle | | 100 | **0** |
| Korsnäs Schweiz AG | | Switzerland | | 100 | **1** |
| Korsnäs Rockhammar AB | 556761-2436 | Lindesberg | 1000 | 100 | **0** |
| Korsnäs France SAS | | France | | 100 | **1** |
| Kosnäs Ltd | | UK | | 100 | **3** |
| AssiDomän Ibérica S.L | | Spain | | 100 | **0** |
| Korsnäs Asia Holding Ltd | | China | | 100 | **0** |
| | | | | | **69** |

Reconciliation of book value of shares in subsidiaries

| | |
|---|---|
| Opening balance 1 January 2011 | 69 |
| Liquidation Korsnäs Sales Ltd | 0 |
| Closing balance, 31 December 2011 | **69** |

Besides the direct-owned shares and participations of the Parent Company the following companies are included in the Group.

| | Parent Company | Registered Office | Share capital (%) | Votes (%) |
|---|---|---|---|---|
| Trävaru AB Dalarna | AB Stjernsunds Bruk | Gävle | 100 | 100 |
| AB Marmaskog 75 | Marma Skog 31 | Gävle | 100 | 100 |
| AB Marmaskog 76 | Marma Skog 31 | Gävle | 100 | 100 |
| AB Marmaskog 77 | Marma Skog 31 | Gävle | 100 | 100 |
| Korsnäs Shanghai Trading Ltd | Korsnäs Asia Holding Ltd | China | 100 | 100 |

Receivables from Group Companies

| | 2011 | 2010 |
|---|---|---|
| *Accumulated acquisition value* | | |
| At the beginning of year | 2635 | 2 556 |
| Change for year | -696 | 79 |
| **At the year-end** | **1939** | **2 635** |

Participations in associated companies

| | 2011 | 2010 |
|---|---|---|
| *Accumulated acquisition value* | | |
| At beginning of year | 115 | 1 |
| Change for year | 112 | 115 |
| **At year-end** | **227** | **115** |

Shares and participations in associated companies

| | Reg. No | Registered office | Number of shares | Capital/ voting (%) | Book value |
|---|---|---|---|---|---|
| Industriskog AB | 556193-9470 | Falun | 7500 | 33 | 0 |
| Trätåg AB | 556116-2719 | Falun | 250 | 50 | 0 |
| Scand Fibre Logistics AB | 556253-1474 | Stockholm | 2000 | 20 | 1 |
| Bomhus Energi AB | 556793-5217 | Gävle | 458500 | 50 | 227 |
| | | | | | **227** |

Other long-term non-interest bearing receivables

| | 2011 | 2010 |
|---|---|---|
| *Accumulated acquisition value* | | |
| At the beginning of year | 182 | 182 |
| Change for year | 0 | - |
| **At year-end** | **181** | **182** |

## **Note 14** Inventories

| | Group | | Parent company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Raw materials and consumables | **746** | 615 | **658** | 535 |
| Felling rights | **92** | 81 | **42** | 38 |
| Work in progress | **81** | 57 | **81** | 57 |
| Finished products and goods for resale | **939** | 643 | **945** | 653 |
| Other | **190** | 180 | **189** | 180 |
| | **2 048** | **1 576** | **1 915** | **1 463** |

SEK 1 million (14) of the inventories are valued at net selling price. The remaing inventory are valued at cost.

## **Note 15** Trade receivables

| | Group | | Parent company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Trade receivables | **620** | 664 | **603** | 645 |
| Reserve for doubtful accounts | **-13** | -8 | **-9** | -5 |
| | **607** | **656** | **594** | **640** |

Trade receivables overdue more than 90 days, but not provided for, amounts to SEK 4 million (1).

| Bad debt losses | Group | | Parent company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Bad debt losses, opening balance 1 January | **8** | 13 | **5** | 7 |
| Provisions during the year | **6** | 1 | **5** | 0 |
| Confirmed losses | **-1** | -2 | **-1** | -1 |
| Recovery of previous provisions | **0** | -2 | **0** | - |
| Exchange rate differences | **0** | -1 | **0** | 0 |
| **Bad debt losses, closing balance 31 December** | **13** | **8** | **9** | **5** |

## **Note 16** Other receivables

| | Group | | Parent company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Receivables from Group companies | **12** | 6 | **51** | 114 |
| Tax receivables | **69** | 2 | **68** | - |
| Accrued income | **154** | 150 | **154** | 150 |
| Derivatives, cash flow hedging power supplies | - | 75 | | |
| Other receivables | **125** | 121 | **123** | 120 |
| | **360** | **353** | **397** | **384** |

### Accrued income

| | Group | | Parent company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Accrued sales revenue | **86** | 118 | **86** | 118 |
| Accrued insurance compensation | **45** | 3 | **45** | 3 |
| Other accrued income | **23** | 29 | **23** | 29 |
| | **154** | **150** | **154** | **150** |

## **Note 17** Prepaid expenses

| | Group | | Parent company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Prepaid rents | **1** | 1 | **-** | - |
| Prepaid insurance premiums | **6** | 6 | **6** | 6 |
| Other | **30** | 30 | **26** | 27 |
| | **37** | **37** | **32** | **32** |

## **Note 18** Cash and cash equivalents

| | Group | | Parent company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Cash at banks | **76** | 86 | **54** | 63 |
| | **76** | **86** | **54** | **63** |

In addition to cash and cash equivalents reported above, the Group had on 31 December undrawn facilities of SEK 826 million (706).

## **Note 19** Shareholders´ equity

**Share capital**

Korsnäs AB's share capital as of 31 December 2011 was distributed among 53,613,270 shares with a par value of SEK 1 per share, which is unchanged compared to 31 December 2010. There is only one class of shares

**Other contributed capital**

Other contributed capital consists of the Parent Company`s share premium reserve of SEK 11 million. Wherof the reamaning consists of paid-in capital to the business in Latvia.

**Hedging reserve**

The hedging reserve which is fully attributable to power supplies reported against other comprehensive income totaling a loss of SEK -8 million at 31 December 2011, before deduction of deferred tax, matures during 2012.

| | Gross | Tax | Net |
|---|---|---|---|
| **Opening balance 1 January 2010** | -22 | 6 | -16 |
| Transferred to the income statement | -46 | 12 | -34 |
| Change for the year | 143 | -38 | 105 |
| **Closing balance 31 December 2010** | **75** | **-20** | **55** |
| Transferred to the income statement | **-14** | **4** | **-10** |
| Change for the year | **-69** | **18** | **-51** |
| **Closing balance 31 December 2011** | **-8** | **2** | **-6** |

**Translation reserve**

Refers to the translation of foreign subsidiaries.

**Retained earnings including net profit for the year.**

Retained earnings that are reported in the Group include the current and preceding year`s profit

**Capital management**

Korsnäs managed capital consists of shareholder´s equity. Changes in managed shareholder´s capital appear in table above. There are no other external capital requirements, other than what is specified in the Swedish Companies Act.

## **Note 20** Interest-bearing loans

**Interest-bearing long-term loans**

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Liabilities to credit institutions | 4 383 | 4 503 | 4 379 | 4 498 |
| Accrued financing costs | -23 | -30 | -23 | -30 |
| Loan finance lease | 3 | 4 | 3 | 4 |
| Liabilities to Group companies | - | - | 3 | 3 |
| Other | 4 | 4 | 1 | 1 |
| | **4 366** | **4 481** | **4 362** | **4 476** |
| **Non interest-bearing long-term loans** | | | | |
| Liabilities to Group companies | 0 | 0 | 1 | 1 |
| **Interest-bearing short-term loans** | | | | |
| Liabilities to credit institutions | 1 | 0 | - | - |

For assets pledged as security for external interest-bearing loans, refer to Note 25. A summary of maturities and other terms and conditions pertaining to liabilities to credit institutions is presented below. On 31 December 2011, the average remaining maturity for all credit facilities amounted to 3,9 (4,9) years. All loans have a maximum interest of three months and carry interest at STIBOR or a similar basic interest rate plus an average margin of 1,7%. Capitalized borrowing costs totaled SEK 23 million (30) for the year.

| Lending institution<br>SEK million | Credit facility as per 31 Dec 2011 | Utilized amount 31-dec-11 | Unutilized amount 31 Dec 2011 | Currency | Maturity |
|---|---|---|---|---|---|
| **Long-term loans** | | | | | |
| **Parent Company** | | | | | |
| DnB NOR Bank ASA as facility agent 1) | 4 000 | 3 179 | 821 | SEK/EUR | June 3, 2017 |
| Nordea Bank AB (publ) | 600 | 600 | | SEK | June 3, 2017 |
| Svensk Exportkredit AB | 600 | 600 | | SEK | June 3, 2017 |
| **Total Parent Company** | **5 200** | **4 379** | **821** | | |
| **Other Group companies** | | | | | |
| Nordea Bank Finland | 9 | 4 | 5 | | |
| Other | 4 | 4 | 0 | SEK | |
| **Total Group** | **5 213** | **4 387** | **826** | | |
| **Other Group companies** | | | | | |
| Other | 1 | 1 | 0 | | |
| **Total Group** | **5 214** | **4 388** | **826** | | |
| | | | | | |
| **Short-term loans** | | | | | |
| **Other Group companies** | | | | | |
| Other Group companies | 0 | 0 | 0 | | |
| **Total Group** | 0 | **0** | **0** | | |
| | | | | | |
| **Total liabilities to credit institutions, Group** | **5 214** | **4 389** | **826** | | |

1) Syndicated facility with DnB NOR Bank ASA (facility agent), Credit Agricole Corporate & Investment Bank (France) Sweden Branch, DnB NOR Bank ASA London Branch, Nordea Bank AB (publ), Skandinaviska Enskilda Banken AB (publ) Svenska Handelsbanken AB (publ) and Swedbank AB (publ) as participating banks. The facility agreement includes certain financial covenants for some for financial key mainly relating to ratios for Korsnäs, net debt to operating profit before depreciation (EBITDA). As of 31 December 2011 Korsnäs complied with all financial covenants.

## Note 21 Provisions for pensions

Changes in the net obligation for defined-benefit plans recognized in the balance sheet.

| | Sweden | |
|---|---|---|
| | **2011** | **2010** |
| Opening balance | **504** | 541 |
| Benefits paid | **-30** | -31 |
| Cost recognized in the income statement | **8** | 0 |
| Actuarial profit/losses for the year | **14** | -6 |
| **Net obligation for defined-benefit plans as at 31 December** | **496** | 504 |

Net cost of defined benefit pension plans

| | Sweden | |
|---|---|---|
| | **2011** | **2010** |
| Earned during the year | **0** | 0 |
| Reduction of pension commitments | **-9** | -16 |
| Interest component in the increase during the year of the present value of the pension commitment | **17** | 16 |
| **Reported pension cost, net** | **8** | 0 |

Reported provision at the end of the year

| | Sweden | |
|---|---|---|
| | **2011** | **2010** |
| Commitments | **496** | 504 |
| Plan assets | **-** | - |
| **Reported provision 31 December** | **496** | 504 |

Primary assumptions used in the calculation of the pension obligation (%)

| | Sweden | |
|---|---|---|
| | **2011** | **2010** |
| Discount rate | 3,75 | 3,90 |
| Future pay increases | N/A | N/A |
| Future pension increases | 1,75 | 1,75 |

Some of the defined benefit pension commitments on behalf of salaried employees within Korsnäs in Sweden are secured by means of insurance policies with Alecta. As Alecta cannot provide sufficient information to permit the ITP plan to be stated in the accounts as defined benefit it is stated in accordance with UFR 6 as defined contribution. Fees paid during the year for pension insurance policies covered by Alecta amount to SEK 13 million (18). Alecta's surplus may be distributed to policyholders and/or the insured. At year-end 2011, Alecta's surplus in form of collective solvency ratio was 113% (146%).

The cost of all defined contribution plans amounted to SEK 74 million (84) for the Group (including premiums paid to Alecta).

The Group's payments into the defined benefit plan in 2012 are expected to amount to SEK 12 million.

Provision for pensions Parent Company

| | **2011** | **2010** |
|---|---|---|
| Pensions credit insured through FPG/PRI | **458** | 432 |
| Other provisions for pensions | **33** | 33 |
| | **490** | 465 |

Fees paid during the year for pension insurance policies covered by Alecta (reported as a defined contribution plan) amount to SEK 13 million (18). Alecta´s surplus may be distributed to policyholders and/or the insured. At year-end 2011, Alecta´s surplus in form of collective solvency ratio was 113% (146%).

## Note 22 Other provisions

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Severance pay | **24** | 57 | **23** | 55 |
| Other | **0** | 0 | **0** | 0 |
| | **24** | 57 | **23** | 55 |
| Long-term | **5** | 22 | **5** | 21 |
| Short-term | **19** | 36 | **18** | 34 |
| | **24** | 57 | **23** | 55 |

Reconciliation of the book value

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Opening balance, 1 January 2011 | **57** | 95 | **55** | 89 |
| Severance pay completed | **-39** | -53 | **-37** | -49 |
| New provision for severance pay | **7** | 16 | **6** | 16 |
| Release of other provisions | **-1** | -1 | **-1** | -1 |
| **Closing balance, 31 December 2011** | **24** | 57 | **23** | 55 |

## **Note 23** Trade creditors and other liabilities

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Trade creditors | **753** | 725 | **718** | 696 |
| Accrued expenses for purchase of goods | **192** | 212 | **192** | 212 |
| **Total trade creditors** | **945** | 937 | **909** | 908 |
| Accrued expenses | **375** | 389 | **365** | 378 |
| Derivates, cash flow hedging and power supplies | **8** | - | **-** | - |
| Other liabilities | **75** | 69 | **69** | 61 |
| | **1 403** | **1 395** | **1 343** | **1 347** |

Accrued expenses

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Accrued personnel expenses | **210** | 221 | **203** | 213 |
| Accrued agent provisions | **0** | 2 | **0** | 2 |
| Accrued interest expenses | **4** | 8 | **4** | 8 |
| Other | **161** | 158 | **158** | 156 |
| | **375** | **389** | **365** | **378** |

Trade creditors are non interest-bearing and usually will be paid in 30 days. For trade creditors and other liabilities to related parties refer to Note 29.

## **Note 24** Leasing agreements

Group companies have concluded a number of agreements covering the rental of premises and other fixed assets. During 2011 SEK 21 million (19) was paid in accordance with operational leasing agreements. Future minimum payments for agreements relating to leased assets as of 31 December are as follows:

**Parent Company**

| | **2011** | **2010** |
|---|---|---|
| | **Premises and other fixed assets** | **Premises and other fixed assets** |
| 2011 | | 18 |
| 2012 | **16** | 14 |
| 2013 | **15** | 13 |
| 2014 | **13** | 11 |
| 2015 | **11** | 10 |
| 2016 | **7** | 10 |
| 2017 and later | **5** | |
| | **67** | **76** |

**Group**

| | **2011** | **2010** |
|---|---|---|
| | **Premises and other fixed assets** | **Premises and other fixed assets** |
| 2011 | | 18 |
| 2012 | **16** | 14 |
| 2013 | **15** | 13 |
| 2014 | **13** | 11 |
| 2015 | **11** | 10 |
| 2016 | **7** | 10 |
| 2017 and later | **5** | |
| | **67** | **76** |

The Group had finance lease agreements of SEK 3 million (6) reported in the balance sheet on 31 December 2011.

## Note 25 Pledged assets

| | **Group** | | **Parent Company** | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| **For own liabilities** | | | | |
| **For liabilities to credit institutions** | | | | |
| Real estate mortgages | **1 900** | 1 900 | **1 900** | 1 900 |
| Shares in other companies | **-** | 177 | **-** | 177 |
| Chattel mortgages | **600** | 600 | **600** | 600 |
| | **2 500** | **2 677** | **2 500** | **2 677** |
| Obligations for Bomhus Energi | | | | |
| Shares in Bomhus Energi | **227** | **115** | **227** | **115** |
| | **2 727** | **2 792** | **2 727** | **2 792** |

A mortgage deed of SEK 1,900 million in fixed assets and a chattel mortgage of SEK 600 million in Korsnäs are included as a general security related to Korsnäs' syndicated bank loan.

## Note 26 Contingent liabilities

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Sequrities and guarantees | **23** | 20 | **23** | 20 |
| Sequrities and guarantees for subsidiaries | **9** | 9 | **9** | 9 |
| Guarantee commitments, FPG | **9** | 9 | **9** | 9 |
| | **41** | 38 | **41** | 38 |

## Note 27 Personnel

Average number of employee

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **men** | **women** | **men** | **women** |
| **Group** | | | | |
| Sweden | **1 369** | **224** | 1 352 | 216 |
| Germany | **3** | **1** | 3 | 1 |
| Latvia | **135** | **26** | 146 | 28 |
| UK | **6** | **-** | 6 | - |
| France | **4** | **1** | 4 | 1 |
| Russia | **0** | **0** | 0 | 0 |
| Switzerland | **1** | **-** | 1 | - |
| Asia | **1** | **1** | 1 | 1 |
| | **1 519** | **253** | **1 513** | **247** |
| **Total number of employees** | | **1 772** | | **1 760** |
| | | | | |
| **Parent Company** | | | | |
| Gävle | **847** | **131** | 841 | 132 |
| Frövi | **482** | **90** | 470 | 82 |
| | | **1 550** | | **1 525** |

Distribution of women and men on the Board and in the management group, Group

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **men** | **women** | **men** | **women** |
| Board members | | | | |
| Elected by the AGM | 6 | 1 | 6 | 1 |
| Employee representatives, ordinary | 2 | - | 2 | - |
| Employee representatives, deputies | 2 | - | 2 | - |
| Other senior executives | 10 | 2 | 10 | 2 |
| | **20** | **3** | **20** | **3** |

Distribution of women and men on the Board and in the management group, Parent Company

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **men** | **women** | **men** | **women** |
| Board members | | | | |
| Elected by the AGM | 6 | 1 | 6 | 1 |
| Employee representatives, ordinary | 2 | - | 2 | - |
| Employee representatives, deputies | 2 | - | 2 | - |
| Other senior executives | 10 | 2 | 10 | 2 |
| | **20** | **3** | **20** | **3** |

Salaries, other remuneration and social security expenses, Group (SEK 000s)

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Board and CEO** | **Other employees** | **Board and CEO** | **Other employees** |
| **Group** | | | | |
| Sweden | 7 465 | 790 321 | 7 649 | 781 192 |
| Outside Sweden | 1 867 | 35 052 | 2 288 | 35 673 |
| **Total salaries and other remuneration** | **9 332** | **825 076** | **9 937** | **816 865** |
| Social security expenses | 6 923 | 359 534 | 10 023 | 337 130 |
| Of which, pension expenses | 4 116 | 105 280 | 7 068 | 87 974 |
| | | | | |
| **Parent Company** | | | | |
| Sweden | | | | |
| Salaries and other remuneration | 7 465 | 771 219 | 7 649 | 760 381 |
| Social security expenses | 6 462 | 384 362 | 9 471 | 317 693 |
| Of which, pension expenses | 4 116 | 145 351 | 7 068 | 81 999 |

Salaries, other remuneration and social security expenses include SEK 39 million (53) in paid remuneration, which relate to Restructuring costs expensed earlier and have not charged the net profit/loss for the year.

Pension obligations and similar benefits for former Board members and CEOs for the parent company amounts to total SEK 41,260,000 (34,192,000) and for the Group 41,260,000 (34,192,000). These amounts are included among liabilities in the balance sheets of the Group.

**Principles**

The Annual General Meeting decides the total fee to ordinary members of the Board, while the Board decides the allotment of fees. Remuneration to the CEO and other senior executives consists of fixed salary, variable salary, and customary benefits and pension. Variable salary may not exceed 40% of the fixed salary. By other senior executives within Korsnäs is meant the ten individuals, who together with the President, forms the management group of the company. As regards the CEO of the Parent Company and other senior executives in the management group of the company there are the customary pension commitments within the frame-work of the public pension plan, which provides entitlement to retirement at the age of 65. Pension premiums are paid to insurance companies or are included in provisions for pensions. In the event of termination of employment initiated by the company, the CEO is entitled to a salary during a notice period of 18 months. Any salary received from new employment during the notice period reduces salary received from Korsnäs during the notice period. In the event of termination of employment initiated by the CEO, the notice period is 9 months. In the event of termination of employment initiated by the company, other senior executives are entitled to a salary over a notice period of a minimum 6 and a maximum 12 months. Any salary received from new employment during the notice period reduces salary received from Korsnäs during the notice period.

**Board fees**

Board members in the Parent Company's Board received fees amounting in total to SEK 1,450,000 (1,550,000).

**Incentive plan**
There are long-term incentive plan (the "Plans") for senior executives and other key employees in the Kinnevik Group that requires participants to own shares in Kinnevik.

Ten senior executives within Korsnäs participate in the Plan.

For each share held under the Plans, the participants will be granted retention rights and performance rights by the Company. Subject to fulfillment of certain retention- and performance-based conditions during the individual periods Included In the Plans (1 April 2008 – 31 March 2011,1 April 2009 - 31 March 2012, 1 April 2010-31 March 2013 and 1 April 2011-31 March 2014, the "Measure Period"), the participant maintaining the employment of the Kinnevik. Group at the date of the release of the interim reports for the January – March 2011, January - March 2012, January - March 2013 and January - March 2014 periods , and subject to the participant retaining the invested shares, each retention right and performance right will entitle the participant to receive one class B share in the Company.

The number of shares the employee will receive depends on the fulfillment of defined retention- and performance-based conditions during the Measure Period based on:

- Total return on the Kinnevik class B share
- Average yearly development of the net asset value, including dividends
- Average return on operational capital employed at Korsnäs
- Average EBITDA margin at Korsnäs in relation to a peer group

In order to equalize participants' interests with those of shareholders, the Company will compensate for forfeited dividends by increasing the number of shares and rights to which they are entitled.

***Completed plan 2008-2011***
The plan approved in 2008, with a measure period of 1 April 2008 – 31 March 2011, resulted in allotment for the Korsnäs management group of 9.678 shares out of a maximum allotment of 29.450 rights. The number of total alloted sharers included dividend compensation totaling 848 shares. For the CEO the plan resulted in allotment of 2.387 shares out of a maximum allotment of 8.250 rights and for remaining eight participants included in korsnäs management group, the plan resulted in allotment of 7.291 shares out of a maximum allotment of 21.200 rights. Participants' profit, which was restricted to a maximum of SEK 570 per share right, was SEK 158.10 per right. The plan's total cost was SEK 1,7 m and was expensed continuously during 2008 – 2011.

***Outstanding plans***
For Korsnäs management group is the Plan that was established in 2009, with a Measure Period of 1 April 2009 - 31 March 2012, totaling 11,000 shares held by employees entitling a maximum allotment of 48,500 rights, of which 11,000 retention share rights and 37,500 performance share rights. For the CEO of Korsnäs the plan encompasses up to 3,000 invested shares and 5.5 rights per invested share and for other members of Korsnäs' management group up to 1000 invested shares and 4 rights per invested share.

The participant's maximum profit is limited to SEK 320 per right.

For members of Korsnäs' management group, the Plan established in 2010, with a Measure period of 1 April 2010 - 31 March 2013 is estimated to comprise up to 9,500 shares held by the employees entitling up to 41,000 rights, of which 9,500 retention rights and 31,500 performance rights. For the CEO of Korsnäs the plan encompasses up to 2,000 invested shares and 5.5 rights per invested share and for other members of Korsnäs' management group up to 750 invested shares and 4 rights per invested share.

The participant's maximum profit is limited to SEK 573 per right.

For members of Korsnäs' management group, the Plan established in 2011, with a Measure period of 1 April 2011 - 31 March 2014 is estimated to comprise up to 9,000 shares held by the employees entitling up to 39,000 rights, of which 9,000 retention rights and 30,000 performance rights. For the CEO of Korsnäs the plan encompasses up to 2,000 invested shares and 5.5 rights per invested share and for other members of Korsnäs' management group up to 700 invested shares and 4 rights per invested share.

The participant's maximum profit is limited to SEK 721 per right.

The plan could result in expenses for the Korsnäs Group in the form of social security costs upon utilization, as well as personnel costs during the vesting period. This year's cost amounts to a total of SEK 2 million (2) and is calculated according to anticipated outcome should all participants remain employed at the end of the Measure Period. Total liability for social security costs pertaining to the incentive programs amounted to SEK 2 m (3) on 31 December, 2011.

Remuneration for the CEO and other senior executives

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | CEO | Other senior executives | CEO | Other senior executives |
| Fixed salaries | **4 778** | **15 465** | 4 607 | 14 106 |
| Variable salaries | **467** | **1083** | 1 260 | 4 075 |
| Benefits | **293** | **596** | 231 | 489 |
| Pension expenses | **933** | **3879** | 912 | 4 089 |
| Estimated costs for shared-based remuneration | **344** | **861** | 1295 | 2447 |

## **Note 28** Auditors´ fee

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| To Ernst & Young | | | | |
| Audit assignments | **1,0** | 1,2 | **0,9** | 0,9 |
| Tax services | **0,0** | 0,1 | **0,0** | 0,1 |
| Other services | **0,2** | 0,8 | **0,2** | 0,8 |

Other services to Ernst & Young refer to consultation in connection with internal control, sustainability reporting and IFRS consultations.

## **Note 29** Related-party transactions

During 2011 and 2010, Korsnäs engaged in transactions with following related companies.

| **Related companies** | **Relationship** |
|---|---|
| Tele2 AB (”Tele2”) | Associated company of Kinnevik. |
| Metro International S.A (”Metro”) | Associated company of Kinnevik |
| Audit Value S.A. (”Audit Value”) | Parties related to Kinnevik own shares in Audit Value, providing considerable influence over Audit Value. |
| Sia Latgran | Kinnevik owns 51% of the shares. |
| Investment AB Kinnevik | Parent company of Korsnäs AB |
| Bomhus Energi AB | Korsnäs owns 50% of the shares. |

All transactions with related parties have taken place at arm`s length basis, i.e. on market conditions. In connection with acquisitions and divestment independent valuations were used as a basis for negotiations on the final price. In all agreements relating to good and service prices are compared with up-to-date prices from independent suppliers in the market to ensure that all agreement is entered into on market conditions.

**Commercial agreement with related parties**

– Korsnäs buys telephony services from Tele2 and Tele2 rent office premises from Korsnäs.
– Korsnäs buys internal audit services from Audit Value..
– Korsnäs has bought advertisement from Metro.
– Korsnäs sells raw-material for pellets to Sia Latgran.
- Korsnäs buys management and financial services from Kinnevik
- Bomhus installing a bioenergy facility at Korsnäs
  Korsnäs sells consulting services to Bomhus

Financial loan transactions with related parties

| | Group | | Parent Company | |
|---|---|---|---|---|
| **Revenue** | **2011** | **2010** | **2011** | **2010** |
| Tele2 | **0,2** | 0,1 | **0,2** | 0,1 |
| Latgran | **105,4** | 98,0 | **-** | - |
| Bomhus Energi | **7,1** | 4,5 | **7,1** | 4,5 |
| | **112,7** | 102,6 | **7,3** | 4,6 |
| | | | | |
| **Operating expenses** | **2011** | **2010** | **2011** | **2010** |
| Metro | | -0,2 | - | -0,2 |
| MTG | -0,2 | | -0,2 | |
| Tele2 | -3,0 | -2,8 | -3,0 | -2,8 |
| Bomhus Energi | -1,8 | | -1,8 | |
| Kinnevik | -12,0 | -12,0 | -12,0 | -12,0 |
| | **-16,9** | **-15,0** | **-16,9** | **-15,0** |

Trade creditors and other non-interest bearing liabilities

| | Group | | Parent company | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Tele2 | **-0,1** | 0,1 | **-0,1** | 0,1 |
| Bomhus Energi | **0** | 2,8 | **0** | 2,8 |
| Kinnevik | **4,6** | | **4,6** | **-** |
| | | | | |
| **Trade creditors** | | | | |
| Bomhus Energi | - | 2,8 | - | 2,8 |

## **Note 30** Financial risk management

The Group's financing and management of financial risks is centralized within Kinnevik's finance function and is conducted on the basis of a finance policy established by the Board of Directors. The Group has established a model for risk management, the aims of which are to identify, control and reduce risks. The identified risks and how they are managed are reported to the Kinnevik Board on a quarterly basis. Korsnäs is exposed to financial risks mainly in respect of:

– the interest rate risk resulting from changes in market interest rates
– the exchange rate risk comprising transaction exposure and translation exposure
– liquidity and refinancing risk, meaning the risk that the cost of financing opportunities will increase or that such opportunities will be limited when loans are renegotiated, and that payment obligations cannot be met due to insufficient liquidity.

**Interest rate risk**

The Group´s policy is to maintain short interest periods because the Company believes that this leads to lower interest expense over time. The Group has no borrowing subject to periods of fixed interest exceeding three months. On 31 December 2011, all of Korsnäs' liabilities to credit institutions, SEK 4,387 million, were exposed to interest rate changes, of which SEK 4,200 million to changes in Stibor, SEK 179 million to changes in Euribor and the rest against interest rates in other currencies. It would take three months for an increase in short-term interest rates to gain its full impact on Korsnäs' interest expense. Accordingly, if the interest rate will rise with 1%, the interest expense on an annualized basis will rise by SEK 44 million.

**Exchange rate risk**

*Transaction exposure*

The Group's revenues and operating expenses arise mainly in SEK and EUR. The Group's policy is to endeavour to match revenues and costs in the same currency. The net flow of the Group's inflow and outflow in foreign currency amounted to a net inflow of approximately SEK 600 million (600) for the year, which consisted mainly of EUR. The Group's policy is not to hedge this transaction exposure by using, for example, forward contracts. The reason for this approach is that the Group is dealing with a continuously even net inflow of foreign currency for which, over time, hedging measures would also be affected by exchange rate changes. A change in the EUR/SEK rate by SEK 0.10 would have affected consolidated profit in 2011 by approximately SEK 7 million.

*Translation exposure*

Translation exposure arises when the earnings and shareholders' equity of foreign subsidiaries are translated into SEK, and insofar as capital employed within the Group is financed in a currency other than the capital employed in the particular company. The Group´s policy is to use external borrowing in various currencies to finance capital employed in the same currency. If this is not possible and significant temporary currency exposures exist, the Group's finance policy permits the use of forward contracts. On 31 December 2011, there were no outstanding forward contracts. Translation exposure arising from the translation of the foreign subsidiaries' earnings and shareholders' equity is not hedged since the exposure is considered being of no material importance to Korsnäs.

*Liquidity and refinancing risk*

The Group's refinancing risk is limited by having loans from a number of different credit institutions maturing at different times as well as striving for refinancing all loans at least six months prior to maturity. On 31 December 2011, the available credit facility amounts from credit institutions totaled SEK 5,214 (5,214) million and the average remaining term to maturity was 3.9 (4.9) years.

## Note 31Business combinations

No acquisition has been done during 2011 or 2010.

## **Note 32** Financial assets and liabilities allocated by category

| **Group 2011** | **Financial assets accounted at fair value through profit and loss** | **Loan receivable-les and trade receivables** | **Cash flow hedging** | **Financial liabilities** | **Total book value** |
|---|---|---|---|---|---|
| Financial assets accounted at fair value, level 3 | 658 | | | | 658 |
| Receivables Parent company | | 1839 | | | 1839 |
| Other fixed assets | | | | | 0 |
| Trade receivables | | 607 | | | 607 |
| Other current assets | | 397 | | | 397 |
| Cash at bank | | 76 | | | 76 |
| **Total financial assets** | **658** | **2919** | **0** | **0** | **3577** |
| Interest-bearing liabilities | | | | 4367 | 4367 |
| Liabilities to Group companies | | | | 505 | 505 |
| Trade creditors | | | | 945 | 945 |
| Other liabilities | | | 8 | 240 | 248 |
| **Total financial liabilities** | **0** | **0** | **8** | **6057** | **6065** |

| Group 2010 | Financial assets accounted at fair value through profit and loss | Loan receivable-les and trade receivables | Cash flow hedging | Financial liabilities | Total book value |
|---|---|---|---|---|---|
| Financial assets accounted at fair value, level 3 | 564 | | | | **564** |
| Receivables Parent company | | 2577 | | | **2577** |
| Other fixed assets | | | | | **0** |
| Trade receivables | | 656 | | | **656** |
| Other current assets | | 390 | 75 | | **465** |
| Cash at bank | | 86 | | | **86** |
| **Total financial assets** | **564** | **3709** | **75** | **0** | **4348** |
| Interest-bearing liabilities | | | | 4481 | **4481** |
| Liabilities to Group companies | | | | 530 | **530** |
| Trade creditors | | | | 937 | **937** |
| Other liabilities | | | | 229 | **229** |
| **Total financial liabilities** | **0** | **0** | **0** | **6177** | **6177** |

| Parent company 2011 | Financial assets accounted at fair value through profit and loss | Loan receivables and trade receivables | Financial liabilities | Total book value |
|---|---|---|---|---|
| Receivables Group company | | 1 939 | | **1 939** |
| Receivables associated company | | 2 | | **2** |
| Shares and participations in other companies | 181 | | | **181** |
| Trade receivables | | 594 | | **594** |
| Interest bearing receivables | | | | **0** |
| Other receivables | | 541 | | **541** |
| Cash at bank | | 54 | | **54** |
| **Total financial assets** | **181** | **3 130** | **0** | **3 311** |
| Interest-bearing liabilities | | | 4 360 | **4 360** |
| Liabilities to Group companies | | | 548 | **548** |
| Trade creditors | | | 909 | **909** |
| Other liabilities | | | 231 | **231** |
| **Total financial liabilities** | **0** | **0** | **6 048** | **6 048** |

| **Parent Company 2010** | **Financial assets accounted at fair value through profit and loss** | **Loan receivable-les and trade receivables** | **Financial liabilities** | **Total Book value** |
|---|---|---|---|---|
| Receivables Group company | | 2 635 | | **2 635** |
| Receivables associated company | | 2 | | **2** |
| Shares and participations in other companies | 182 | | | **182** |
| Trade receivables | | 640 | | **640** |
| Interest bearing receivables | | | | **0** |
| Other receivables | | 602 | | **602** |
| Cash at bank | | 63 | | **63** |
| **Total financial assets** | **182** | **3 942** | **0** | **4 124** |
| | | | | |
| Interest-bearing liabilities | | | 4 476 | **4 476** |
| Liabilities to Group companies | | | 577 | **577** |
| Trade creditors | | | 908 | **908** |
| Other liabilities | | | 219 | **219** |
| **Total financial liabilities** | **0** | **0** | **6 180** | **6 180** |

### Fair value

Fair value of all financial assets and liabilities correspond with book value

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilites

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

## Note 33 Untaxed reserves

| | **Parent Company** | |
|---|---|---|
| | **2011** | **2010** |
| Additional depreciation, machinery and equipment | 3 773 | 3 741 |
| Additional depreciation, buildings | 223 | 248 |
| Additional depreciation, land and improvements | 9 | 10 |
| **Total untaxed reserves** | **4 004** | **3 999** |

The undersigned certify that the consolidated accounts and the annual report have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted for use in the European Union, and generally accepted accounting principles respectively, and give a true and fair view of the financial positions and results of the Group and the Parent Company, and that the Board of Director's Report gives a fair review of the development of the operations, financial positions and results of the Group and the Parent Company and describes substantial risks and uncertainties that the Group companies face.

Gävle,19 March 2012

Vigo Carlund
*Chairman of the Board*

Leif Brodén
*Member of the Board*

Mia Brunell Livfors
*Member of the Board*

Ola Hallberg
*Member of the Board,*
*Employee representative*

Ole Kjörrefjord
*Member of the Board*

Wilhelm Klingspor
*Member of the Board*

Stig Nordin
*Member of the Board*

Per Eriksson
*Member of the Board*
*Employee representative*

Hannu Ryöppönen
*Member of the Board*

Christer Simrén
*CEO*

Our Audit Report was issued on 19 March 2012
Ernst & Young AB

Thomas Forslund
*Authorized Public Accountant*