Made by Munksjö™

Annual Report 2010

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Group overview

Munksjö in brief

Munksjö is one of Europe's leading players in specialty paper and specialty pulp.

In early 2011, a number of business operations were acquired from ArjoWiggins. The acquisitions double Munksjö's sales of decor paper and extend its product portfolio to also include abrasive backing paper. The new Group's net sales are approximately SEK 6 billion and the organization has approximately 1,800 employees. The majority of sales are in Europe, Asia and the Americas.

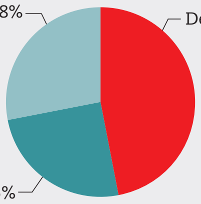
Operations are organized into three segments/business units: Decor, Industrial Applications and Specialty Pulp.

The Decor business area manufactures, markets and sells decor paper, which is used in the manufacturing of laminate surfaces for floors, kitchens and furniture. Following the acquisition of the businesses from ArjoWiggins, decor paper represents about two-thirds of Munksjö's specialty paper sales. The business area operates in a growth market driven by increased demand for laminated products.

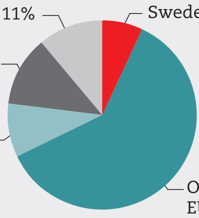
The Industrial Applications business area manufactures, markets and sells specialty paper for industrial applications. Examples of products include Electrotechnical paper for insulating transformers; foils for applications such as kitchen units and furniture and thin paper used as interleaving in the steel, aluminum and glass industries. The increased demand for Industrial Applications is driven by infrastructure investment, demand for laminated products and developments in the steel, aluminum and glass industries.

The Specialty Pulp business area develops and produces environmentally friendly long-fiber bleached and unbleached kraft pulp used by customers with high demands on the pulp's brightness, purity and strength. Following the acquisition of businesses from ArjoWiggins, the Munksjö Group buys about the same quantity of pulp as the Group sells.

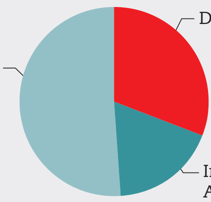
Net sales by segment 2010



Net sales by region 2010



Profit before depreciation and amortization (EBITDA) by segment 2010



Year in brief

- Net sales rose 22 percent and amounted to MSEK 3,701 (3,025).
- Operating profit rose to MSEK 291 (–29).
- Munksjö's Board of Directors decided during the year to prepare the company for an IPO.
- In December, plans were announced to acquire ArjoWiggins' operations in decor paper, abrasive backing paper, thin print paper and fine arts papers.

Key figures

MSEK	2010	2009
Net sales	3,701	3,025
EBITDA	444	142
Operating income	291	–29
EBITDA margin (%)	12.0	4.7
Operating margin (%)	7,9	neg
Investments	112	59
Employees, FTE	1,055	1,073

Product overview

Decor: 68%*

Product	Applications	End users	Market's driving forces	Market Position
Decor Paper	• Laminate Flooring • Shopfitting • Kitchen fittings • Furniture	Furniture, kitchen and flooring manufacturers	• Macroeconomic factors leading to increased demand for furniture, kitchens and flooring • Lifestyle changes, such as the world's population being increasingly concentrated in metropolitan areas • Innovation that leads to the replacement of traditional material with laminated products • Increased environmental awareness	No 1–2 globally
Thin print paper	• Information leaflets in pharmaceutical packaging	Pharmaceutical companies	• Pharmaceutical industry development • Regulations affecting information leaflet size	No 3 in Europe

* Percentages indicate the business area's share of the Group's specialty paper sales in 2010, including operations acquired from ArjoWiggins.

Industrial applications: 32%*

Product	Applications	End users	Market's driving forces	Market Position
Electrotechnical paper	• Insulation of high voltage cables (e.g. submarine cables) • Insulation of transformers • Bushing	Global players in power supply	• Increased global energy needs • Upgrading of outdated power lines • The interconnection of electricity networks to avoid local peak loads	No 1–2 globally
Spantex	• Balancing foils for furniture and flooring • Balancing foils for kitchens • Edge banding foils	Furniture, kitchen and flooring manufacturers	• Macroeconomic factors leading to increased demand for furniture, kitchens and flooring • Lifestyle changes, such as the world's population becoming increasingly mobile and increasingly concentrated in metropolitan areas	
Thin paper	• Interleaving paper for the steel, aluminum and glass industry • Carbon paper • Masking paper for the textile industry • Inkjet paper for transferring print to fabric	Mainly producers of high quality aluminum, glass and stainless steel	• Infrastructure investments • Steel, aluminum and glass industry development • Increased use of stainless steel in, for example, kitchens, cars and other consumer products	
Packaging Solutions	• Food and hygiene packaging	Food Producers	• Macroeconomic factors leading to increased demand for packaging solutions • Increased demands on packaging print quality • Changed consumption patterns	
Abrasive backing paper	• Abrasive paper for industrial use • Abrasive paper for consumers	Abrasive paper manufacturers	• Macroeconomic factors leading to increased demand for furniture, for example • DIY market development	No 1 globally
Fine art paper	• Watercolor paper • Lithograph paper • Catalogues and brochures • Gift certificates	Paper merchants and exclusive packaging companies	• Macroeconomic factors affecting demand for hobby products • Trends in leisure pursuits	No 1 globally

Mission

Munksjö's mission is to provide customers with flexible, value-creating specialty paper products within product segments showing growth.

Vision

Munksjö's vision is to be a leading global manufacturer of specialty paper products that provide added value for advanced, effective and environmentally-friendly product design.

Strategy

Munksjö strives to further strengthen its position in the markets for decor paper and specialty paper for industrial applications. Expansion takes place both organically and through acquisitions, within current or adjacent product areas, in markets with growth potential.

Product development is conducted in close cooperation with customers and carried out by the sales and marketing organizations, together with research and process development resources. Production is continually being developed for efficiency and flexibility, and to adapt to customer requirements.

CEO's comments

Increased stability and profitability

The past two years of streamlining, combined with the positive market, led to Munksjö's improved profitability over the year.

Within the Decor business area price increases offset higher commodity prices, which combined with increased volumes led to increased profitability. Within Industrial Applications, margins declined slightly due to increased raw material costs and a stronger Swedish krona. Munksjö operations within the Specialty Pulp business area benefited as prices rose in early summer and remained at a high level throughout the rest of the year.

Today's profitability is a direct result of the streamlining program Munksjö carried out between 2007 and 2009. During the period, three out of five decor paper mills closed, while productivity of existing installations increased. Munksjö produced marginally lower volumes in 2010 compared with 2008, but with a significantly lower cost base. Thus, a good foundation has been laid for continued expansion in the specialty paper area. Our factories are in good condition and the Munksjö facilities are in good standing in a cost comparison with the competition.

Early 2011 saw the acquisition of ArjoWiggins' operations in decor paper, abrasive backing paper, thin print paper and fine art paper with associated production in Arches, France and Dettingen, Germany. The acquisition makes Munksjö one of the world's leading specialty paper companies with almost twice as much sales of decor paper. Decor paper represents after the acquisition of approximately two thirds of Munksjö's specialty paper sales. We added abrasive backing paper and other specialty paper with growth potential to our product range. In addition, the acquisition lead to that Munksjö basically buy as much pulp as the Group sells, which lead to higher financial stability. From a strategic perspective, the deal is an important step in Munksjö's development. We are a leading player in the decor paper market and wish to continue our profitable growth in the specialty paper segments for industrial applications.

Munksjö's sales in 2010 amounted to MSEK 3,701 and the profit before depreciation and amortization (EBITDA) amounted to MSEK 444.

Decor showed strong growth

The Decor business area recorded a strong year and increased sales by 22 percent. The market growth was good, thanks in part to the strong construction sector in Europe. Furthermore, Munksjö's close customer relationships contributed to increased market shares. We are continuing to further improve cooperation with our key customers.

The strategy for our continued growth in decor paper is established. The acquisition will enable Munksjö to provide a complete range of decor paper products, giving the opportunity for continued growth. The MSEK 150 investment of a new power plant at the Unterkochen mill was finalized. The power plant is owned jointly with the local utility company Stadtverke Aalen. The plant became operational in August and makes the Unterkochen mill self-sufficient for electricity, reduced energy costs significantly.

Operating profit in Decor rose to MSEK 116 from MSEK 34.

Throughout the financial crisis, the Industrial Applications business area developed well. Orders for Electrotechnical paper remained healthy in 2010, particularly at the transformer end. Insulation material for marine cables had, however, an off year in 2010 when a number of major projects were delayed. Sales are expected to strengthen in the future when these projects begin. Even the thin paper area showed stability with increased prices. For foil, both new orders and production were good, with sustained profitability.

Operating profit in Industrial Applications fell over the year to MSEK 43 from MSEK 70 where the currency effect clearly exceeded the difference.

The strong prices and demand for pulp over the year boosted the Specialty Pulp business area. Meanwhile, an ongoing efficiency drive means that the production facility in Aspa Bruk now ranks among the most efficient mills in its size class. Production volume over the year amounted to 177,000 tons, which is the largest volume ever.

From the fall of 2010 the business area sells only one type of bleached pulp (elementary chlorine free, ECF) and one type of unbleached pulp (Unbleached Kraft Pulp, UKP). Thus improving our delivery service. Munksjö has implemented a significant part of an investment of MSEK 50 in a new electrostatic precipitator needed to meet future emission standards for dust release into the air. Specialty Pulp's operating profit rose over the year to MSEK 190 from MSEK –38.

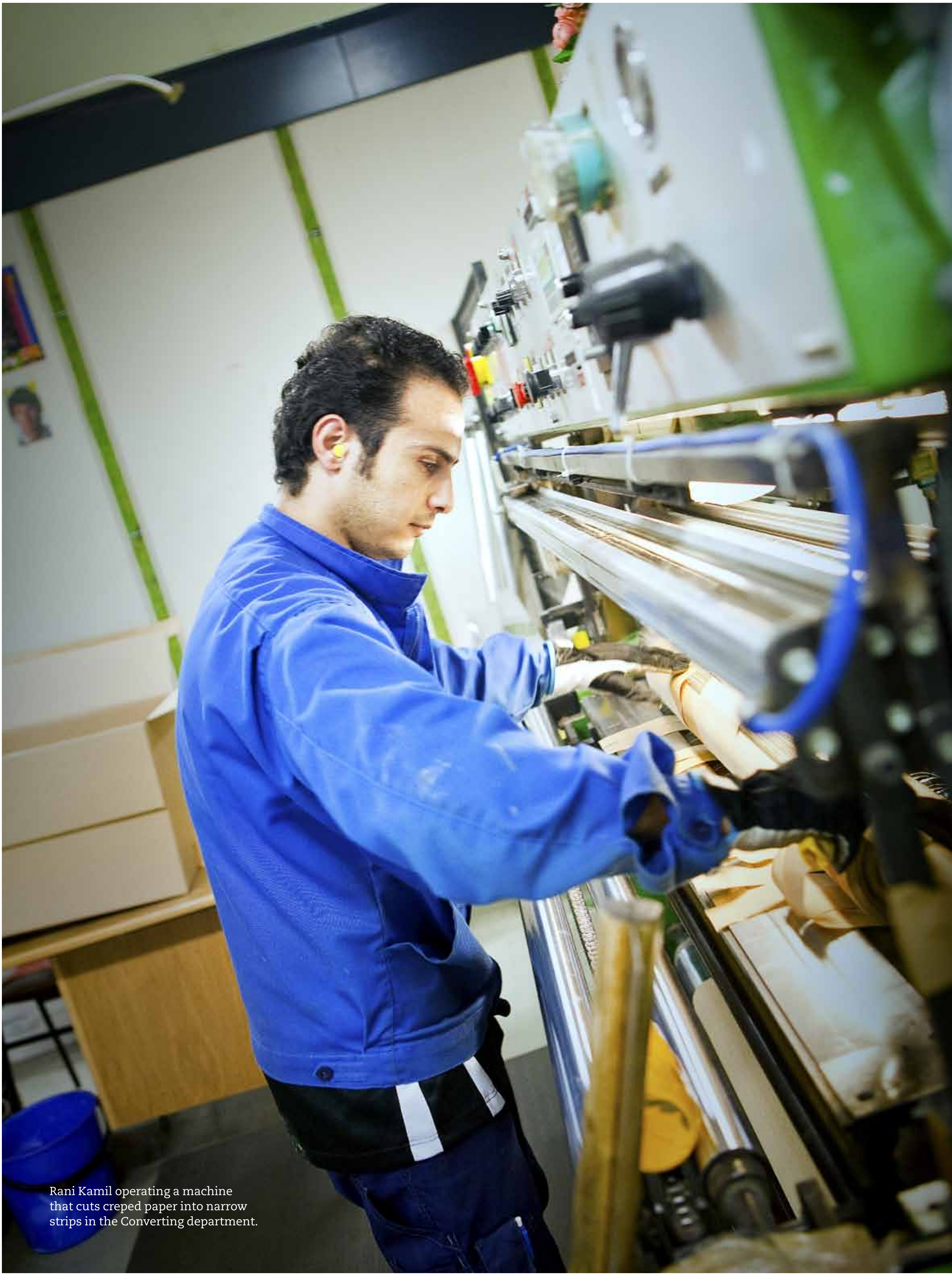
Good conditions

Munksjö's domestic markets in Europe will remain the principal market area in the future. We're continuing to improve operational efficiency while the acquisition provides the conditions for a stronger production network with greater resources for product development, marketing and sales. In 2011, major focus will be on integrating Munksjö's acquired operations and implementing identified cost savings and sales synergies. In 2010 it was decided to prepare Munksjö for a future IPO. The preparatory work is in full swing and Munksjö intends to be prepared for an IPO when the right market conditions exist.

Finally, I would like to thank our motivated and skilled employees who have managed to implement such major changes in a short time and thus improved Munksjö's profitability. Together, we will pursue the integration of our new operations to create the specialty paper industry's leading and most efficient company.

Stockholm, April 2011

Jan Åström
President and CEO



Rani Kamil operating a machine that cuts creped paper into narrow strips in the Converting department.

Directors' report

This document is a translation of the official annual report for Munksjö AB published in Swedish. In the event of discrepancy between the English text and the Swedish, the Swedish text shall prevail.

Group operations

The Board and CEO of Munksjö AB (Publ), Corporate Identity Number 556669-9731, hereby submit the annual report for 2010.

Munksjö is one of the leading players in specialty paper and specialty pulp. Operations are organized into three segments/business units: Decor, Industrial Applications and Specialty Pulp.

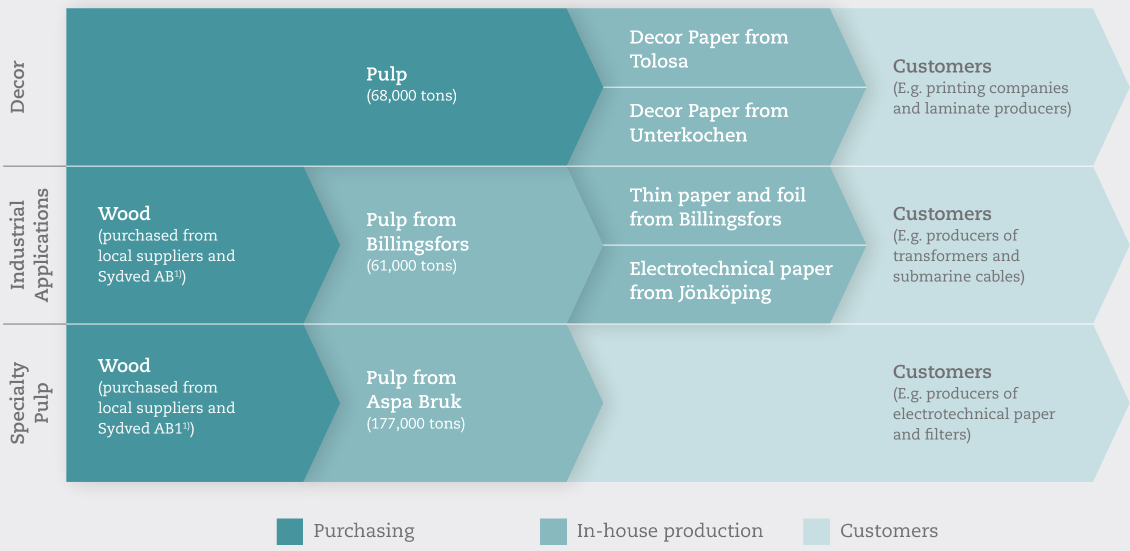
The Decor business area manufactures, markets and sells decor paper, which is used in the manufacture of laminate surfaces for floors, kitchens and furniture. The business area works in a growth market driven by increased demand for laminated products. The production of decor paper is based in Unterkochen, Germany and Tolosa, Spain. The Industrial Applications business area manufactures, markets and sells specialty paper for industrial applications. Examples of products include Electrotechnical papers for the insulation of transformers; foils for kitchen units and furniture, for example; and thin paper used as interleaving in the steel, aluminum and glass industries. The increased demand from Industrial Applications is driven by infrastructure investment, demand for laminated products and developments in the steel, aluminum and glass industries. Manufacture and conversion of Electrotechnical paper takes place in Jonkoping, Sweden, and conversion is also conducted outside Shanghai, China. The manufacture of thin paper and foils (e.g. edge banding) is located in Billingsfors, Sweden. Plastic and paper products with flexo and gravure printing are produced in Ski, Norway and in Ed, Sweden.

The Specialty Pulp business area develops and produces environmentally friendly long-fiber bleached and unbleached kraft pulp used by customers with high demands for the pulp's brightness, purity and strength. Production takes place at Aspa Bruk, Sweden.

At the end of 2010, Munksjö had around 1,100 employees in Europe, North America and Asia. Most sales were to customers in Europe, but also to Asia and the Americas.

Munksjö's processing system

In 2010, Aspa Bruk sold approximately 177,000 tons of long-fiber pulp, exclusively to external customers. During the same period the decor paper plants in Tolosa and Unterkochen, and those acquired from ArjoWiggins' operations, used approximately 160,000 tons of hardwood pulp purchased from external producers. In addition, Munksjö produces pulp in Billingsfors used in manufacturing specialty paper in Billingsfors and Jönköping. As Munksjö is both a buyer and seller of pulp, from a Group perspective the company has a natural hedge against fluctuations in the price of pulp, which contributes to greater stability in profitability. Wood for the pulp produced at Aspa Bruk is purchased from Sydved, a company jointly owned by Munksjö and Stora Enso. Joint ownership with Sydved contributes to low transport costs for pulpwood and delivery guarantees. Munksjö has its own purchasing organization that manages the purchase of pulpwood for Billingsfors.



1) Sydved is owned by Stora Enso (67 percent) and Munksjö (33 percent).

Munksjö’s geographical presence

Important events in 2010 and 2011

Munksjö’s Board of Directors decided during the year to prepare the company for an IPO.

Shortly before the end of the year, plans were announced to acquire ArjoWiggins’ operations in decor paper, abrasive backing paper, specialty thin paper and fine art paper with the associated production facilities in Arches, France and in Dettingen, Germany. The acquisition will increase Munksjö’s net sales by approximately 50 percent. Following the acquisition, Decor paper stands for approximately two thirds of Munksjö’s specialty paper sales. The acquistion also strengthened the product range with abrasive backing paper and other specialty paper with growth potential.

The deal marks an important step in Munksjö’s ambition to establish a leading position on the decor paper market while growing in profitable specialty paper segments for industrial applications. The deal was finalized in Q1 2011. The acquisition was financed through a share issue of MSEK 575 (MEUR 65) and a loan of MSEK 133 (MEUR 15). The new Group’s net sales amounted to around SEK 6 billion, with approximately 1,800 employees.

Net sales and profit

- **Net sales increased to MSEK 3,701 (3,025), an upturn of 22.3 percent.**
- **Operating profit increased to MSEK 291 (–29).**
- **The operating margin was 7.9 percent (neg).**

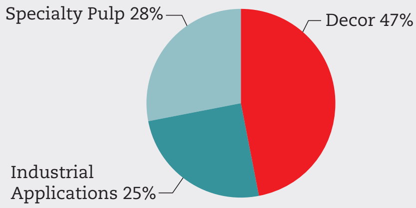
The operating profit amounted to MSEK 291 (–29). Demand was good for all Munksjö's business areas. Within Decor, price increases were implemented gradually over the second half of the year, which compensated for higher prices for raw materials and electricity. Industrial Applications also implemented price increases, particularly at the end of the year, which did not fully compensate for the adverse changes in product mix and currency effects. Within Specialty Pulp, the price level remained at a historically high level while input costs increased further. The profit reported by the Swedish units was negatively impacted by the strengthening of the Swedish krona. Net income was negatively affected by one-off project costs due to the acquisition project and listing preparations of around MSEK 20.

Munksjö's total deliveries for the year amounted to 343,700 tons (308,000), i.e. an increase of 12 percent compared with the same period as last year.

Net financial items amounted to MSEK –83 (–193). In June 2009, an agreement was made whereby the owners provided equity of approximately MSEK 430, and subordinated loans of around MSEK 1,400 were converted into equity. In addition, the terms of the remaining bank loans were changed which meant significantly lower interest rates, which explains the improvement in net financial items.

The tax rate was 34 percent, implying a tax cost of around MSEK –70 (29); while net income amounted to MSEK 138 (–193).

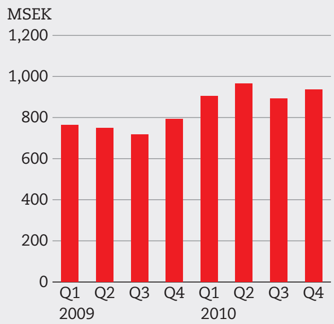
Net sales by segment 2010



Income statement

MSEK	2010	2009
Net sales	**3,701**	**3,025**
Other income	35	21
Operating expenses	–3,292	–2,904
EBITDA	444	142
Depreciation and amortization	–153	–171
Operating profit/loss	**291**	**–29**
Net financial items	–83	–193
Profit before tax	208	–222
Tax	–70	29
Profit/loss for the year	**138**	**–193**

Net sales 2010



Balance Sheet

MSEK	2010	2009
Fixed assets	3,349	3,752
Inventories	456	446
Accounts receivable	533	473
Other current assets	150	258
Cash and cash equivalents	281	254
Total assets	**4,769**	**5,183**
Shareholders' equity	1,235	1,209
Long-term liabilities	2,862	3,218
Current liabilities	672	756
Total shareholders' equity and liabilities	**4,769**	**5,183**

Five-year overview

	According to IFRS		According to previous GAAP		
MSEK	2010	2009	2008	2007	2006
Net sales	3,701	3,025	3,641	3,902	4,023
Operating profit/loss	291	–29	–717	–65	177
Amortization of goodwill			–89	–85	–84
Items affecting comparability	–	–49	–649	–194	–16
Operating profit excluding items affecting comparability and amortization of goodwill	291	20	21	214	277
Total assets	4,769	5,183	5,174	5,999	5,568
Interest-bearing net debt	1,983	2,154	3,499	3,866	3,867
Employees, FTE	1,055	1,073	1,316	1,423	1,440

Decor business area

Munksjö develops, manufactures, markets and sells decor paper. Decor paper is a specialty paper used to print patterns and designs on laminate surfaces for use in the flooring, interior design, kitchen and furniture industries. The Group is one of the leading players in decor paper and provides innovative product solutions and customized services for most applications.

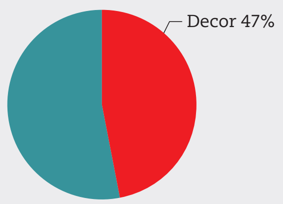
Net sales amounted to MSEK 1,763 (1,444), an increase of 22.1 percent. The operating profit rose to MSEK 116 (34) with an operating margin of 6.6 percent (2.4). Volumes and price increases had a positive impact on earnings while higher raw material costs reduced the increase. Delivered volumes increased to 109,700 tons (89,700). The market for decor paper continues to develop positively. The lack of the input material titanium dioxide has led to some constraints in production volumes, mainly for white papers.

Decor accounted for 47 percent of Munksjö's total net sales in 2010.

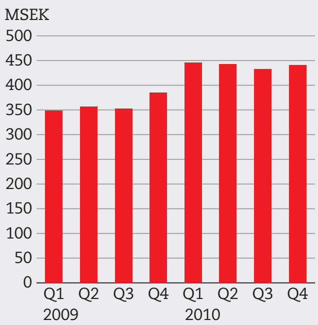
Sales and results

MSEK	2010	2009
Net sales	1,763	1,444
EBITDA	168	97
Depreciation and impairment	–52	–63
Operating profit	116	34
Operating margin, %	6,6	2,4
Operating capital	2,273	2,539
Investments	40	25
Supply volumes, tons	109,700	89,700
Employees, FTE	440	463

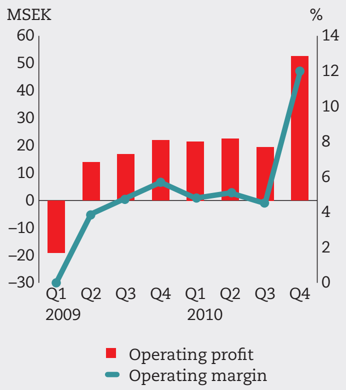
Share of net sales in 2010



Net sales



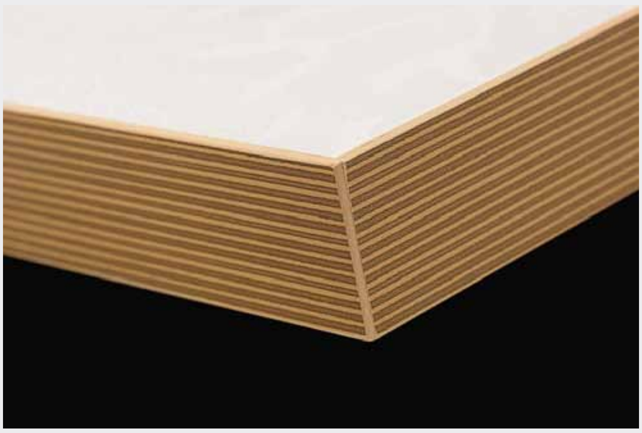
Operating profit and margin



Products

Munksjö produces white and colored decor paper. The color range comprises approximately 2,000 different colors, of which about ten percent are different shades of white. An important input into the production of decor paper is pulp, mainly short-fiber eucalyptus pulp. Munksjö uses only pulp of high quality in terms of purity, whiteness, thermal stability and absorptive capacity. Another important input factor is titanium dioxide, which regulates decor paper opacity and enables color to maintain over a long period of time. Customers define the opacity grade of the paper and thus the need for titanium dioxide in the production process.

The manufacture of decor paper is carried out at paper mills in Unterkochen, Germany and Tolosa, Spain.



Product development

Munksjö has highly specialized expertise in paper technology, printing technology, impregnation and press technology, which gives good opportunities for product development. Product development in Decor is conducted at the facilities in Unterkochen, Germany and Tolosa, Spain, to a large extent in close cooperation with customers. Development work is focused on achieving very high accuracy to provide decor paper to customers' specifications. This has resulted in thinner paper and paper enabling faster impregnation.

Marketing, sales and customers

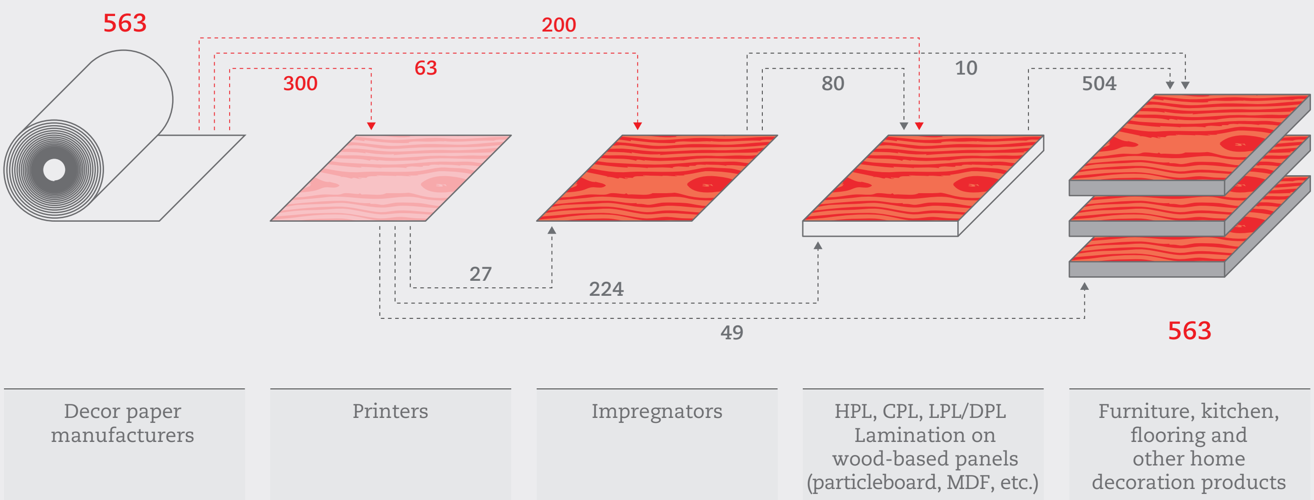
Munksjö's marketing and sales activities for decor paper are run from a joint sales organization in Unterkochen, Germany and Tolosa, Spain. The organization also includes two sales offices, one in Varese, Italy and one in Fitchburg, USA. Munksjö is also represented by sales agents around the world.

Customer benefits of decor paper production are achieved through improved refinement, customer-focused product development, good customer relations and order-driven production.

Process and volume flows from paper to final product

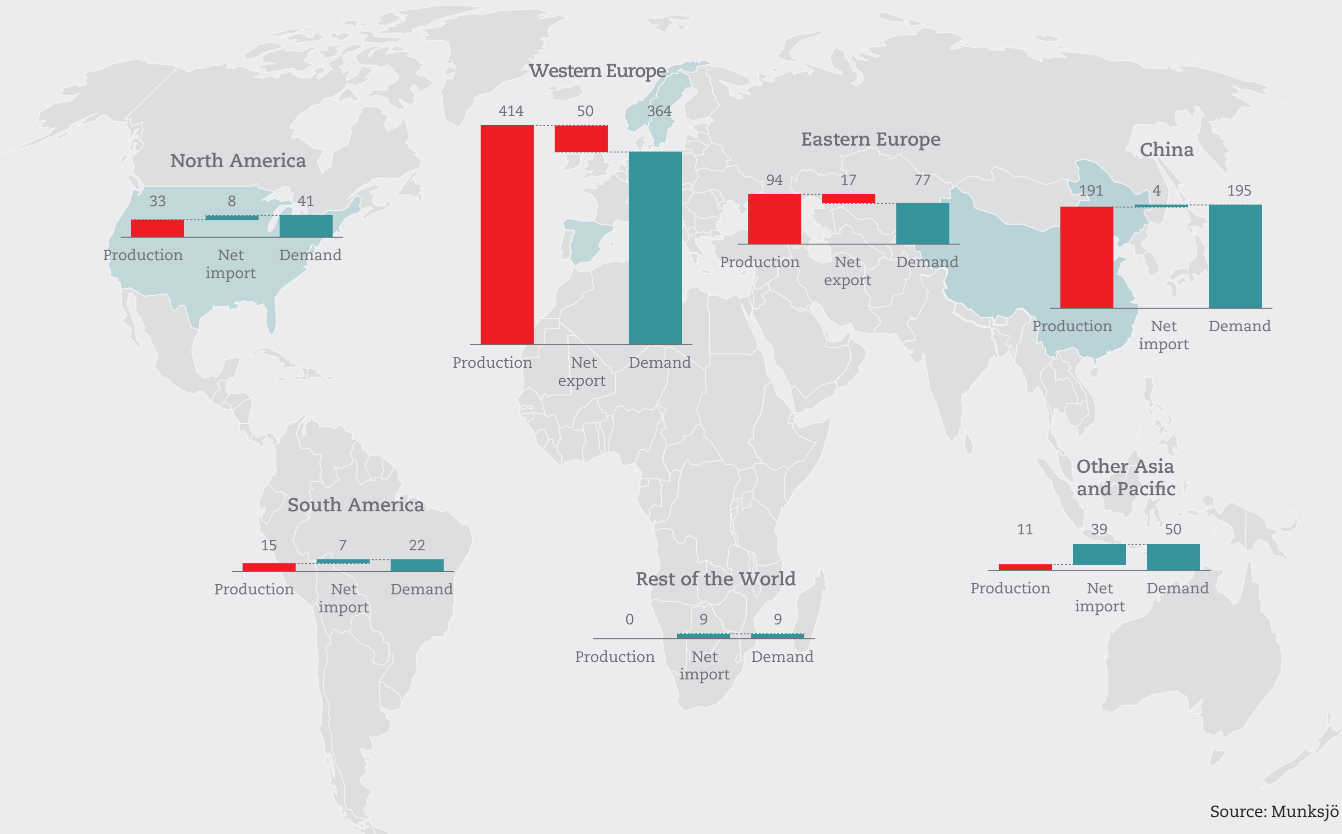
Thousands of tons (waste factors not accounted for here)

The global market in 2009 (excluding China): 563,000 tons



Source: Munksjö

Production and demand decor paper in tons, 2009



Source: Munksjö

Market's driving forces and trends

Macroeconomic factors

A positive development of relevant macroeconomic factors means an increased demand for furniture, kitchen and flooring, which in turn increases the demand for decor paper.

Lifestyle changes

The world population is increasing and is increasingly concentrated in metropolitan areas. Munksjö estimates that this development leads to an increased demand for furniture and interior products in the low and mid-price segment, such as products made of laminates. In line with increased welfare in some parts of the world, there is also growing interest in designed innovative interior design solutions, where laminate products are an excellent option.

Innovation

The capacity for innovation by manufacturers of laminate products has been a major factor in accelerating the rate by which traditional materials such as wood, veneer, stone, tiles and plastic are replaced with laminate products in the manufacture of furniture and interior products. Laminate products meet high standards of hygiene, fire proof and life expectancy and lifetime, which according to Munksjö increases demand for laminate based products, relatively more than traditional products.

Increased environmental awareness

Consumers are demanding more and more products with a clear environmental profile. Furniture and interior products based on laminates provide more environmentally friendly substitutes for traditional based on solid wood, even if Munksjö estimates that the end consumer's awareness of this is still relatively limited. Laminate products are, however, the largest and fastest growing alternative material for furniture production. Munksjö believes that a focus on development of a sustainable society will continue to be strong, which has the potential to further boost demand of laminated products.

Market size and growth

Munksjö estimates that the global market for decor paper in 2009 amounted to approximately 563,000 tons (excluding China). According to Munksjö's assessment, the market grew by an average annual growth rate of around 3 percent between 1999 and 2007 (excluding China) and has been driven mainly by the increased demand for laminate flooring. The reason why China is excluded is that reliable information on this market is missing. Demand for decor paper decreased significantly in 2007–2009 in connection with the general economic downturn and turmoil in global credit markets. Munksjö estimates that the global decor paper market strengthened in 2010.

The largest geographical market is Europe, which represented around 60 percent of the global market in 2009. Munksjö's estimation of required volumes of decor paper by geographic area for 2009 is shown in the figure above.

Acquired operations included in the Decor business area

In December, Munksjö published its plans to acquire ArjoWiggins' operations within decor paper and abrasive backing paper, including the mills in Arches, France and Dettingen, Germany.

The acquisition makes Munksjö one of the major players on the decor paper market, with a complete product range. The product range was extended to include colored products, which are primarily used in kitchens, and a number of impregnated products. A complete decor paper supply allows Munksjö to reach new customers and create opportunities for further expansion among existing customers as the company can provide new paper qualities. In addition, the acquisition allows Munksjö a strengthened manufacturing network and increased resources for product development, marketing and sales. Thin print paper will be included as part of the planned acquisition and belong to the Decor business area.

Thin print paper is used primarily for information leaflets in pharmaceutical packaging. Net sales for the Decor business area following the planned acquisition are estimated at around MSEK 3,400. Decor Paper operations will then represent more than half of Munksjö's sales.

Europe

The European decor paper market is more than double the size of other markets in the world in terms of both production and consumption. Munksjö estimates that approximately 508,000 tons of decor paper was produced in European countries during 2009, of which about 441,000 tons were consumed in Europe and about 67,000 tons were exported to the rest of the world. Historically, demand for laminate-based products has been much higher in southern European countries than in Nordic countries.

Germany is the single largest European market with respect to both production and consumption of decor paper. Other major markets include France, Italy, Switzerland, Spain and Austria.

Americas

Munksjö estimates that North and South America together produced about 48,000 tons of decor paper in 2009 and consumed approximately 63,000 tons. The furniture and interior products industry in these geographic areas has historically been characterized by a preference for solid wood products.

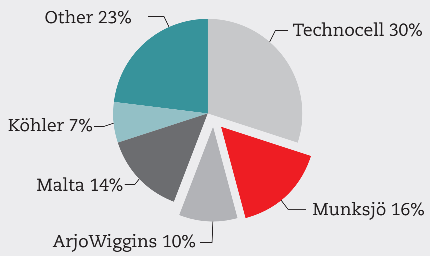
Asia and the rest of the world

Demand for decor paper from Asia is dominated by the Chinese market. China's demand for decor paper is met almost entirely by domestic production. Munksjö estimates that China will mainly produce decor paper for domestic consumption next year. Other markets account for a marginal share of sales in the world.

Competition and Munksjö's market position

The Decor paper market is concentrated to a limited number of players. Munksjö's main competitors are Malta-Decor, Papierfabrik August Koehler and Technocell Decor, whose production is mainly based in Europe. The figure below is an estimate of these companies' respective share of the decor paper market in 2009 (excluding China).

Market Breakdown 2009



Source: Munksjö.

Industrial Applications business area

Industrial Applications includes Munksjö's development, manufacturing, marketing and sales of Electrotechnical paper for insulating high voltage cables, transformers and bushings, foil for e.g. kitchen counters, laminate flooring and furniture and thin paper used as intermediate layer in steel, aluminum and glass industries. In addition, the company produces plastic and paper products with flexo and gravure printing primarily for packaging solutions.

Net sales amounted to MSEK 924 (877). Operating profit amounted to MSEK 43 (70) with an operating margin of 4.7 percent (8.0).

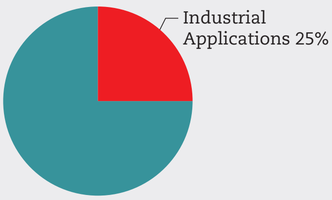
Demand remained stable on all markets. Delivered volumes increased slightly and amounted to 59,500 tons (57,600).

Industrial Applications accounted for 25 percent of Munksjö's total net sales in 2010.

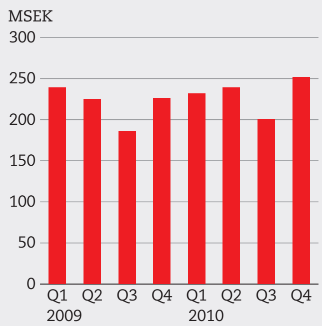
Sales and results

MSEK	2010	2009
Net sales	924	877
EBITDA	85	117
Depreciation and impairment	–42	–47
Operating profit	43	70
Operating margin, %	4.7	8.0
Operating capital	407	387
Investments	30	20
Delivery volumes, tons	59,500	57,600
Employees, FTE	429	422

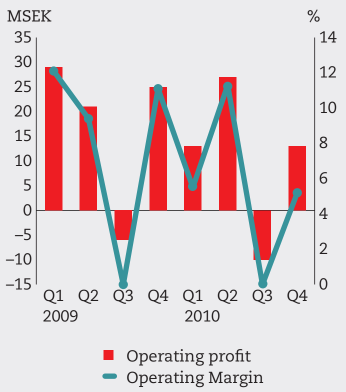
Share of net sales in 2010



Net sales



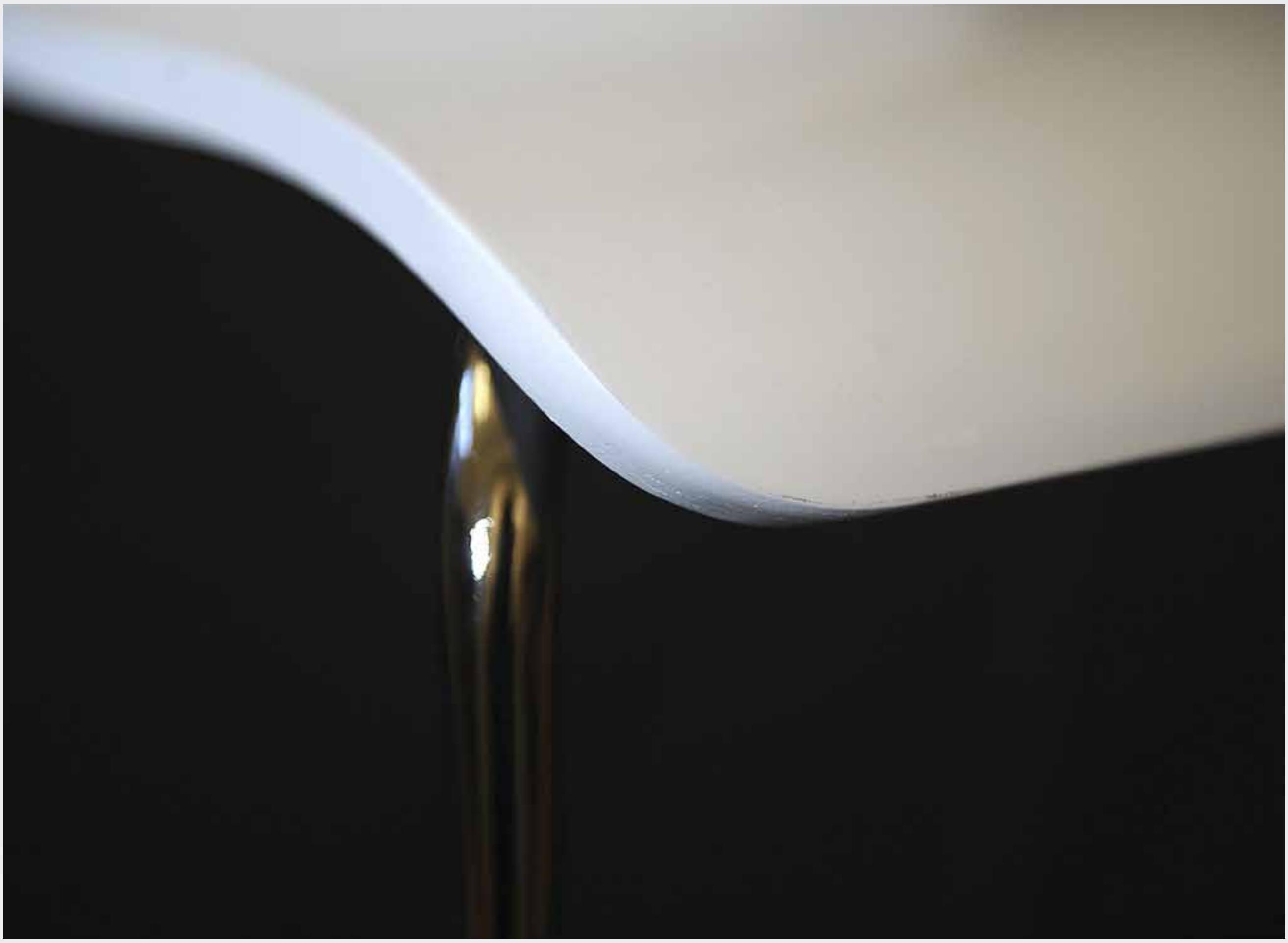
Operating profit and margin



Products

Electrotechnical paper is used for insulating high voltage cables, transformers and bushings. About 80 percent of the Electrotechnical paper Munksjö produces is used in transformers for isolating the transformer core from the windings. The paper is also an important component in manufacturing submarine cables with high demands on the paper's insulation, purity, strength and flexibility. Manufacture of Electrotechnical paper is conducted at the mill in Jönköping, Sweden. Conversion of Electrotechnical paper takes place in Jönköping, Sweden and in Taichang, China.

Spantex is a registered trademark for foil (impregnated paper) used in numerous applications, including the surface of particle board. The product range includes durable edge banding foils, balancing foils that protect chipboard against moisture; and painted or printed patterns on ready-to-use foils. Spantex is produced at the mill in Billingsfors, Sweden. Of the thin paper Munksjö produces, about two thirds is used as the intermediate layer in the steel, aluminum and glass industries. There are stringent requirement for the interleaving paper's purity, as the smallest impurity, such as bark spots, can destroy the material instead of protecting it.



Other thin paper products produced by Munksjö include inkjet paper, which is used in the transmission of print to fabric, carbon paper, which is used as an insert to copy, for example, text from one document to another; and masking papers, which are used in the textile industry to protect fabrics from ink. Thin paper is produced at the mill in Billingsfors, Sweden.

Flexo and gravure printing on plastic and paper are used for various packaging solutions and are manufactured in Ski, Norway and Ed, Sweden. The operations in Ed, which were acquired in 2010, also ensure the development of Spantex and inkjet paper through increased capacity and better equipment.

Production of all paper products in Industrial Applications is based on pulp produced at the mill in Billingsfors, Sweden.

Product development

Munksjö's product development in Industrial Applications is carried out in close cooperation with customers. Customers mainly comprise of large multinational companies that drive their development centrally together with Munksjö, but development is also conducted locally with smaller customers. Much of the work is governed by national rules and requirements.

Marketing, sales and customers

Munksjö's marketing and sales activities for Electrotechnical papers are conducted by a joint sales organization in Jönköping and through sales companies in Varese, Italy and Fitchburg, USA, and by the wholly-owned company in Taichang, China. Furthermore, almost the same sales agents are used for the Decor business area. The technical dialogue is always directly with end customers. Customers include some of the largest global players in transmitting power.

About 70 percent of sales of interleaving paper products are sold through agents. The remaining sales consist of the qualities developed in partnership with customers. Sales of these products go through wholesalers specializing in customers with specific requirements. Customers include the largest producers of high quality aluminum, glass and stainless steel.

Within Spantex sales are conducted through its own sales organization based in Billingsfors, Sweden and through agents. Customers are a large number of stakeholders including many suppliers to leading furniture manufacturers.

Market's driving forces and trends

The development of the world's energy needs and the current upgrade of networks for energy distribution drive demand for Electrotechnical papers. Energy demand is increasing, mainly in Asia and South America, creating a need for new installations. In Europe and the US, there is a great need for modernization of existing grids, which are expected to have a positive impact on demand in both the short and long term.

Acquired operations included in the Industrial Applications business area

In December, Munksjö published its plans to acquire ArjoWiggins' operations within decor paper and abrasive backing paper, including the mills in Arches, France and Dettingen, Germany.

The acquisition brings with it additional specialty paper products, which creates conditions for growth. Products include abrasive backing paper and fine art paper. Abrasive backing paper is used as a component of sandpaper for both industrial use. The product enjoys a leading position on the market. Half of sales are in Europe, with the remaining sales mainly in China. Examples of fine art paper include exclusive watercolor and lithograph paper.

Net sales for the Industrial Applications business area after the planned acquisition are estimated to about MSEK 1,400. The business area will then represent approximately 25 percent of Munksjö's net sales.

Insulating paper for submarine cables and to some extent transformers are favoured by the fact that the buyers and distributors of electricity works to ensure consistent, environmentally friendly energy consumption to minimize local peak loads. This is done by linking the national grid to meet peak loads in one area with an injection of electricity from another area. The market for interleaving paper is influenced to a large extent by infrastructure investments and the steel, aluminum and glass industries. The steel industry in itself is driven by a trend in which end consumers increasingly want stainless steel in kitchens, cars and other consumer products. Development is also moving towards stainless steel as a substantial component in new buildings.

The foil market benefits from the positive development of relevant macroeconomic factors. Furthermore, demand is being driven by the world's population becoming more mobile and increasingly concentrated to metropolitan areas. According to Munksjö's assessment, this development brings increased demand for furniture and interior products in the low and mid-price segments.

Market size and growth

Munksjö estimates that the global market for its Electrotechnical paper products amounts to 40,000 tons. The market has shown an average annual growth rate equal to the GDP of each market. In Europe, where the GDP trend has been low, investment in infrastructure is higher than the GDP due to a strong need for maintenance. About half of the world's production is sold to Europe. Asia is growing partly as a result of customers' production gradually shifting to Asia because of the growth in China, and partly as a result of favorable production conditions. Munksjö estimates that the global market for interleaving paper to the steel industry is around 300,000 tons per year. Carbon paper is a small market with limited growth.

The foil market is small, but with good growth potential.

Competition and market position

Munksjö estimates that the company's market share for Electrotechnical paper is about 40 percent. Competitors include paper producers Nine Dragon, Tervakoski and Nordic Paper.

Munksjö believes that the company is one of Europe's leading producers of interleaving paper for steel and the company is the sole supplier for some special quality grades. Munksjö is the market leader in balancing foils for veneers and laminates. In the decor foils area, Munksjö is a minor player. Many markets use veneer on both sides of the furniture, making balancing foils redundant. As veneers have gone up in price, demand for this kind of balancing foils with decor offered by Munksjö has increased.

Specialty Pulp business area

The Specialty Pulp business area develops and produces environmentally friendly unbleached and bleached long-fiber kraft pulp for external customers with high standards for brightness, purity and strength. From a Group perspective, Munksjö is both a seller and buyer of pulp, as the other business areas buy about as much short-fiber pulp as Specialty Pulp sells long-fiber pulp. This reduces Munksjö's exposure to pulp price movements.

Net sales increased to MSEK 1,027 (727). Operating profit amounted to MSEK 190 (–38) with an operating margin of 18.5 percent (neg).

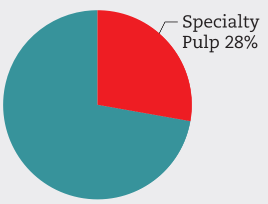
The market remained stable and the period of prices above USD 900 per ton is historically long. Delivery volumes amounted to 176,800 tons (168 000).

Specialty Pulp accounted for 28 percent of Munksjö's overall net sales in 2010

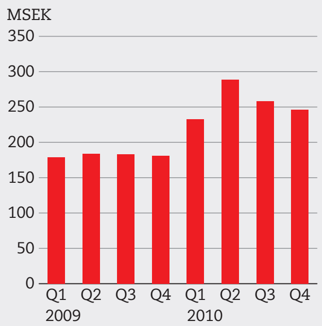
Sales and results

MSEK	2010	2009
Sales	1,027	727
EBITDA	246	22
Depreciation and impairment	–56	–60
Operating profit/loss	190	–38
Operating margin, %	18.5	neg
Operating capital	547	551
Investments	39	14
Delivery volumes, tons	176,800	168,000
Employees	175	174

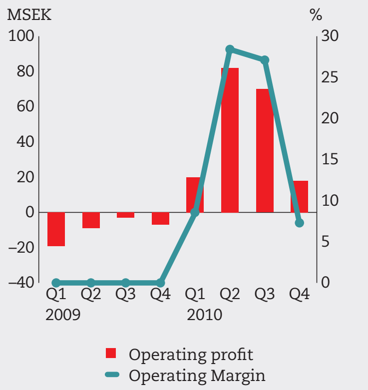
Share of net sales in 2010



Net sales



Operating profit and margin



Products

In paper production, a distinction is made between long and short-fiber pulp. Long fiber pulp based on wood from softwood gives the paper strength, while short fiber made from wood from hardwood gives the paper good printing properties. Paper producers using various combinations of long and short-fiber pulp adjust each type of paper according to how it will be used.

Munksjö produces environmentally friendly bleached (elementary chlorine free, ECF) and unbleached (Unbleached Kraft Pulp, UKP) long fiber kraft pulp for customers with high standards for brightness, purity and strength. Bleached pulp is used, for example, in the production of graphic paper, printing and writing paper, coated paper, board and hygiene products and specialty products outside the paper sector. Unbleached pulp is used principally for the manufacture of Electrotechnical papers and papers for various filters.

Production takes place at Aspa Bruk outside Askersund, Sweden.

Product development

Product development in bleached pulp concentrate on producing a cleaner and brighter pulp with high strength, which justifies a higher price. Unbleached pulp is used mainly in Electrotechnical paper for insulating high voltage cables, transformers and bushings. Only a few players in the world provide the quality that Munksjö produces. Development of Munksjö unbleached pulp focuses mainly on further increasing purity to achieve the highest insulation value.

Marketing, sales and customers

Munksjö's customers are mainly small and medium-sized mills producing niche products. Sales outside Scandinavia are primarily through agents, while in Scandinavia they are handled directly from Aspa Bruk.

Customer relationships are long-term and stable, creating operational stability. 90 percent of sales are to Europe, where Germany is the largest submarket. Sales outside Europe include those to India, Japan and China.

Market drivers and trends

The fact that Munksjö pulp sales are to a large extent to niche players in a wide range of industry segments means that the Group is not affected by individual trends to the same degree as other pulp industries.

In addition to product quality and delivery reliability, the ability to environmentally-adapt production is a key competitive factor. Munksjö therefore chooses to be at the forefront of environmental certification and is certified under the two standards available on the market, the FSC (Forest Stewardship Council) and PEFC (Programme for the Endorsement of Forest Certification).

Competition and Munksjö's market position

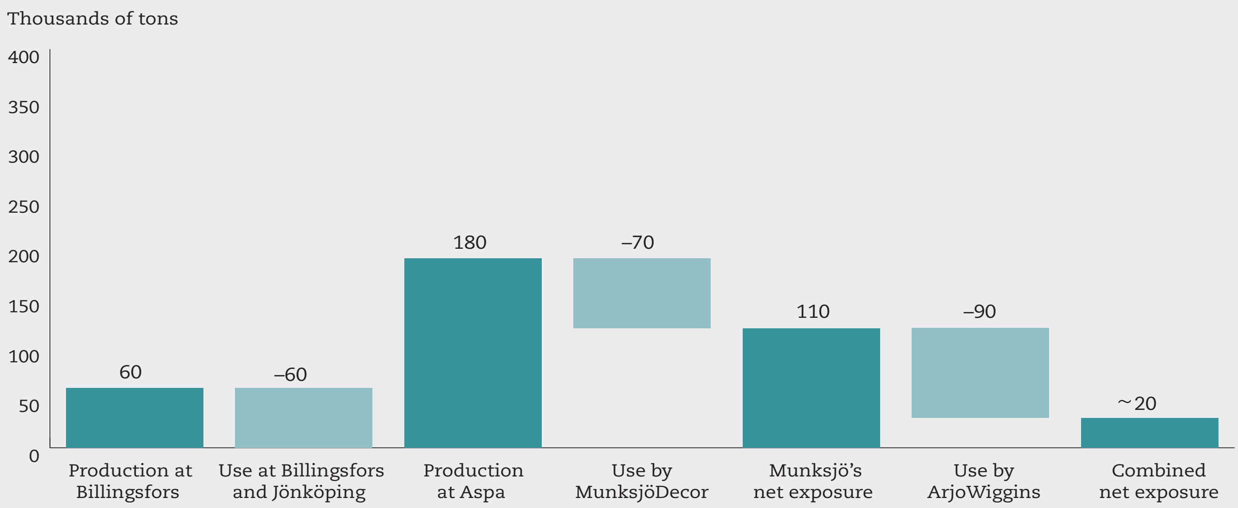
Munksjö estimates that the market share of unbleached specialty pulp amounts to about 20 percent, corresponding to 40,000 tons per year. Its main competitors include Arauco in Chile; Canfor, Canada; Domtar, Canada; Mondi in Austria, Pitkyaranta in Russia and Rottneros in Sweden. On the market for bleached long-fiber pulp, Munksjö is a small player, with an annual delivery volume of around 140,000 tons.

Pulp production a natural hedge for Munksjö

In 2010, Munksjö delivered 176,800 tons of long fiber pulp from Aspa Bruk to external customers and purchased about 70,000 tons of short-fiber pulp for use in decor paper production in Tolosa, Spain and Unterkochen, Germany. In addition, the acquired operations in Arches, France and Dettingen, Germany bought 90,000 tons of short and long-fiber pulp in 2010. Munksjö will thereby sell about as much pulp as it buys. From a Group perspective, this means that Munksjö has a natural hedge against fluctuations in the price of pulp, which contributes to increased stability in its profitability.

The figure below illustrates Munksjö's pulp production and use in 2010, including operations from ArjoWiggins.

Production and consumption of pulp



Quarterly financial information

Quarterly and accumulated net sales by business area and Group

	12 months		3 months							
MSEK	Jan–Dec 2010	Jan–Dec 2009	Oct–Dec 2010	July–Sep 2010	Apr–Jun 2010	Jan–Mar 2010	Oct–Dec 2009	July–Sep 2009	Apr–Jun 2009	Jan–Mar 2009
Decor	1,763	1,444	441	433	443	446	385	353	357	349
Industrial Applications	924	877	252	201	239	232	226	186	225	239
Specialty Pulp	1,027	727	246	258	289	233	181	183	184	179
Other and eliminations	–13	–23	–2	–1	–5	–5	0	–4	–17	–2
Total Group	**3,701**	**3,025**	**937**	**892**	**966**	**906**	**792**	**718**	**750**	**765**

Quarterly and accumulated operating profit by business area and Group

	12 months		3 months							
MSEK	Jan–Dec 2010	Jan–Dec 2009	Oct–Dec 2010	July–Sep 2010	Apr–Jun 2010	Jan–Mar 2010	Oct–Dec 2009	July–Sep 2009	Apr–Jun 2009	Jan–Mar 2009
Decor	116	34	53	20	23	22	22	17	14	–19
Industrial Applications	43	70	13	–10	27	13	25	–6	21	30
Specialty Pulp	190	–38	18	70	82	20	–7	–3	–9	–19
Other and eliminations	–58	–95	–9	–10	–29	–10	–70	–2	–5	–18
Total Group	**291**	**–29**	**75**	**70**	**103**	**44**	**–30**	**6**	**21**	**–26**

Quarterly and accumulated operating margin by business area and Group

	12 months		3 months							
%	Jan–Dec 2010	Jan–Dec 2009	Oct–Dec 2010	July–Sep 2010	Apr–Jun 2010	Jan–Mar 2010	Oct–Dec 2009	July–Sep 2009	Apr–Jun 2009	Jan–Mar 2009
Decor	6.6	2.4	11.9	4.5	5.1	4.8	5.7	4.8	3.9	neg
Industrial Applications	4.7	8.0	5.2	neg	11.3	5.5	11.1	neg	9.4	12.5
Specialty Pulp	18.5	neg	7.3	27.1	28.4	8.5	neg	neg	neg	neg
Group	**7.9**	**neg**	**8.0**	**7.8**	**10.6**	**4.9**	**neg**	**0.8**	**2.8**	**neg**

Quarterly and accumulated supply volume by business area and Group

	12 months		3 months							
Tons	Jan–Dec 2010	Jan–Dec 2009	Oct–Dec 2010	July–Sep 2010	Apr–Jun 2010	Jan–Mar 2010	Oct–Dec 2009	July–Sep 2009	Apr–Jun 2009	Jan–Mar 2009
Decor	109,700	89,700	25,400	26,400	28,900	29,000	25,400	22,600	22,200	19,600
Industrial Applications	59,500	57,600	15,900	13,000	14,600	16,000	15,500	14,000	14,100	14,000
Specialty Pulp	176,800	168,000	43,100	43,000	45,900	44,700	37,900	46,100	44,100	39,900
Other and eliminations	–2,300	–7,300	–300	–600	–700	–700	–1,800	–1,900	–1,800	–1,800
Total Group	**343,700**	**308,000**	**84,100**	**81,800**	**88,700**	**89,000**	**77,000**	**80,800**	**78,600**	**71,700**

Procurement

Munksjö coordinates purchasing activities to build long-term relationships with new and existing suppliers, and to maximize sourcing power in the purchase of raw materials, and services.

Munksjö's purchasing organization is divided into nine separate categories with employees from each respective business area. The purchasing organization is coordinated centrally. Categories include the following: pulp, titanium dioxide and fillers, logistics, packaging, maintenance and capex, energy, chemicals, paper machine clothing, as well as colors and pigments. Each category has an appointed person responsible for negotiating frame agreements that serve all businesses within the Group.

To maximize the Company's flexibility and freedom of action, Munksjö's purchasing strategy is not to rely on a sole supplier for any raw material.

Wood is an important raw material and Munksjö owns 33 percent of Sydved AB*, a company that purchases and supplies felled timber and stands of trees. Sydved delivered 833,000 cubic meters of pulpwood for Munksjö's production of long-fiber kraft pulp at Aspa Bruk. Munksjö has its own organization for buying pulpwood to Billingsfors. Total purchases for the year were about 173,000 cubic meters.

* Stora Enso Skog AB owns 67 percent

Investments

In 2010 the Group's investments amounted to MSEK 112 (59). Most investments were replacement capital expenditures. The single largest investment concerned a new electrostatic trecititator that reduces particle emissions from the recovery boiler at Aspa Bruk. In addition the multi-annual investment in a new power plant at the mill in Unterkochen was completed during the year.

Research and development

Development projects are initiated and carried out in collaboration with customers as consulting assignments, and partly within the framework of Munksjö's own product development. Research costs are expensed on a running basis. Expenses identified for the development of new processes and products are capitalized depending on the extent to which they are likely to yield economic benefits.

Historically, a significant portion of research and development costs in the paper industry is related to investments in production equipment.

The acquisition of ArjoWiggins' decor and abrasive backing paper operations also included a modern and well-equipped development center, which will provide opportunities for more advanced research and development activities.

Parent company

The parent company's primary activity is to manage shares in its subsidiaries. The parent company's operating loss was MSEK 1.2 (–1.2).

The loss after net financial items was MSEK –0.8 (–516.7).

The parent company's investments concerned the expansion of share capital in subsidiaries and amounted to MSEK 0.0 (1,405.4). Liquid assets amounted to MSEK 0.0 (3.1) and interest-bearing liabilities amounted to MSEK 6.9 (8.0).

Remuneration to senior executives

The annual general meeting on June 24, 2010, adopted principles for remuneration to the CEO and senior executives. They shall be offered a fixed salary and, in some cases, variable salary. The total remuneration should be competitive and in line with the practice on the market as well as in relation to the executive's responsibilities and mandate.

The Remuneration Committee recommend a remuneration package for the CEO that is subject to approval by the Board. The CEO recommend remuneration packages for other senior executives and submits them to the Remuneration Committee for approval. The Board has the right to deviate from the guidelines in special cases.

Salaries and variable remuneration are determined per calendar year. The CEO and other senior executives may be offered variable remuneration, which has a ceiling and is linked to the fixed salary and based on the Group's financial targets. The Board makes the final decision on payment of variable remuneration after the company's results have been approved and audited.

The CEO and other senior executives have contracts defining notice periods and severance packages, which cannot exceed 18 months of compensation and with obligation to work. Severance pay in addition to salary during the notice period do not occur Additional information about remuneration to senior executives see Note 8.

Employees

At the end of the year Munksjö had 1,127 employees, corresponding to a total of 1,055 full-time employees. The geographical distribution of Munksjö's employees is shown in the chart below. Staff turnover in the Group is relatively low.

Munksjö recognizes the fundamental right of employees to choose whether to be represented by a union and respects the right to collective agreement of employees and their unions. Munksjö has good relationships with the relevant unions. Munksjö recognizes international labor standards and takes into account local rules and regulations in the various countries where it has business operations.

As an international Group above certain size, Munksjö has chosen to have a European Works Council – Munksjö Works Council, MWC. This is a forum for information and consultation between employees and Group management in matters of common interest, to help ensure the performance of the Group's business objectives.

Munksjö's Works Council comprises a total of eight representatives elected for a period of four years at their respective workplaces.

Competency and leadership development

Munksjö prioritizes competency and leadership development. The company strives to ensure that each employee has a personal development plan, created by the employee together with his/her manager. The plan is established at annual carrer- and personal development talks. Professional training was conducted in various areas throughout the year.

During the year Munksjö sponsored a program for potential leaders. It was the second program of its kind and there were eight participants. The program aims to promote the personal and professional development of promising candidates and includes components in leadership training, communication, conflict resolution, goal-setting and personal development. During the program participants worked on projects based on business challenges assigned by the company's management. After the program ended it transitioned into a mentoring program, in which each participant was assigned a mentor from the senior management team.

Health and safety

Munksjö strives for continous improvement of health and safety in the workplace. The aim is to minimize the number of incidents and accidents through preventive education and follow-up. At a very minimum, Munksjö's units adhere to all national laws and/or if applicable, collective agreements.

Recruitment

Recruitment is an important issue for the future of the company. Munksjö needs qualified and motivated staff to ensure that targets are achieved and that the business is successful. A qualitative recruitment process and structure help ensure recruitment of the best possible staff.

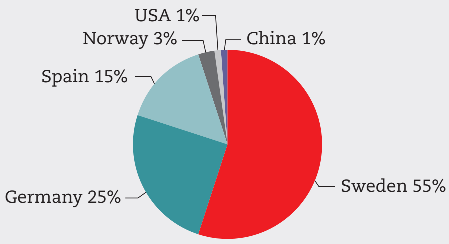
Equal opportunities

Munksjö strives for a culture of non-discrimination, responsibility, competence and respect. Munksjö tries to foster work environment characterized by respect for human equality, regardless of gender, marital status, ethnic or national origin, sexual orientation, religion, political opinion, disability or other differences irrelevant to doing ones job well. All current and potential employees should be treated fairly and without discrimination. Munksjö is committed to eliminating all forms of discriminatory treatment of employees.

Salaries and benefits

Munksjö apply salaries on an individual basis. Several subsidiaries apply a performance-based salary component based on a combination of financial goals and other targets related to operations. The company is committed to paying fair wages and benefits in accordance with the relevant national standards in the countries in which the Group is active.

Employees per country



Average number of employees

Year	Number
2006	1,440
2007	1,423
2008	1,316
2009	1,073
2010	1,055

Sustainability initiatives

The Group conducts licensed operations in Sweden, Norway, China, Germany and Spain. Operations at the Group's Swedish plants are conducted in accordance with Sweden's Environmental Code. Operations at other plants are conducted correspondingly, in accordance with national laws.

The Group's primary environmental impact is through the plants emissions into air and water. Permits regulate the maximum allowable limits for emissions into the environment.

Munksjö's operations shall be based on renewable raw materials and have a profitability that allows for continued sustainable development. The purpose of the environmental work is to reduce the environmental impact of Munksjö's operations and products. The work includes the development of and information about products, efficient and controlled production, as well as knowledge and communication based on an environmental perspective. Munksjö works continuously to provide a strong range of "eco" products. At the same time, production has clear goals concerning the use of energy, water consumption, greenhouse gas emissions and waste management.

Munksjö's goal is to reduce energy consumption over time. In recent years Munksjö has invested in environmentally friendly alternatives to energy supply.

Energy supply

The pulp and paper industry's biggest challenge is its need for energy. Munksjö's goal is to become self-sufficient in energy. Therefore, Munksjö has taken various measures to reduce its reliance on external energy sources. These measures include utilizing the heat from wastewater, incinerating residues and using back-pressure turbines to generate electricity. Through these measures Munksjö has drastically reduced its need for energy from external sources.

Control and monitoring

Munksjö protects the waterways and local environment and constantly strives to reduce emissions to air and water and minimize its environmental impact.

Munksjö has a certified environmental management system tool to ensure compliance with environmental legislation at its production facilities. Plants are certified according to ISO 14001. However, Munksjö's ambitions extend further than that. The company constantly strives to advance its environmental work. A key component of that work is maintaining interested, committed and skilled employees. Therefore, Munksjö systematically provides training for employees on environmental issues.

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Insurances

Munksjö has signed the following standard policies with well-established insurance companies:

- Property & Business interruption
- Liability insurance
- Directors & officers liability insurance
- Transport insurance
- Travel insurance
- Vehicle insurance

Prospects

Global economic trends are expected to have a continued favorable impact on demand for Munksjö's specialty paper products.

In the short term, price increases are expected to have an impact on sales and earnings. During preparation of this annual report, Munksjö's orders corresponded to full production for most of the coming quarter. Uncertainty regarding the availability and price of titanium dioxide, as well as the cost of wood and pulp, is expected to persist during the first half of 2011.

During the second half of 2011, Munksjö expects to see positive cost-saving effects resulting from the integration of the acquired businesses from ArjoWiggins.

Risk factors

Munksjö operates in a competitive international market. Each business unit is responsible for assessing the operational and financial risks. The risk analysis is regularly assessed by the boards of the respective business units.

A collected risk analysis must contain all areas raised in the annual report, as well as a general situational analysis. A selection of risk factors is described below without any specific ranking of importance. These risk factors could, individually or in combination with other risks, have a negative impact on Munksjö's operations, results and financial position.

Risk areas

- Industry and market-related risks
- Risks related to operations and strategy
- Legal risks
- Financial risks

Industry and market-related risks

The effect of the economy on demand

Munksjö is affected by capital market conditions and the economic situation in Europe and worldwide. An economic downturn, generally, has a negative impact on Munksjö's activities. Economic trends within individual sectors affect the company's business areas to varying degrees. Decor is primarily dependent on private consumption and construction activities. Industrial Applications is mainly exposed to the steel industry but is also affected by infrastructure investment levels, while Specialty Pulp is dependent on the paper industry, among others.

Competition

Munksjö operates in highly competitive industries. The company believes that the most critical competitive factors are quality, flexibility, technology and service. If Munksjö fails to meet and adapt to customer demands to the same extent as Munksjö's competitors, then the company's shipment volumes will decline. The price of Munksjö's products is affected by demand, the total production capacity in the market, competitors' product offerings and the price of inputs. There is no guarantee that Munksjö will be able to adjust to changing conditions in competition and price levels.

Interchangeable parts and products

Demand for Munksjö's products depends very much on how the end customer values similar products made with alternative materials. If the use of other materials and products in certain applications increases at the expense of special paper or special paper products, then there is a risk that demand for the company's products will drop.

Risks related to operations and strategy

Variation in market price for Munksjö's products

Movements in the market price of Munksjö's products can cause large swings in earnings for the respective segment, unless there is a directly corresponding variation on the cost side.

Risks related to raw materials and suppliers

Munksjö purchases include pulpwood, short-fiber kraft pulp, titanium dioxide, energy, and transport services from external suppliers. Disruptions in the supply of key raw materials could have a significant adverse effect on Munksjö.
Price increases in raw materials and services that cannot be compensated by a corresponding price increase in Munksjö's products can have an adverse effect on the Company.

Pulp

Pulpwood is used in the production of long-fiber kraft pulp. Munksjö owns 33 percent of Sydved AB, which accounted for about 82 percent of the company's total wood purchases in 2010. Remaining wood needs were covered by purchases in the local wood market. The price of wood is driven mainly by demand from the pulp industry, but is also influenced by other wood consumers, used for bio-energy and thermal plants, for example.

A decrease in availability or an increase in the price of wood could have a negative impact on Munksjö.

Kraft pulp

Short-fiber kraft pulp is used to manufacture decor paper. The price of short-fiber kraft pulp has been volatile historically and has shown a cyclical development. Prices are affected by the production capacity of pulp producers, their inventory levels and market demands. A future rise in the price of short-fiber kraft pulp could have a significant negative impact on the profitability of Decor operations.

Munksjö produces and sells long-fiber kraft pulp, but also uses some of it for its own production. The price of long-fiber kraft pulp has been volatile historically and has a cyclical development. The price development is affected by the production capacity of competitors, their inventory levels and demand.

Munksjö's total exposure to price fluctuations in pre-sold long-fiber pulp is reduced by the purchase of short-fiber pulp for its own products.

Titanium dioxide

Titanium dioxide is a key component in the production of decor paper. The production of decor paper puts special demands on the raw material's characteristics. The decor paper market's consumption of titanium dioxide represented about five percent of global consumption in 2010. Munksjö works with several suppliers and typically signs volume contracts.

The availability of titanium dioxide depends in part on producers' continued investment in the mining of minerals used in the production of titanium dioxide. The price is mainly influenced by demand from the industries in which titanium dioxide is a key component, as well as the level of mineral extraction and production costs. The price has risen sharply in recent years and it cannot be ruled out that the price will continue to rise.

Energy

Munksjö's pulp and paper production is energy intensive. The company has in recent years made considerable investments in in-house energy production to reduce energy consumption. Munksjö produced about 50 percent of its energy needs through its own production in 2010.

Transport services

Munksjö is dependent on external suppliers for the transportation of component materials to the company's production plants and delivery of products to customers. Any supply disruption leading to loss of production or affecting the company's ability to meet customer commitments could have a negative impact.

Environmental responsibility

Munksjö's activities in pulp and paper manufacturing are licensed in accordance with the Environmental Code and affect the external environment primarily through emissions into the air and water. Production processes also result in some waste products.

Munksjö has made significant investments to lower energy consumption in the production process and reduce emissions into the air and water. All of Munksjö's licensed businesses operate within the constraints of the granted licenses and permits. If the terms of the licenses or permits change, there is a risk that Munksjö could fail to live up to them. This could lead to production losses and penalties for Munksjö. The company also risks being held liable for environmental damage related to current or previous activities and would in that case be liable for clean-up costs and other remediation measures.

Environmental regulations in Sweden and internationally are constantly changing and moving towards increasingly stringent requirements. Any future changes in regulations could mean that the company must make investments or take other steps to continue production solutions. In addition, efficient production processes and capacity optimization are important factors in cost control.

In recent years Munksjö has invested in product development and efficiency measures. Munksjö's operations and profit could be adversely affected if Munksjö fails to develop production processes and products at the same rate as its competitors or if the company is forced to make additional investments because of technological advances in the industry.

Production sites

Munksjö is dependent on maintaining an effective use of capacity at its production sites. Production takes place in a chain of processes where any disruption or breakdown anywhere in the process, for example as the result of handling

errors, sabotage or fire, could cause a loss of production. Munksjö prevents disruption and breakdowns through well-developed checks and routines, by following maintenance plans and training its employees. The company has also taken out insurances for any future disruptions or breakdowns.

Product development and efficiency measures

Munksjö works in an integrated way with its customers and depends on its ability to provide flexible, customized product solutions. In addition, effective production processes and an optimal use of capacity are key factors for the company's ability of controlling costs.

In recent years Munksjö has invested in product development and efficiency improvement measures. Munksjö's business and profits could be negatively impacted if the company doesn't develop its production processes and products at the same pace as its competitors or if the company is forced to make further investments due to technical developments in the industry for example.

The integration process

The acquisition of operations from ArjoWiggins requires the integration of two completely independent operations, which have to a certain extent competed in the same market. In doing so, Munksjö faces integration-related risks with respect to staff, customers, added costs and synergies that do not meet projections. Furthermore, the company's management will have to devote significant attention and time to the integration process, in addition to managing the regular daily operations.

Product liability

Munksjö has rigorous quality assurance procedures to ensure that its products, which are subject to detailed specifications, meet customer demands. However, there is a risk of delivering products that do not meet customer specifications, and this can potentially damage customer relations and increase costs.

Workplace safety

To create a safe working environment Munksjö provides regular training for personnel and rigorously applies safety routines. Still, the possibility of work-related accidents cannot be ruled out. Accidents can harm staff and interrupt production, which can have a negative financial impact on the company, damage its reputation and even its ability to recruit qualified personnel.

Natural disasters

Munksjö's operations are located in places where natural disasters are uncommon, but storms, floods and earthquakes cannot be ruled out. These kinds of disasters can either directly or indirectly have a negative impact on the company.

IT infrastructure

Munksjö's business depends on a functioning IT infrastructure for the management of certain internal processes. Difficulties in maintaining, upgrading or integrating IT systems, as well as breakdowns in the system, could disrupt production and administrative procedures. Any problems or work stops related to the IT infrastructure can thus affect the company negatively.

Labor market-related risks

Most Munksjö employees belong to a union, depending on their position and the country in which they are employed. Disruptions and work stoppages to the company's operations as a result of labor-related disputes or organizational changes can have a negative impact on the company.

Key employees

In some cases Munksjö depends on key individuals. The company operates in a high-tech industry in which skilled and experienced employees for production is an important competitive advantage. Munksjö's ability to recruit and retain personnel with the relevant qualifications is important for the company's future development. Not being able to recruit and retain key personnel could have a significant adverse effect on the company.

Legal risks

Insurance

Munksjö has insured itself for amounts the company considers sufficient. However, there are no guarantees that the company's insurance coverage can be maintained on acceptable terms or that the insurance would cover all eventual losses or requirements for potential future damages.

Disputes

Munksjö is involved in certain litigation processes and further disputes could arise in the ordinary course of business on issues related to contracts, tax issues, alleged defects in product deliveries and environmental issues. Ongoing and potential future litigation is costly, time-consuming, and could potentially disrupt normal operations. Furthermore, the outcome of a complicated dispute is difficult to predict. It is impossible to rule out the possibility of an unfavorable outcome, which could have negative consequences for Munksjö.

Financial risks

Munksjö is exposed to a number of financial risks. These include currency risks, financial risks, liquidity risks, interest rate risks, counterparty credit risks in financial transactions and customer credit risks. The company's financial risk management is described in Note 26.

Financial accounts

Consolidated statement of comprehensive income

MSEK	Note	2010	2009
Net sales	2	3,701	3,025
Other operating income		35	21
Total operating income		**3,736**	**3,046**
Operating costs			
Changes in inventories		–26	–49
Materials and supplies		–1,718	–1,348
Other external costs	4,5,6	–920	–891
Personnel costs	7,8,9	–629	–619
Depreciation, amortisation and impairment charges	10	–153	–171
Total operating costs		–3,446	–3,078
Share of profit/loss in associated companies and joint ventures		**1**	**3**
Operating profit/loss		**291**	**–29**
Financial income	12	8	187
Financial costs	12	–91	–380
Net financial items	12	**–83**	**–193**
Profit/loss before tax		**208**	**–222**
Taxes	13	–70	29
Net profit/loss for the year		**138**	**–193**
Other comprehensive income/expenses			
Translation differences on foreign operations for the year		–111	–42
Change in cash flow hedge reserve		1	–38
Tax attributable to other comprehensive income		0	10
Total comprehensive income/expenses		**28**	**–263**
Comprehensive income/expenses attributable to; parent company's shareholders		133	–196
non controlling interests		5	3
Earnings per share*, MSEK	14	4.76	neg

* There were no dilution effects

Consolidated statement of financial position

MSEK	Note	2010-12-31	2009-12-31
ASSETS			
Fixed assets			
Intangible fixed assets	16	1,256	1,478
Tangible fixed assets	17	1,764	1,871
Financial fixed assets			
Shares in associated companies	19	19	18
Deferred tax assets	13	310	385
Total fixed assets		**3,349**	**3,752**
Current assets			
Inventory	20	456	446
Current tax assets		0	0
Accounts receivables	26	533	473
Other current receivables		128	237
Prepaid expenses and accrued income	21	22	21
Cash and cash equivalents	22	281	254
Total current assets		**1,420**	**1,431**
TOTAL ASSETS		**4,769**	**5,183**

Consolidated statement of financial position

MSEK	Note	2010-12-31	2009-12-31
EQUITY AND LIABILITIES			
Equity			
Parent company's shareholders			
Share capital	14,15,23	28	28
Share premium		3,680	3,680
Reserves		–197	–92
Profit/loss carried forward		–2,308	–2,441
		1,203	**1,175**
Non controlling interests		32	34
Total equity		**1,235**	**1,209**
Non-current liabilities			
Non-current interest-bearing liabilities	22	2,294	2,526
Loans from shareholders	25,30	7	8
Other non-current liabilities		1	2
Provisions for pensions	9	183	213
Deferred tax liabilities	13	324	348
Other non-current provisions	24	53	121
		2,862	**3,218**
Current liabilities			
Current interest-bearing liabilities	22,25	–	58
Accounts payable		209	236
Liabilities to associated companies		46	38
Accrued expenses and prepaid income	27	223	301
Current tax liabilities		38	24
Other current liabilities		156	99
		672	**756**
Total liabilities		**3,534**	**3,974**
TOTAL EQUITY AND LIABILITIES		**4,769**	**5,183**
Pledged assets	28	2,162	2,276
Contingent liabilities	28	43	46

Consolidated statement of changes in equity

MSEK	Share capital	Other contributed equity	Translation reserve	Hedge reserve	Retained earnings and profit for the year	TOTAL	Attributable to associated companies	TOTAL EQUITY
EQUITY BALANCE ON 1 JANUARY 2010	**28**	**3,680**	**–41**	**–51**	**–2,441**	**1,175**	**34**	**1,209**
Profit/loss for the year					133	133	5	138
Translation differences for the year from translation of results of foreign operations			–106			–106	–5	–111
Changes in fair value of cash flow hedges				1		1		1
Tax attributable to components in other comprehensive income				0		0		0
Total profit/loss for the year			**–106**	**1**	**133**	**28**	**0**	**28**
Transactions with shareholders								
Dividends							–2	–2
EQUITY BALANCE ON 31 DECEMBER 2010	**28**	**3,680**	**–147**	**–50**	**–2,308**	**1,203**	**32**	**1,235**
EQUITY BALANCE ON 1 JANUARY 2009	**0**	**1,782**	**0**	**–23**	**–2,245**	**–486**	**35**	**–451**
Profit/loss for the year					–196	–196	3	–193
Translation differences for the year from translation of results of foreign operations			–41			–41	–1	–42
Changes in fair value of cash flow hedges				–38		–38		–38
Tax attributable to components in other comprehensive income				10		10		10
Total profit/loss for the year			**–41**	**–28**	**–196**	**–265**	**2**	**–263**
Transactions with shareholders								
Dividends							-3	-3
Shareholder contributions		80				80		80
New issues	28					28		28
New issues and offset issues		1,818				1,818		1,818
EQUITY BALANCE ON 31 DECEMBER 2009	**28**	**3,680**	**–41**	**–51**	**–2,441**	**1,175**	**34**	**1,209**

Consolidated cash flow statement

MSEK	Note	2010	2009
Operating activities			
Operating profit/loss		291	–29
Adjustment for items not affecting cash flow			
Depreciation		153	171
Interest received		8	53
Interest paid		–74	–408
Tax paid		–9	–5
Cash flow from operating activities before changes in operating capital		**369**	**–218**
Cash flow from changes in operating capital			
Changes in inventories		–40	83
Changes in operating liabilities		–117	–37
Changes in operating receivables		–46	–336
Cash flow from operating activities		**166**	**–508**
Investment activities			
Acquisition of tangible fixed assets	17	–112	–59
Acquisition of intangible fixed assets		–	–
Acquisition of financial fixed assets		–	–
Cash flow from investment activities		**–112**	**–59**
Cash flow after investment activities		**54**	**–567**
Financing activities			
Dividends to minority shareholders		–3	–3
Shareholder contributions		–	80
New share and offset issue		–	1,846
Amortization of shareholder loan		–	–4
Amortization of bank loan		–	–1,202
Cash flow from financing activities		**–3**	**717**
CASH FLOW FOR THE YEAR		**51**	**150**
Cash and cash equivalents at the beginning of the year		**254**	**106**
Cash flow for the year		51	150
Currency effects		–24	–2
CASH AND CASH EQUIVALENTS AT YEAR-END	22	**281**	**254**

Parent company's income statement

MSEK	Note	2010	2009
Other external costs	6	–0.3	–0.4
Personnel costs	7,8	–0.9	–0.8
Operating profit/loss		**–1.2**	**–1.2**
Profit/loss from participation in subsidiaries	11	–	–515.0
Exchange rate profit	12	1.0	0.6
Interest expenses and similar items	12	–0.6	–1.1
Net financial items		**0.4**	**–0.5**
Profit/loss before taxes		**–0.8**	**–516.7**
Current tax	13	0.2	–
Deferred tax	13	0.0	0.4
PROFIT/LOSS FOR THE YEAR		**–0.6**	**–516.3**

There are no items related to comprehensive income.

Parent company's balance sheet

MSEK	Note	2010-12-31	2009-12-31
ASSETS			
Fixed assets			
Shares in subsidiaries	18	1,551.6	1,551.6
Deferred tax assets		0.4	0.4
TOTAL FIXED ASSETS		**1,552.0**	**1,552.0**
CURRENT ASSETS			
Receivables in subsidiaries		1.7	0.0
Cash and bank balances		–	3.1
Total current assets		**1.7**	**3.1**
CURRENT ASSETS		**1,553.7**	**1,555.1**
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital	15,23	27.9	27.9
Statutory reserve		22.7	22.7
		50.6	50.6
Non-restricted equity			
Share premium reserve		1,818.3	1,818.3
Accumulated profit/loss		–321.5	194.1
Profit/loss for the year		–0.6	–516.3
		1,496.2	**1,496.1**
TOTAL EQUITY		**1,546.8**	**1,546.7**
LIABILITIES			
Non-current liabilities			
Shareholder loans	25,30	6.9	8.0
		6.9	**8.0**
Current liabilities			
Liabilities to subsidiaries		0.0	0.4
		0.0	**0.4**
Total liabilities		**6.9**	**8.4**
TOTAL EQUITY AND LIABILITIES		**1,553.7**	**1,555.1**
Pledged assets	28	1,551.6	1,551.6
Contingent liabilities	28	None	None

Parent company's changes in equity

MSEK	Restricted equity: Share capital	Restricted equity: Statutory reserve	Non-restricted equity: Share premium	Non-restricted equity: Retaine earnings	Non-restricted equity: Net profit/loss for the year	EQUITY
OPENING BALANCE ON 1 JANUARY 2010	**27.9**	**22.7**	**1,818.3**	**194.1**	**–516.3**	**1,546.7**
Previous year's profit/loss brought forward	–	–	–		–0.6	–0.6
Equity part of group contribution	–	–	–	–516.3	516.3	0.0
Profit/Loss for the year	–	–	–	0.7	–	0.7
CLOSING BALANCE ON 31 DECEMBER 2010	**27.9**	**22.7**	**1,818.3**	**–321.5**	**–0.6**	**1,546.8**
OPENING BALANCE ON 1 JANUARY 2009	**0.1**	**22.7**	**–**	**1,874.7**	**–1,761.0**	**136.5**
Årets resultat	–	–	–		–516.3	–516.3
Previous year's profit/loss brought forward				–1,761.0	1,761.0	0.0
Shareholder contributions New share and offset issues	–	–	–	80.4	–	80.4
Profit/Loss for the year	27.8	–	1,818.3	–	–	1,846.1
CLOSING BALANCE ON 31 DECEMBER 2009	**27.9**	**22.7**	**1,818.3**	**194.1**	**–516.3**	**1,546.7**

Equity is entirely related to the parent company's shareholders.

Parent company's cash flow statement

MSEK	Note	2010	2009
Operating activities			
Operating loss		–1.2	–1.2
Adjustment for items not affecting cash flow			
Impairment of shares in subsidiaries		–	–515.0
Interest paid		–0.6	–1.0
Taxes paid		–	–
Cash flow from operating activities before changes in operating capital		**–1.8**	**–517.2**
Cash flow from changes in operating capital			
Changes in operating liabilities		–0.4	–0.9
Changes in operating receivables		–1.7	3.7
Cash flow from operating activities		**–3.9**	**–514.4**
Investment activities			
New share and offset issue to subsidiaries	23	–	–1,405.4
Cash flow after investment activities		**–3.9**	**–1,919.8**
Financing activities			
Shareholder contributions		–	80.4
New share and offset issues		–	1,846.1
Group contributions		0.8	–
Shareholder loans		0.0	–3.5
Cash flow after financing activities		**0.8**	**1,923.0**
Cash flow for the year		**–3.1**	**3.2**
Cash and cash equivalents at the beginning of the year		**3.1**	**–**
Cash flow for the year		–3.1	3.2
CASH AND CASH EQUIVALENTS AT YEAR-END		**0.0**	**3.2**

Notes

Note 1 Significant accounting principles

General
Munksjö AB (publ), Corporate Identity Number, 556669-9731, is a Swedish company, registered in Jönköping, Sweden. The company's address is Trädgårdsgatan 37, 551 12 Jönköping. The consolidated accounts for 2010 comprise of the Parent Company and its subsidiaries, together called the Group. The consolidated accounts and annual report were approved by the Board of Directors on April 28 and are expected to be adopted by the AGM on June 24.

Summary of key accounting principles
The key accounting principles applied during the preparation of this annual report are presented below.

The functional currency of the Parent Company is MSEK and the financial statements are presented in MSEK. Amounts are stated in MSEK, unless otherwise indicated.

Fixed assets and long-term liabilities essentially consist of amounts that are expected to be recovered or paid more than 12 months after the reporting period. Current assets and current liabilities in the Parent Company and the Group essentially consist solely of amounts that are expected to be recovered or paid within 12 months of the end of the reporting period.

Basis for preparing the reports
The consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as approved by the Commission of the European Communities for application in the European Union, and in accordance with the Annual Accounts Act, RFR 1: Supplementary accounting rules for groups.

The Parent Company applies the same accounting principles as the Group, with exceptions outlined in the section entitled "Parent Company's accounting principles".

The deviations arising between the principles applied by the Parent Company and the Group are caused by limitations to opportunities of applying IFRS in the Parent Company as a consequence of the Annual Accounts Act RFR 2, and the Pension Obligations Vesting Act (*Tryggandelagen*) and, in certain cases, tax considerations.

The accounting principles outlined below have, with those exceptions that are described in more detail, been applied consistently on the reporting and consolidation of the Parent Company, subsidiaries, as well as when incorporating associated companies and joint ventures in the consolidated accounts.

Changes to accounting principles and disclosures
This annual report and set of consolidated accounts contains the first complete financial statements prepared in accordance with IFRS. In connection with the transition from previously applied accounting principles to a report in accordance with IFRS, the Group has applied IFRS 1, which is the standard that describes the way in which the transition to IFRS is to be reported.

The main differences relate to pensions, leasing and financial instruments.

Note 31 contains a summary with explanations of how the transition to IFRS has affected the Group's financial results and position, as well as its reported cash flows.

New IFRS and interpretations yet to be applied
A number of new or amended standards and interpretations will come into force during the coming financial year and have not been applied in advance in the preparation of these financial statements. New rules and changes applicable after 2010 are not scheduled to be applied in advance. Other amendments to standards and interpretations that came into force on January 1, 2011 are not considered to have any impact on Munksjö's annual report.

IFRS 9, Financial Instruments: Recognition and Measurement (Not yet approved by the EU and schedule for approval not available at present)
This standard is the first phase of a complete reworking of the current standard, IAS 39. The standard involves a reduction in the number of valuation categories for financial assets, and means that the main categories are reported at cost (amortized cost) or fair value respectively via the Consolidated Statement of Comprehensive Income.

This first phase of the standard will be supplemented by regulations relating to impairment, hedge accounting and valuation of liabilities. IFRS 9 must be applied for the financial year beginning January 1, 2013 or later.

Pending the completion of all the phases of the standard, the Group has not evaluated the effects of the new standard.

Valuation principles applied in the preparation of the financial statements
Assets and liabilities are reported at historical cost, with the exception of certain financial assets and liabilities, which are measured at fair value or amortized cost. Financial assets and liabilities measured at fair value consist of financial assets classified as financial assets measured at fair value through profit/loss for the year or financial assets held for sale.

Translation of foreign currency
Transactions and balance sheet items
Transactions in foreign currencies are translated into the functional currency at the exchange rate in force on the transaction date. The functional currency is the currency of the primary economic environments in which the Group's companies carry out their business.

Monetary assets and liabilities in foreign currencies are translated into the functional currency at the exchange rate in force on the balance sheet date. Exchange rate differences arising from the conversions are recognized in profit/loss for the year.

Non-monetary assets and liabilities recognized at their historical costs are translated at the exchange rate applicable at the time of the transaction. Non-monetary assets and liabilities recognized at fair value are converted into the functional currency at the rate in effect at the time of the fair value assessment.

Group companies
The results and financial position of all Group companies (none of which are operating with hyper-inflation currencies) that have an operational currency other than the presentation currency, are translated into the Group's presentation currency as follows:

a) Assets and liabilities for each of the consolidated statements of financial position are translated according to the closing day rate.
b) Income and expenses for each of the income statements are translated according to the average exchange rate (provided the average exchange rate constitutes a reasonable approximation of the accumulated effect of the exchange rates that were in force on the transaction date, otherwise income and expenses are translated according to the exchange rate on the transaction date).
c) All translation differences are reported in other comprehensive income. Goodwill and adjustments to fair value that arise during the acquisition of a foreign business are treated as assets and liabilities of that business and translated according to the closing day rate.

Assessments and estimates in the financial accounts
Preparation of the financial statements in accordance with IFRS requires management to make assessments, estimations and assumptions that affect the application of the accounting principles and the figures reported for assets, liabilities, income and expenses. The actual outcome may deviate from these estimations and assessments. The estimations and assumptions are reviewed regularly. Changes in estimations are reported in the period in which they are made if they only affect that period, or in the period in which they are made and future periods if they affect both the

period concerned and future periods. Assessments made by management in the application of IFRS that have a significant effect on the financial statements and estimates that may cause material adjustments to the financial statements of the ensuing year are described in greater detail under Note 3.

Operating segments

Munksjö's operations are divided up into operating segments based on which parts of the operations the company's ultimate executive decision-makers monitor, that is, according to the management approach. The Group's operations are organized in such a way that the senior management team monitors the profit or loss and the operating margin generated by the Group's various product areas. Each operating segment provides regular reports to the senior management team on the outcome of the operating segment's efforts and its resource requirements.

Since the senior management team monitors the profit or loss and determines resource allocations based on the product areas for the Group's production and sales, these constitute the Group's operating segments. Munksjö's operating segments have been identified as per IFRS 8 and comprise the business areas Decor, Industrial Applications and Specialty Pulp. Furthermore, joint Group costs and eliminations are reported under the heading Other.

Consolidated financial statements

Subsidiaries

Subsidiaries are companies in which Munksjö AB has a controlling influence. Controlling influence entails a direct or indirect right to determine a company's financial and operational strategies with the purpose of benefiting financially. Under normal circumstances this means that Munksjö has more than 50 percent of the voting rights. The assessment of whether a controlling influence prevails takes into account potential voting shares that can be exercised or converted without delay.

Subsidiaries are recognized in accordance with the acquisition method. The cost of an acquisition consists of the fair value of assets given and liabilities incurred or assumed at the date of acquisition. Transaction fees directly attributable to the acquisition are reported directly in the income statement at the rate at which they arise. Identifiable assets acquired and liabilities assumed and contingent liabilities in a business combination are measured initially at their fair values on the acquisition date, irrespective of the extent of any non-controlling interest.

The surplus that consists of the difference between the cost and the fair value of the Group's share of identifiable assets, liabilities and contingent liabilities acquired is recognized as goodwill. If the cost is less than the fair value of the acquired subsidiary's assets, liabilities and contingent liabilities, the difference is recognized directly in the income statement. Intra-Group transactions, balances and unrealized gains and losses on transactions between group companies are eliminated. Accounting principles for subsidiaries are changed where necessary to ensure consistent application of the Group's principles.

Subsidiaries' financial accounts are included in the consolidated accounts from the time of acquisition and until the Group no longer has a controlling influence.

Transactions between owners

The Group applies the principle of reporting transactions with minority shareholders as transactions with a third party. Divestments to minority shareholders result in gains and losses for the Group, which are reported under shareholders' equity. Transactions between owners are reported exclusively within shareholders' equity.

Associated companies

Associated companies are those in which the Group has a significant, but not controlling, influence over operational and financial control, commonly through holdings corresponding to between 20 and 50 percent of votes. From the point at which a significant influence is obtained, participations in associated companies are reported in the consolidated accounts in accordance with the equity method. The equity method entails the value of holdings in associated companies reported in the consolidated accounts being equivalent to the Group's share of the associated companies' shareholders' equity, as well as consolidated goodwill and any other consolidated surplus or deficit. In the Consolidated Statement of Comprehensive Income, "Participations in the earnings of associated companies" states the Group's share of associated companies' earnings after tax attributable to the owners of the Parent Company, adjusted for any depreciation, impairment or reversals of acquired surpluses or deficits. These profit participations with dividends received from associated companies comprise the main change in the carrying value of participations in associated companies. Any discrepancy at the time of acquisition between the cost of the holding and the owning company's share of the net fair value of the associated company's identifiable assets, liabilities and contingent liabilities is recognized in accordance with the same principles used in the acquisition of subsidiaries.

Where the Group's share of losses reported by the associated company exceeds the carrying value of the Group's participations, the value of the participations is reduced to zero. Losses are also offset against long-term balances without security, the financial significance of which forms part of the owning company's net investment in the associated company. Continued losses are not recognized unless the Group has given guarantees to cover losses arising in the associated company. The equity method is applied until the point in time at which the significant influence ceases.

Joint ventures

For accounting purposes, joint ventures are those companies for which the Group, via partnership agreements with one or more parties, has joint control over operational and financial management.

The Group's participating interest may exceed 50 percent. Joint ventures are consolidated in the consolidated accounts in accordance with the equity method (see section under associated companies).

Transactions eliminated on consolidation

Intra-Group receivables and liabilities, income or expenses and unrealized gains or losses arising from intra-Group transactions between Group companies are eliminated in full when preparing the consolidated accounts. Unrealized gains arising from transactions with associated companies and joint ventures are eliminated to the extent of the Group's participating interest in the companies. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Income

Income encompasses the fair value of what has been received or is expected to be received for sold goods and services in the Group's operating activities. Income is reported excluding VAT, returns and discounts, and after elimination of intra-Group sales.

The Group reports income when the amount can be measured in a reliable manner, when it is likely that future economic benefits will accrue to the company and special criteria have been satisfied for each of the Group's businesses as described below. The Group bases its assessments on historical outcomes and takes into account customer type, transaction type and special circumstances in each individual case.

Sale of goods

Munksjö's income essentially comprises the sale of manufactured products. Revenue for sales of goods is recognized in the Consolidated Statement of Comprehensive Income when significant risks and rewards associated with the ownership of the goods are transferred to the buyer. This normally occurs in connection with delivery.

Delivery is not regarded as having happened until the products have been dispatched to the designated address and the risk of loss and decline in value have been transferred.

Sale of services

Income from service assignments is recognized in profit or loss on the basis of the degree of completion on the balance sheet date. Income is not recognized if it is likely that the economic benefits will not accrue to the Group. If there is significant uncertainty regarding payment, accompanying expenses or the risk of returns and if the seller retains a commitment in the ongoing administration which is usually associated with ownership, no income is recognized.

Income is recognized at the fair value of what has been received or is expected to be received, with deductions for discounts granted.

Interest income

Interest income is reported as income using the effective interest method. When the value of a receivable in the loan receivables and accounts receivable category has gone down, the Group reduces the carrying value to the recoverable value, which consists of estimated future cash flow, less the original effective interest for the instrument, and continues to resolve the discounting effect as interest income. Interest income on impaired loan receivables and accounts receivable is reported as original effective interest.

Dividend income

Dividend income is recognized when the right to receive payment has been established.

Government subsidies

Any government subsidies are recognized in the Consolidated Statement of Financial Position as deferred income when there is reasonable certainty that the subsidy will be received and that the Group will meet the conditions associated with the subsidy. Subsidies shall be systematically periodized in the Consolidated Statement of Comprehensive Income in the same way and across the same periods as the expenses that the subsidies are intended to offset. Any government subsidies related to assets reduce the gross cost of the fixed assets.

Leasing

Operating leasing agreements

Leasing, in which a significant part of the risks and benefits of ownership reside with the leaseholder, is classified as operational leasing. Payments made during the leasing period (after deductions for any rewards from the lease provider) are booked as a cost in the Consolidated Statement of Comprehensive Income on a straight-line basis over the leasing period.

Financial leasing agreements

The Group leases certain tangible fixed assets. Leasing agreements of tangible fixed assets where the Group essentially holds the economic risks and benefits associated with ownership, are classified as financial leasing. At the start of the leasing period, financial leasing is reported in the Consolidated Statement of Financial Position at the lower of the leasing object's fair value and the current value of the minimum lease payments. Each leasing payment is apportioned between reduction of the liability and financial costs of achieving a fixed interest rate for the reported liability. The equivalent payment obligations, after deductions for financial costs, are included in the Consolidated Statement of Financial Position, items Long-term borrowing and Short-term borrowing. The interest portion of the financial costs is recognized in the income statement, distributed over the lease term so that each accounting period is assigned an amount corresponding to a fixed interest rate for the liability in the respective period. Fixed assets that are held in accordance with financial leasing agreements are depreciated over the asset's useful life.

Financial income and expenses

Financial income and expenses consist of interest income from invested funds, dividend income, value gains from financial assets measured at fair value in the Consolidated Statement of Comprehensive Income, as well as those profits from hedging instruments that are reported in the income statement.

Interest income from financial instruments is recognized according to the effective interest method (see below). Dividend income is recognized when the right to receive the dividend has been established. Results from the sale of financial investments are recognized when the risks and benefits associated with ownership of the instruments have been transferred to the buyer and the Group no longer has control of the instrument. Financial expenses consist of interest expenses on loans, the effect of the resolution of present value calculations for provisions, value losses on financial assets measured at fair value via the Consolidated Statement of Comprehensive Income, impairment of financial assets, and those losses on hedging instruments that are reported in the Consolidated Statement of Comprehensive Income.

All borrowing expenses are reported in the income statement using the effective interest method, regardless of how the borrowed funds have been used.

Borrowing expenses are not reported in the income statement to the extent that they are directly attributable to the purchase, construction or production of assets that take considerable time to complete for the intended use or for sale. In such cases they are included in the cost of the assets. Exchange rate gains and losses are reported net.

Interest income on receivables and interest expenses on liabilities are calculated using the effective interest method. Interest expenses include transaction fees for loans that are periodized over the loan period.

Current and deferred tax expense

The period's tax expense is made up of current tax and deferred tax. Tax is recognized in the result except when underlying transactions are reported in other comprehensive income, whereby even the associated tax effect is reported in other comprehensive income.

Current tax is tax due for payment or receipt in respect of the financial year, using tax rates decided or virtually decided upon at the balance sheet date. Adjustment of current tax related to earlier periods is also included.

Deferred tax is calculated in accordance with the balance sheet method, proceeding on the basis of temporary differences between the carrying amounts and taxable values of assets and liabilities. Temporary differences are not taken into consideration that arise on initial recognition of goodwill or of assets and liabilities that are not business combinations and that do not affect either the reported or taxable profit at the time of the transaction.

Nor are temporary differences taken into account that are related to participations in subsidiaries and associated companies which are not expected to be reversed in the foreseeable future.

The valuation of deferred tax provided is based on how carrying amounts of assets or liabilities are expected to be realized or settled. Deferred tax is calculated by applying the tax rates and regulations decided upon at the balance sheet date.

Deferred tax assets for tax-deductible temporary differences and loss carry forwards are recognized only to the extent it is likely that it will be possible to utilize these items. The value of deferred tax assets is derecognized when it is no longer deemed likely that they can be utilized. Any additional income tax arising from a dividend is recognized at the same time as the dividend is recognized as a liability.

Deferred tax assets and liabilities are offset when there is a legal right of offset for current tax assets and liabilities, and when the deferred tax assets and tax liabilities are attributable to taxes charged by one and the same tax authority and relate to either the same tax entities or different tax entities, where there is an intention to settle the balances via net payments.

Financial instruments

Recognition in and derecognition from the Consolidated Statement of Financial Position

Classification and measurement

The Group classifies its financial assets and liabilities according to the following categories: financial assets and liabilities measured at fair value in profit/loss, loan receivables and accounts receivable, and other financial.

On first recognition, a financial instrument is classified based on the reason for its purchase. The classification determines how the financial instrument is measured after the first recognition as described below.

Financial instruments recognized as assets in the consolidated Statement of financial position include cash and cash equivalents, accounts receivable, financial investments and derivatives. Liabilities include accounts payable, borrowing and derivatives.

Financial instruments which are not derivatives are initially recognized at a cost corresponding to the instrument's fair value including direct transaction expenses for all financial instruments. Exceptions are those categorized as financial assets or liabilities recognized at fair value via profit/loss, which are recognized at fair value excluding transaction expenses. Derivative instruments are initially recognized at fair value, which means that any transaction expenses are charged against the earnings for the period.

If a derivative instrument is used for hedge accounting and to the extent that it is effective, changes in value of the derivative instrument are reported in other comprehensive income. Where hedge accounting is not applied, value gains and losses on derivatives are reported as income or expense in operating profit/loss, or within net financial items based on the purpose of using the derivative instrument and whether hedging is related to an operating or a financial item. With hedge accounting, the ineffective portion is recognized in the same way as for changes in value of derivatives that are not used for hedge accounting. If hedge accounting is not applied when using interest swaps, the interest coupon is recognized as interest and other changes in value of interest swaps are recognized as other financial income or other financial expenses. Fair values are based on directly observable market prices or via derivation from market prices.

Financial assets and liabilities measured at fair value in profit/loss

This category consists of two sub-groups: financial assets and liabilities held for sale and other financial assets or liabilities that the company has initially chosen to place in this category. A financial asset is classified as being held for sale if it is retained with the intention of being sold in the near future. Assets belonging to this category are continuously measured at fair value with changes in value recognized in profit/loss for the year, with the exception of derivatives that are an identifiable and effective hedging instrument.

Changes in loans and accounts receivable

Loan receivables and accounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are measured at the amortized cost. The amortized cost is determined based on the effective interest calculated at the time of acquisition. Receivables of less than three months are reported at cost. Accounts receivable are recognized at the amount estimated to be paid, i.e. with a deduction for doubtful receivables.

Cash and cash equivalents comprise cash and instantly accessible balances at banks and equivalent institutions, as well as current investments with a term from the acquisition date of less than three months which are exposed to only a negligible risk of fluctuations.

Other financial liabilities

Loans and other financial liabilities, such as accounts payable, are included in this category. The liabilities are measured at the amortized cost. Liabilities of less than three months are reported at cost. Details of the category in which the Group's financial assets and liabilities are placed are given under note 25 Financial assets and liabilities.

Derivatives and hedge accounting

The Group's derivative instruments have been acquired to financially hedge its interest, exchange rate, electricity price and pulp price exposures. In order to fulfill the requirements on hedge accounting in accordance with IAS 39, there must be a clear link to the hedged item. Moreover, the hedging must effectively protect the hedged item, the hedging documentation must be drawn up and the effectiveness must be quantifiable. Gains and losses concerning effective hedging instruments are transferred to profit/loss for the year at the same time as profit and loss are recognized for the items being hedged.

Receivables and liabilities in foreign currency

Currency forward contracts are used to hedge receivables or liabilities against currency risks.

Hedge accounting is not used to protect against currency risks, because a financial hedging instrument is reflected in the accounts when both the underlying receivable or liability and the hedging instrument are recognized at the exchange rate on the balance sheet date and exchange rate changes are recognized in the Consolidated Statement of Comprehensive Income.

Hedging of foreign currency – cash flow hedging

The currency forward contracts that are used to hedge future cash flows and forecast sales and purchases in foreign currency are recognized at fair value in the Consolidated Statement of Financial Position. Changes in value concerning effective hedging are recognized directly against other comprehensive income until such time as the hedged flow meets profit/loss for the year, whereby the hedging instrument's accumulated changes in value are transferred to profit/loss for the year, where they then meet and match the effects of the hedged transaction on profit/loss.

When a hedging instrument expires, or is sold, terminated or exercised, or the company revokes the designation of the hedge relationship before the hedged transaction occurs and the forecast transaction is still expected to occur, the accumulated profit/loss remains under other comprehensive income and is recognized in the same way as above when the transaction occurs.

If the hedged transaction is no longer expected to occur, the accumulated gains or losses on the instrument are reversed immediately into profit/loss for the year, in accordance with the principles described above for derivatives.

Hedging of fixed interest – cash flow hedging

Interest swaps are used to hedge against the uncertainty of future interest flows related to loans carrying variable rates of interest. Swaps are measured at fair value in the Consolidated Statement of Financial Position. The interest coupon is recognized in the Consolidated Statement of Comprehensive Income continually as interest income or expense.

Other value changes in effective hedging instruments are recognized directly against other comprehensive income until the hedged item affects profit/loss for the year and provided the criteria for hedge accounting are fulfilled. The gain or loss attributable to the ineffective portion is recognized continually in profit/loss.

Electricity derivatives

Munksjö buys electricity from external suppliers. To continually hedge the electricity price, Munksjö enters into derivative contracts for electricity. Electricity derivatives that protect the forecast outward flow of electricity are recognized in the Consolidated Statement of Financial Position at fair value. Changes in value concerning effective hedging are recognized directly in other comprehensive income until such time as the hedged outflow meets profit/loss for the year, whereby the hedging instrument's accumulated value changes are transferred to profit/loss for the year, where they then meet and match the effects of the hedged transaction on profit/loss. The gains or losses realized on these electricity derivatives are recognized continuously in operating profit/loss against electricity expenses.

Pulp derivatives

Munksjö buys some of the pulp it requires from external suppliers. To continually hedge pulp prices, Munksjö enters into derivative contracts for pulp. Pulp derivatives that protect the forecast outward flow of expenses for pulp are recognized in the Consolidated Statement of Financial Position at fair value. Changes in value concerning effective hedging are recognized directly in comprehensive income until such time as the hedged outflow meets profit/loss for the year, whereby the hedging instrument's accumulated value changes are transferred to profit/loss for the year, where they then meet and match the effects of the hedged transaction on profit/loss. The gains or losses realized on these derivatives are recognized continuously in operating profit/loss against raw material costs.

Offset of financial instruments

Financial assets and liabilities are offset and recognized with a net amount in the Consolidated Statement of Financial Position only when there is a legal right to offset the recognized amounts and an intention to balance the items with a net amount, or to simultaneously realize the asset and settle the liability.

Tangible assets

Owned assets

Tangible assets are recognized in the Group at cost less accumulated depreciation and any impairment.

The cost includes the purchase price and expenses directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended. Examples of directly attributable expenses included in the cost are costs relating to delivery and handling, installation, land registration certificates, consultancy services and legal services.

Borrowing expenses directly attributable to the purchase, construction or production of assets that take considerable time to complete for the intended use or for sale are capitalized.

The cost for self-constructed fixed assets includes expenses for materials, employee benefits, other manufacturing costs considered directly attributable to the fixed asset where applicable, as well as estimated expenses for dismantling and removing the asset and restoring the site or area where it is located. Tangible assets comprising parts with different useful lives are treated as separate components of tangible assets. The carrying value of a tangible asset is derecognized from the Consolidated Statement of Financial Position on scrapping or sale, or when no future economic benefits are expected from the use, scrapping or sale of the asset.

Gains or losses arising from the sale or scrapping of an asset constitute the difference between the sale price and the asset's carrying value, less direct sales expenses. Gains and losses are recognized as other operating income/expense. Accounting principles for the impairment of assets are shown below.

Leased assets

Leases are classified in the consolidated accounts as either financial or operating leases. A financial lease is a lease whereby the financial risks and rewards associated with the ownership are in all essential respects transferred to the lessee. If this is not the case the lease is considered an operating lease. Assets leased through financial leasing agreements are recognized as fixed assets in the Consolidated Statement of Financial Position and initially valued at the lower of the fair value of the leased item and the current value of the minimum leasing fees upon the commencement of the agreement. Obligations to pay future lease payments have been recognized as long-term and current liabilities.

Subsequent expenses

Subsequent expenses are only added to the cost if it is probable that the future economic benefits associated with the asset will accrue to the company and the cost can be measured reliably. All other subsequent expenses are expensed in the period they arise. A subsequent expense is added to the cost if the expense relates to the replacement of identified components or parts thereof. Even in cases where new components are constructed, the expense is added to the cost. Any non-depreciated carrying amounts for replaced components, or parts of components, are scrapped and derecognized in connection with replacement. Repairs are expensed as they are incurred. At paper mills, maintenance shutdowns are carried out at regular intervals. The major maintenance measures that recur on these occasions are treated as a separate component. Depreciation is carried out over time up until the next maintenance shutdown, which normally occurs after 12–18 months.

Depreciation principles

Depreciation is carried out on a linear basis over the asset's estimated useful life. The Group applies the component approach, whereby the components' assessed useful lives form the basis for depreciation. The following depreciation periods are used:

Industrial buildings	20 years
Office buildings	30–50 years
Land improvements	20 years
Machinery used for pulp and paper	20 years
Other machinery	10 years
Vehicles, equipment and components	1–5 years

The residual value and useful life of each asset is assessed annually.

Intangible assets

Goodwill

Goodwill is reported at cost less any accumulated impairment. Goodwill is allocated to cash generating units and tested for possible impairment annually (see accounting principle Impairment of tangible and intangible assets and participations in subsidiaries, associated companies and joint ventures). Goodwill arising from the acquisition of associated companies and joint ventures is included in the carrying value of the participations.

Research and development

Munksjö pursues product and process development activities focusing mainly on meeting customer requirements in relation to product properties and adaptations.

Activities are divided into a research phase and a development phase. Examples of expenditure included in the research phase are costs related to acquiring new knowledge, and costs relating to the evaluation of and search for alternative grades and processes. Costs for the research phase are expensed continually in the Consolidated Statement of Comprehensive Income in accordance with IAS 38. Where research results or other knowledge are applied to achieve new or improved processes, product development expenses are reported as an asset in the Consolidated Statement of Financial Position if the product or process is technically and commercially viable and the company has sufficient resources to complete development and subsequently use or sell the intangible asset. The carrying amount includes costs for materials, direct costs for salaries and indirect costs attributable to the asset. Other development expenses are recognized in the Consolidated Statement of Comprehensive Income as a cost as they arise.

Software
Costs for the development and maintenance of software are expensed as incurred. Costs that are directly linked to the development of identifiable and unique software products controlled by the Group and likely to have economic benefits for more than one year and that exceed the costs are recognized as intangible assets.

Electricity certificates
Electricity certificates are awarded for production of renewable electricity and are measured at the estimated fair value and recognized as accrued income. Corresponding income is recognized in operating profit/loss as a correction of electricity costs and the certificate is divested in the following month.

Emission rights
Munksjö has been allocated emission rights for carbon dioxide within the EU. The allocation for the initial three-year period 2005–2007 exceeded the actual total emissions.

The allocation for 2008–2010 also exceeded the anticipated emissions somewhat. When emission rights are received, the estimated surplus is recognized at fair value as accrued income, the surplus is continually valued at market value.

Depreciation principles
Depreciation is reported over the asset's estimated useful life.

Goodwill and other intangible assets with an indefinite useful life or that are not yet ready for use are tested for possible impairment annually and as soon as indications arise that the asset in question has decreased in value. Intangible assets with a definite useful life are depreciated from the point at which they are available for use.

The estimated useful lives for capitalized development expenditure and software is 3–7 years. Useful lives for goodwill are indefinite.

The useful lives of assets are reassessed at least once a year.

Impairment
The Group's reported assets are assessed on each balance sheet date to determine whether an impairment requirement is indicated. IAS 36 is applied in impairment testing for assets other than financial assets, which are recognized in accordance with IAS 39, assets for sale, inventories and deferred tax assets. For the exceptions stated above, the carrying value is assessed according to the relevant standard.

Impairment of tangible and intangible assets and participations in subsidiaries, associated companies and joint ventures
The value of tangible and intangible assets is assessed at least once a year and if an event occurs that may have affected the value.

If a need for impairment is indicated, the recoverable amount of the asset is calculated (see Impairement of financial assets). The recoverable amount for goodwill and other intangible assets with indefinite useful lives and intangible assets that are not yet ready for use is calculated annually.

If, in connection with impairment testing, largely independent cash flows cannot be established for an individual asset, and its fair value less selling expenses cannot be used, assets are grouped at the lowest level at which largely independent cash flows can be identified – this is known as a cash generating unit.

Impairment is recognized when an asset's or cash generating unit's (group of units') carrying value exceeds the recoverable amount.

Impairment is recognized as a cost in the Consolidated Statement of Comprehensive Income. Impairment identified for a cash generating unit (group of units) is applied first of all to goodwill. After this, a proportional impairment of all other assets included in the unit (group of units) is implemented.

The recoverable amount is the higher of fair value less selling expenses and value in use. Upon calculating the value in use, future cash flows are discounted at a discount rate that takes into account risk-free interest and the risk associated with the specific asset.

Impairment of financial assets
At each reporting date, the company evaluates whether there is objective evidence that any impairment is necessary for a financial asset or group of assets.

Objective evidence constitutes observable events that have an adverse impact on the potential to recover the cost, and a significant or long-term decrease in the fair value of a component of a financial investment classified as a financial asset available for sale. The impairment loss that is reported in the Consolidated Statement of Comprehensive Income is the difference between the cost and the actual fair value, less any previously expensed impairment. The recoverable amount of assets classed as investments held to maturity and loan receivables and accounts receivable, which are recognized at amortized cost, is calculated as the present value of future cash flows discounted by the effective interest rate applicable on the initial recognition of the asset. Current assets are not discounted. Impairment is recognized as a cost in the Consolidated Statement of Comprehensive Income.

Reversal of impairment
Impairment of assets included in IAS 36 area of application is reversed if there is an indication that it is no longer necessary, and there has been a change in the assumptions which formed the basis of the calculation of the recoverable amount. However, impairment of goodwill is never reversed. A reversal is only made to the extent that the asset's carrying value after reversal does not exceed the carrying value that the asset would have had, with a deduction for amortization, if no impairment had been carried out. Impairments of investments or loans held to maturity or loan receivables and accounts receivable recognized at amortized cost are reversed if a subsequent increase in the recoverable amount can be objectively attributed to an event that occurred after the impairment was implemented.

Inventories
Inventories are stated at the lower of cost and net realizable value.

The cost for inventories is based on the first-in first-out principle (FIFO) and includes expenses arising upon acquisition of the inventories and their transport to their current location and condition. For manufactured goods and work in progress, cost includes a reasonable proportion of indirect expenses based on normal capacity. The net realizable value is the expected sale price in current activities less expected selling costs.

Earnings per share
The calculation of earnings per share is based on Group profit for the year attributable to the Parent Company's shareholders and the weighted average number of shares outstanding during the year.

Employee benefits
Pension commitments
Group companies operate various pension schemes. These schemes are generally funded through payments to insurance companies or trustee-administered funds, where the payments are established based on periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if this legal entity does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

A defined benefit plan is a pension plan that does not have a defined contribution. The distinguishing feature of defined benefit plans is that they define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary.

The liability recognized in the Consolidated Statement of Financial Position with respect to defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of the plan assets, adjusted for unrecognized actuarial gains and losses, as well as for unrecognized costs for earlier periods of service. The defined benefit obligation is calculated annually by independent actuaries using the project unit credit method. The current value of the defined benefit obligation is established by discounting estimated future cash flows using interest rates for first class corporate bonds issued in the same currency as the remuneration will be paid in and with a term comparable with the pension liability. If there is no active market for such corporate bonds, the market rate for government bonds with a corresponding maturity is used instead.

The obligations for retirement and survivors' pension for professional employees in Sweden are insured through a policy with Alecta. Such insurance is a defined benefit plan covering several employers. Munksjö has not had access to such information during the 2010 financial year that would allow the plan to be recognized as a defined benefit plan. The pension plan according to ITP that is insured through a policy with Alecta is therefore recognized as a defined contribution plan.

Actuarial gains and losses resulting from experience adjustments and changes in actuarial assumptions are recognized in profit/loss for the year during the period in which they arise.

Past-service costs are recognized immediately in profit/loss for the year, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time.

In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

For defined contribution pension plans, the Group pays fees to publicly or privately managed pension insurance plans on a compulsory, contractual or voluntary basis. The Group has no other payment obligations once the fees are paid. The fees are reported as personnel costs when they fall due for payment. Prepaid fees are reported as an asset to the extent that cash repayment or reduction of future payments can benefit the Group.

Where there is a discrepancy between how pension expenses are determined for legal entities and for the Group, a provision or receivable is posted for special employers' contributions based on this discrepancy. The provision or receivable is not discounted to current value.

Severance benefits

An expense for remuneration in connection with termination of employment for employees is recognized only if the company is demonstrably obliged in a formal detailed plan to terminate employment ahead of the normal point in time, with no realistic possibility of withdrawal. When remuneration is paid as an incentive for voluntary redundancy, an expense is recognized if it is likely that the offer will be accepted and the number of employees accepting the offer can be reliably estimated.

Provisions

A provision differs from other liabilities in that there is a degree of uncertainty regarding the timing of the payment or its size to settle the provision. A provision is recognized in the Consolidated Statement of Financial Position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimation of the amount can be made.

Provisions are made based on the best estimate of the amount required in order to settle the present obligation on the balance sheet date.

When the effect of the timing of the payment is important, provisions are calculated by discounting the expected future cash flow at a pre-tax interest rate which reflects current market assessments of the time value of money and, if applicable, the risks associated with the liability.

Guarantees

A provision is made for guarantees when the underlying products or services are sold. The provision is based on historical data regarding guarantees and a total appraisal of conceivable outcomes in relation to the probabilities with which those outcomes are associated.

Restructuring

A provision for restructuring is reported when the Group has adopted a comprehensive and formal restructuring plan, and the restructuring has either been started or published. No provisions are made for future operating costs.

Contingent liabilities

A contingent liability is recognized when there is a possible obligation arising from past events and the existence of which is substantiated only by one or more uncertain future events, or when there is an obligation which is not recognized as a liability or provision because it is not likely that an outflow of resources will be required.

Parent Company's accounting principles

The Parent Company has prepared its Annual Report in accordance with the Swedish Annual Accounts Act (1995:1554) and Recommendation RFR 2 of the Swedish Financial Accounting Standards Council, on Accounting for Legal Entities. Statements issued by the Swedish Financial Reporting Board are also applied. RFR 2 means that the Parent Company in the annual report for the legal entity shall apply all EU-approved IFRS standards and statements as far as possible within the framework of the Annual Accounts Act, the Pension Obligations Vesting Act (Tryggandelagen) and taking into consideration the relationship between accounting and taxation. The recommendation stipulates which exceptions and additions to IFRS shall be applied.

Differences between the Group's and Parent Company's accounting principles

The differences between the Group's and Parent Company's accounting principles are shown below. The accounting principles shown below for the Parent Company have been applied consistently to all periods presented in the Parent Company's financial statements.

Classifications and presentation

The Parent Company's income statement and balance sheet have been prepared in accordance with the schedule set by the Annual Accounts Act. The difference to IAS 1 Presentation of Financial Statements, which is applied for the consolidated accounts, mainly concerns reporting of financial income and expenses, fixed assets, equity and the use of provisions in the balance sheet.

Subsidiaries, associated companies and joint ventures

Participations in subsidiaries, associated companies and joint ventures are recognized in the Parent Company in accordance with the cost method. All dividends from subsidiaries, associated companies and joint ventures are recognized in the Parent Company's income statement.

Under certain circumstances, such dividends can serve as an indication that the shares have declined in value and thus a test for impairment should be performed.

Note 1 Significant accounting principles *cont.*

Financial instruments and hedge accounting
The rules on financial instruments and hedge accounting are not applied to the Parent Company as a legal entity. The Parent Company measures financial fixed assets at cost less any impairment losses and current financial assets according to the lowest value principle. The cost of interest bearing instruments is adjusted for the periodized difference between what was originally paid, after deductions for transaction expenses, and the amount paid on the due date (premium and discount).

Forward contracts used to hedge changes in foreign exchange rates on receivables and liabilities in foreign currency are measured at the spot rate on the date the contract is made for measurement of the underlying receivable or liability.

Interest swaps that effectively hedge cash flow risks in interest bearing payments on liabilities are measured at the net of accrued receivables at variable interest and accrued liabilities with regard to fixed interest and the difference is recognized as either interest income or expense. Hedging is effective if the economic outcome of hedging and the liability is the same as if the liability had instead been reported at a fixed market interest rate when the hedging relationship was initiated.

Anticipated dividends
Anticipated dividends from subsidiaries are recognized if the Parent Company has the sole right to determine the size of the dividend and has determined the size of the dividend before publishing its financial statements.

Employee benefits – Defined benefit plans
The Parent Company uses different assumptions than those set out in IAS 19 when calculating defined benefit plans. The Parent Company follows the Pension Obligations Vesting Act (Tryggandelagen) and Swedish Financial Supervisory Authority's rules, because they are a condition for tax deductions.

The crucial differences compared to the IAS 19 rules are how the discount rate is determined, that the calculation of the defined benefit obligation is based on current salary levels with no consideration of future salary increases, and that all actuarial gains and losses are recognized in the income statement as they occur.

Taxes
In the Parent Company, untaxed reserves are recognized in the balance sheet without dividing them into equity and deferred tax liability, unlike in the consolidated accounts. Correspondingly the Parent Company does not recognize in its income statement deferred tax expense as a part of appropriations.

Group contributions and shareholder contributions for legal entities
The company reports Group contributions and shareholder contributions in accordance with the statement from the Swedish Financial Accounting Standards Council (UFR2). Shareholder contributions are recognized directly against shareholders' equity by the recipient and set up as an asset in shares and holdings by the issuer, to the extent that impairment is not required. Group contributions are reported on the basis of substance over form. This means that Group contributions made with the aim of minimizing the Group's total tax are recognized directly against retained earnings after deductions for their current tax effect.

Group contributions comparable with a dividend are recognized as income. This means that Group contributions received and their current tax effect are recognized in profit/loss for the year. Group contributions made and their current tax effect are recognized directly against retained earnings. Group contributions comparable with shareholder contributions are recognized, taking into consideration the current tax effect, by the recipient directly against retained earnings.

The issuer reports the Group contribution and its current tax effect as an investment in participations in Group companies, to the extent impairment is not applicable.

Note 2 Net sales per market and Reporting per segment

Munksjö is one of the leading players in specialty paper and specialty pulp in Europe. Operations are organized into three segments/business units: **Decor, Industrial Applications** and **Specialty Pulp**.

The **Decor** business area manufactures, markets and sells decor paper, which is used in the manufacture of laminate surfaces for floors, kitchens and furniture. The business area works in a growth market driven by increased demand for laminated products. The production of decor paper is based in Unterkochen, Germany and Tolosa, Spain. The Industrial Applications business area manufactures, markets and sells specialty paper for industrial applications. Examples of products include electrotechnical papers for the insulation of transformers; foil for kitchen units and furniture, for example; and thin paper used as shim in the steel, aluminum and glass industries. The increased demand from Industrial Applications is driven by infrastructure investment, demand for laminated products and developments in the steel, aluminum and glass industries. Manufacture and conversion of Electrotechnical paper takes place in Jönköping, Sweden, and conversion is also conducted outside Shanghai, China. The manufacture of thin paper and foils (e.g. edge bands) is located in Billingsfors, Sweden. Plastic and paper products with flexo and gravure printing are produced in Ski, Norway and in Ed, Sweden.

The **Specialty Pulp** business area develops and produces environmentally friendly long-fiber bleached and unbleached kraft pulp used by customers with high demands for the pulp's brightness, purity and strength. Production takes place at Aspa Bruk, Sweden.

At the end of 2010, Munksjö had around 1,100 employees in Europe, North America and Asia. Most sales were to customers in Europe, but also to Asia and the Americas.

Operational governance
The Group's operations are primarily conducted in business units that may include several subsidiaries of Munksjö AB. All business units operate active management/follow-up work led by the CEO and President and the group managers. The management work includes following up on the ongoing work and evaluating and adopting business plans and budgets for the business units. The businesses are conducted in accordance with the rules, guidelines and policies established for the Group as well as the local rules adopted for each business unit. The heads of the business units are responsible for the result and should ensure the development of their units and also monitor that any synergies between the Group's various units are utilized.

Financial expenses, financial income, and income tax are dealt with at Group level.

Income and expenses that have been reported to corporate management are valued in the same way as in external financial reporting. Assets and liabilities reported to corporate management are valued in the same way as in external financial reporting.

Inter-segment sales are made at market prices.

No individual customer accounts for more than 10 per cent of the company's income.

Note 2 Net sales per market and Reporting per segment *cont.*

Group 2010	Decor	Industrial Applications	Speciality Pulp	Other and eliminations	Group
Income					
Net sales, external	1,763	924	1,013	1	3,701
Net sales, internal			14	–14	0
Net sales	**1,763**	**924**	**1,027**	**–13**	**3,701**
Operating profit	**116**	**43**	**190**	**–58**	**291**
Financial income				8	8
Financial costs				–91	–91
Tax				–70	–70
Profit/loss for the year				**–211**	**138**
Other information					
Operating capital	2,273	407	547	43	3,270
Investments	40	30	39	3	112
Depreciation and impairment	52	42	56	3	153
Average number of employees	440	429	175	11	1,055

Group 2009	Decor	Industrial Applications	Speciality Pulp	Other and eliminations	Group
Income					
Net sales, external	1,444	877	704		3,025
Net sales, internal			23	–23	0
Net sales	**1,444**	**877**	**727**	**–23**	**3,025**
Operating profit	**34**	**70**	**–38**	**–95**	**–29**
Financial income				187	187
Financial costs				–380	–380
Tax				29	29
Profit/loss for the year				**–259**	**–193**
Other information					
Operating capital	2,539	387	551	–127	3,350
Investments	25	20	14	0	59
Depreciation and impairment	63	47	60	1	171
Average number of employees	463	422	174	14	1,073

Income by market	2010	2009
Sweden	250	201
Germany	1,003	826
Rest of the European Union	1,270	1,020
Rest of Europe	319	251
Asia	436	443
Rest of the world	423	284
Group total	**3,701**	**3,025**

Income in the table above has been divided based on customers' geographic location. During the financial year, the parent company has made no sales to or purchases from the subsidiaries.

Operating capital by country	2010	2009
Sweden	986	868
Germany	1,489	1,625
Spain	765	857
Other	30	0
Group total	**3,270**	**3,350**

Note 3 Assessments and estimations

According to corporate management, the following assessments and estimations are critical to the amounts recognized in the accounts, and there is a risk that future events and new information affect the basis for these assessments and estimations:

Goodwill
Every year, Munksjö carries out impairment testing of goodwill. The goodwill is divided among cash-generating units corresponding to the Group segments.

The value of the cash-generating units is calculated based on the existing plans of the Group. The plans are based on market assumptions and comprise expected future cash flows for the existing operations, which are discounted with the relevant weighted average cost of capital (WACC). No impairment has been established. The Group's recognized goodwill as of December 31, 2010 amounted to MSEK 1,256, see Note 16.

Environment
Supported by environmental legislation in various countries, the authorities bring up issues regarding soil explorations and potential remediation in case of discontinued operations. The responsibility for any remediation is decided on a case-by-case basis, often aided by reasonability assessments.

The provisions for environmental costs connected to discontinued operations are based on assessments regarding future restoration costs.

In addition, it is assumed that there will be a responsibility for environmental costs that cannot be quantified at present, but which may entail costs in the future.

Pensions
The costs for and values of the pension commitments related to defined benefit pension plans are based on actuarial calculations based on assumptions made regarding discount rates, expected return on plan assets, future salary increases, inflation, and demographic distribution. The net of the Group's pension commitments and the value of the plan assets amounted to MSEK 183 as of December 31, 2010, see Note 9.

Taxes
Deferred tax is calculated on temporary differences between the carrying amounts and taxable values of assets and liabilities. Assessments and estimations are made to determine the value of various assets and liabilities and regarding the future taxable profit in case the future recovery of deferred tax assets would depend upon this. As of 31 December, deferred tax assets of MSEK 310 were recognized, see Note 13.

Note 4 Other external costs, MSEK

Group	2010	2009
Transport costs	–174	–157
Energy costs	–285	–260
Repair, maintenance and development costs	–155	–139
Equipment, storage material and other production costs	–170	–157
Leasing and rental costs	–9	–7
Operating costs for administration, sales, purchasing and IT	–120	–95
Result from exchange rate losses and hedging	–2	–27
Provision for environmental measures	–5	–20
Provision for closure costs USA and Italy	–	–26
Other	–	–3
Other external costs	**–920**	**–891**

Note 5 Leasing commitments, MSEK

The Munksjö Group has, as the lessee, signed financial and operational leasing contracts.

Future leasing commitments for operational leasing contracts are distributed as follows:

Operational leasing	**2010** Future minimum leasing fees	Of which, premises	**2009** Future minimum leasing fees	Of which, premises
Within 1 year	13	8	12	8
2–5 years	29	23	40	31
More than 5 years	–	–	–	–
Total	**42**	**31**	**52**	**39**

The Group's operational leasing costs for machinery and equipment plus rent on external properties amounted to MSEK 9 (MSEK 7).

Future rental payments for financial leases is divided as follows:

Financial leasing	**2010** Future minimum leasing fees	Interest	Present value of future minimum leasing fees	**2009** Future minimum leasing fees	Interest	Present value of future minimum leasing fees
Within 1 year	5	2	3	5	2	3
2–5 years	43	4	39	48	6	42
More than 5 years						
Total	**48**	**6**	**42**	**53**	**8**	**45**

Division of financial leasing costs	2010	2009
Fixed rate	–	–
Variable rate	4	5
Leases with the company as lessor	–	–
Total	**4**	**5**
Assets in the balance sheet under financial leasing:	42	45
Machinery		

Note 6 Remuneration to auditors, MSEK

	Group 2010	Group 2009	Parent Company 2010	Parent Company 2009
Ernst & Young AB				
Audit fees	2	2	0.1	0.1
Audit-related fees	1	0	–	–
Tax service fees	–	–	–	–
Other fees	1	0	–	–
Total	**4**	**2**	**0.1**	**0.1**

Note 7 Employees

Group's average number of employees	2010 Average employees	Men	2009 Average employees	Men
Sweden	579	83%	575	82%
Norway	30	82%	29	79%
Germany	267	90%	273	90%
Spain	160	89%	159	90%
Italy	2	50%	2	50%
USA	10	60%	28	93%
China	7	86%	7	86%
Average number employees	**1,055**		**1,073**	

Board and other senior executives	2010	2009
Board members		
Women %	4%	7%
Men %	96%	93%
CEO and other senior executives		
Women %	8%	8%
Men %	92%	92%

Group salaries, other fees and social security fees, MSEK	2010 Board and CEO	Bonus to Board and CEO	Other Employees
Parent Company:			
Sweden	1	–	–
Group companies:			
Sweden	6	2	223
Norway	1	–	10
Germany	–	–	153
Spain	–	0	74
USA	–	–	4
Italy	–	–	1
China	0	0	1
Salaries and other fees	**8**	**2**	**466**

Total salaries and other fees	476
Social security fees	151
	627
Of which are pension fees for board and CEO	2
Of which are pension fees for other employees	23

Group salaries, other fees and social security fees, MSEK	2009 Board and CEO	Bonus to Board and CEO	Other Employees
Parent company:			
Sweden	1	–	–
Group companies:			
Sweden	3	–	215
Norway	1	0	8
Germany	–	–	150
Spain	–	0	74
Italy	–	–	1
USA	0	–	7
China	0	–	1
Salaries and other fees	**5**	**0**	**456**

Total salaries and other fees	461
Social security fees	156
	617
Of which are pension fees for board and CEO	1
Of which are pension fees for other employees	30

For CEO, board and management group's salaries, see Note 8.

Parent company
The parent company has no employees.
Salary costs include fees to Board Members, including social security costs of MSEK 0.9 (0.8).

Note 8 Remuneration to the Board of Directors and senior executives

Remuneration to the Board of Directors
According to resolutions by the Annual General Meeting, an annual fee of EUR 25 thousand will be paid to the Chairman of the Board, and annual fees of EUR 12.5 thousand will be paid to the other Board Members appointed by the Annual General Meeting, who are not employed by the company.

MSEK

Annual remuneration for period:		2009	2008
Year paid out:		2010	2009
Fredrik Cappelen	Chairman from 2009	176	127
Jan Reinås	Chairman until 2009	179	258
Ingvar Petersson		120	127
Richard Chindt		30	–
Jan Åström	CEO	–	–
Caspar Callerström		–	–

Senior executives (12)
Senior executives refers to the CEO, who is also the President of the Group, the business area managers/presidents or equivalent, and the Group staff managers.

Remuneration guidelines
The CEO and other senior executives will be offered a fixed salary (base salary) and, in some cases, variable remuneration. The total remuneration shall correspond to market practice, be competitive, and related to the officer's responsibilities and authority.

Fixed and variable salary
Salaries and variable remuneration shall be fixed per calendar year. The CEO and other senior executives may be offered variable remuneration. Any variable remuneration shall be limited and in proportion to the fixed salary and be based on the financial objectives of the Group. The final resolution on the payment of variable remuneration shall be passed by the Board of Directors after the approval and audit of the company's profit or loss. Any variable remuneration shall not be pensionable.

Notice periods and severance pay
Agreements are in place with the CEO and other senior executives regarding notice periods when notice is given by the company, and such notice periods cannot exceed 18 months, with remuneration and an obligation to work. There are no provisions for severance pay in addition to salary during notice periods.

Pensions
Pension solutions for senior executives include customary occupational pensions with amounts not exceeding what is tax deductible for the company.

Other benefits
To the extent that other benefits are paid, they consist of company cars, housing and health insurances.

Application of the remuneration guidelines
The Remuneration Committee prepares the supporting documentation for remuneration to the CEO, for approval by the Board of Directors. The CEO in turn prepares the proposal for remuneration to other senior executives, and submits it for approval by the Remuneration Committee. The Board of Directors is allowed to divert from the guidelines in individual cases if there are special reasons to do so.

Proposal for amended guidelines for 2011
The Board of Directors has adopted partially amended guidelines for fixing salaries and other remuneration to the CEO from 2011. The variable remuneration to the CEO cannot exceed 65 (100) per cent of the fixed salary. The CEO's pension provision should correspond to 35 (20) per cent of the fixed salary.

Remuneration and benefits for the CEO KSEK	Year	Gross salary	Variable remuneration	Other benefits	Pension-expenses	Total
Jan Åström	2010	3,169	2,482 1)	7	1,896 2)	7,554
Jan Åström	2009	1,475	–	0	433	1,908

Remuneration to the CEO of Munksjö AB was accounted for in the subsidiary Munksjö Holding AB.
1) Variable remuneration applies to operating year 2010, but was paid out in 2011.
2) Of which SEK 1 420,000 was the conversion of a previous wage waiver.

Remuneration and benefits for other leading members of the company KSEK	Year	Gross salary	Variable remuneration	Other benefits	Pension-expenses	Total
Other senior executives (12 executives)	2010	14,001	2,376 1)	845	2,839	20,061
Other senior executives (12 executives)	2009	14,640	852 2)	871	2,626	18,989

1) Variable remuneration applies to operating year 2010, but was paid out in 2011.
2) Variable remuneration applies to operating year 2010, but was paid out in 2011.

Note 9 Provisions for pensions and similar obligations

Munksjö has defined benefit pension plans for salaried employees in Sweden (the ITP plan) and to a certain extent for employees of foreign subsidiaries, primarily in Germany. The most significant defined benefit plans are based on length of service and the remuneration paid to the employees at or close to their retirement. The calculations are made according to the projected unit credit method with the assumptions set out below. These plans are unfunded. Some of the pension obligations for salaried employees in Sweden are met through provisions in the balance sheet according to the FPG/PRI system. Munksjö also has defined contribution pension plans. A certain part of the pension obligations for salaried employees in Sweden is ensured through a policy with Alecta. Alecta cannot provide sufficient data to recognize the ITP plan as a defined benefit plan, and it is therefore recognized as a defined contribution plan, according to UFR 3. This year's pension plan contributions to Alecta amounted to MSEK 4.

At year-end, Alecta's surplus, in the form of its collective funding ratio, amounted to 146 per cent (2009: 141 per cent). The collective funding ratio is the market value of the manager's assets as a percentage of insurance commitments.

In accordance with UFR 4, the special payroll tax has been calculated based on the pension cost fixed according to IAS 19.

The tables below show a breakdown of pension costs (net) as recognized in the income statement, the difference between the commitments and the plan assets and the amounts recognized in the balance sheet for each plan:

Pension costs for the year, MSEK
(Reported as employee costs)

	Sweden 2010	Germany 2010	Other 2010	Total 2010
Service costs for the period	3	1	0	4
Interest costs	4	3	4	11
Expected return on plan assets	–	–	4	4
Actuarial gains and losses	–1	2	–2	–1
Pension costs for the period	**6**	**6**	**6**	**18**

	Sweden 2009	Germany 2009	Other 2009	Total 2009
Service costs for the period	1	1	1	3
Interest costs	4	4	5	12
Expected return on plan assets	–	–	4	4
Actuarial gains and losses	1	10	–11	1
Pension costs for the period	**6**	**15**	**–1**	**20**

Assets/liabilities for pension plans	Sweden 2010	Germany 2010	Other 2010	Total 2010
Present value of unfunded defined-benefit obligations	88	75	0	163
Present value of funded or partially funded defined-benefit obligations	1	–	70	71
Fair value of plan assets	–1	–	–50	–51
Pension liabilities for the period	**88**	**75**	**20**	**183**

Assets/liabilities for pension plans	Sweden 2009	Germany 2009	Other 2009	Total 2009
Present value of unfunded defined-benefit obligations	99	87	6	192
Present value of funded or partially funded defined-benefit obligations	–	–	71	71
Fair value of plan assets	–	–	–50	–50
Pension liabilities for the period	**99**	**87**	**27**	**213**

Note 9 Provisions for pensions and similar obligations *cont.*

Changes to defined benefit obligations are stated in the table below:

	Sweden	Germany	Other	Total
Defined-benefit obligations January 1, 2009	96	82	87	265
Interest costs	4	4	5	13
Current year service costs	1	1	1	3
Remuneration paid	–3	–6	–9	–18
Transfer of ITKP	–			0
Employee contributions			0	0
Settlements			–2	–2
Actuarial gains and losses for obligations	1	10	1	12
Exchange rate translation		–4	–5	–10
Obligations December 31, 2009	**99**	**87**	**78**	**263**
Interest costs	3	3	4	11
Current year service costs	3	1	0	4
Remuneration paid	–3	–7	–10	–20
Transfer of ITKP	0	–	–	0
Benefits redeemed	–12	–	–	–13
Actuarial gains and losses	–1	2	4	5
Exchange rate translation	–	–11	–5	–16
Obligations December 31, 2010	**89**	**75**	**71**	**234**

The fair value of plan assets is shown below:

	Sweden	Germany	Other	Total
Fair value of plan assets January 1, 2009	–	–	48	48
Expected return	–	–	4	4
Employer contributions	–	–	1	1
Employee contributions	–	–	0	0
Remuneration paid	–	–	–9	–9
Actuarial gains and losses	–	–	9	9
Exchange rate translation	–	–	–3	–3
Fair value of plan assets December 31, 2009	**–**	**–**	**50**	**50**
Expected return	–	–	4	4
Employer contributions	1	–	3	4
Remuneration paid	–	–	–4	–4
Actuarial gains and losses	–	–	2	2
Exchange rate translation	–	–	–5	–5
Fair value of plan assets December 31, 2010	**1**	**0**	**50**	**51**

The following table shows the fair value of plan assets:

	Sweden 2010	Germany 2010	Other 2010	Total 2010
Shares	–	–	32	32
Bonds	–	–	18	18
Endowment insurance	1	–	–	1
Total	**1**	**0**	**50**	**51**

	Sweden 2009	Germany 2009	Other 2009	Total 2009
Shares	–	–	31	31
Bonds	–	–	19	19
Total	**–**	**–**	**50**	**50**

The table below shows the key actuarial assumptions used to calculate the defined-benefit plan obligations:

	2010	2009
Discount rate:		
Sweden	3.75%	3.75%
Germany	4.80%	5.25%
Other	5.25%	5.80%

Expected return on plan assets:

	2010	2009
Sweden	–	–
Germany	–	–
Other	8.00%	8.00%

Expected future salary increases:

	2010	2009
Sweden	3.00%	3.00%
Germany	2.50%	2.50%
Other	3.75%	3.75%

Expected future pension increases:

	2010	2009
Sweden	2.00%	2.00%
Germany	2.00%	2.00%
Other	3.00%	3.00%

Note 9 Provisions for pensions and similar obligations *cont.*

Three-year overview

Sweden	2010	2009	2008
Obligations	89	99	96
Plan assets	–	–	–
Deficit/surplus	89	99	96
Experience-based adjustments in obligations	–1	1	

Three-year overview

Germany	2010	2009	2008
Obligations	75	87	83
Plan assets	–	–	–
Deficit/surplus	75	87	83
Experience-based adjustments in obligations	2	10	

Three-year overview

Other	2010	2009	2008
Obligations	70	71	80
Plan assets	–51	–50	–48
Deficit/surplus	19	21	32
Experience-based adjustments in obligations	4	2	
Experience-based adjustments in plan assets	2	8	

Note 10 Depreciation, amortisation and impairment charges, MSEK

	Group	
	2010	2009
Machinery and inventory	–134	–150
Industrial buildings	–17	–19
Land improvements	0	0
Other intangible fixed assets	–2	–2
Total depreciation	**–153**	**–171**

Note 11 Profit/loss from participating interests in subsidiaries, MSEK

	Parent Company	
	2010	2009
Impairments of shares in Munksjö Holding AB *)	–	–515.0
Total	**–**	**–515.0**

*) In 2009, there was an impairment of the equivalent amount that Munksjö Holding AB received as shareholder contributions.

Note 12 Net financial items, MSEK

	Group		Parent Company	
	2010	2009	2010	2009
Interest income on cash and current investment	5	53	0.0	0.0
Exchange rate gains and losses	3	134	1.0	0.6
Financial income	**8**	**187**	**1.0**	**0.6**
Interest income on financial liabilities	–74 1)	–369 1)	–0.6	–1.1
Exchange rate gains and losses	–3	0	0.0	0.0
Other financial costs	–14	–11	–	–
Financial costs	**–91**	**–380**	**–0.6**	**–1.1**
Net financial income	**–83**	**–193**	**0.4**	**–0.5**

1) This includes losses from realized interest derivatives of MSEK –20 and MSEK –4 respectively.

Note 13 Taxes, MSEK

	Group		Parent Company	
	2010	2009	2010	2009
Profit/loss before taxes	**208**	**–222**	**–0.8**	**–516.7**
Current tax income/expenses				
Tax income for the period, Sweden	0	2	**0.2**	**–**
Tax attributable to previous years, Sweden	4	–	–	–
Tax expense for the period, outside Sweden	–23	–10	–	–
Adjustment of tax attributable to previous years, outside Sweden	–3	3	–	–
	–22	**–5**	**0.2**	**0**
Deferred tax:				
Deferred tax value capitalized during the year in tax loss carry forwards	–56	63	0	0.4
Income relating to temporary differences	8	–29	–	–
	–48	34	0	0.4
Total tax expense	**–70**	**29**	**0.2**	**0.4**

The parent company's tax for 2010 is made up of 26.3% Group contributions received.

Reconciliation of effective tax rate, MSEK

	Group		Parent Company	
	2010	2009	2010	2009
Profit/loss before taxes	**208**	**–222**	**–0.8**	**–516.7**
Swedish income tax	–55	58	0.2	–135.9
Effect of other tax rates for foreign subsidiaries	0	–5		
Taxes from prior years	1	2		
Tax losses carry forward not capitalized	0	–5		
Non-deductable expenses and tax exempt income	–16	–21		135.4
Tax in income statement	**–70**	**29**	**0.2**	**0.4**

Change in deferred tax on temporary differences and loss carry forwards, MSEK

Group	Opening balance 2010	Recognized in profit/loss	Recognized in other comprehen-sive income	Closing balance 2010
Deferred tax assets				
Receivables	1	0	–	1
Utilization of loss carry forwards	325	–70	–	255
Other	59	–5	–	54
Total deferred tax assets	**385**	**–75**	**–**	**310**
Deferred tax liability				
Tangible assets	149	22	–	127
Untaxed reserves	175	0	–	175
Others	24	2	–	22
Total deferred tax liability	**348**	**24**	**–**	**324**

Note 13 Taxes, MSEK *cont.*

Group	Starting balance 2009	Recognized in profit/loss	Recognized in other comprehen-sive income	Closing balance 2009
Deferred tax assets				
Inventories	8	–8	–	0
Receivables	14	–13	–	1
Utilization of loss carry forwards	293	32	–	325
Other	105	–56	10	59
Total deferred tax assets	**420**	**–45**	**10**	**385**
Deferred tax liability				
Tangible assets	191	42	–	149
Untaxed reserves	176	1	–	175
Other	61	37	–	24
Total deferred tax liability	**428**	**80**	**–**	**348**

The Swedish Tax Agency initiated an audit of Munksjö Holding AB in relation to the 2004 and 2005 financial years. The audit was completed without further action, except with regard to the issue of the company's fiscal deduction entitlement for borrowing costs and consultancy costs in the 2006 tax assessments. In the 2010 financial year, the case was finally decided by a Court of Appeal judgment, which became final in January 2011.

According to the Court of Appeal judgment, the company has been refused to deduct costs amounting to approximately MSEK 37. To some extent, it has been possible to mitigate the impact of the company's revised tax assessment with recognized loss carry forwards in the 2006 tax assessments. As a result of the reduction in the company's loss carry forwards, the company has incurred additional taxes of approximately MSEK 9 on income derived from business activities in the 2007 tax assessment. The outcome of the case has no impact on existing loss carry forwards or the possibility of utilizing them.

Munksjö applied for an advance ruling on the fiscal effects in connection with the refinancing in 2009, but the Council for Advance Tax Rulings has not yet taken a position and, accordingly, they have not yet made any advance ruling. There is therefore some uncertainty as to the value of the deferred tax assets.

The Group has loss carry forwards of MSEK 1,196 (2009: 920), which are available for offsetting against future taxable profits in the companies that incurred the losses.

All loss carryforwards have a perpetual term apart from in Spain, where the limit is 15 years. In Spain the loss carryforward amounts to MSEK 271 (324), which expires from 2030.

Parent company

The company's tax income in the financial year consists of deferred tax income in taxable values in loss carry forwards capitalized during the year.

Note 14 Earnings per share

The earnings per share are calculated by dividing the profit/loss attributable to the shareholders of the parent company by the weighted average number of outstanding shares during the period.

The table below shows the values used in calculating earnings per share:

	2010	2009
Earnings attributable to the parent company's shareholders, from remaining operations	133	neg
Weighted average number of outstanding shares (millions)	27.92	
Earnings per share	**4.76**	**neg**

Note 15 Paid and proposed dividends

No dividends were paid in 2010 and 2009. There is no proposal to distribute dividends.

Note 16 Intangible fixed assets for the Group, MSEK

2010-12-31	Total	Goodwill	Intangible
Accumulated acquisition value			
Opening	1,481	1,476	5
Exchange differences	–220	–220	–
Closing	**1,261**	**1,256**	**5**
Accumulated depreciation according to plan			
Opening	3		3
Depreciation during the year	2		2
Exchange differences	0		–
Closing	**5**		**5**
Accumulated impairment losses			
Opening	–	–	–
Exchange differences	–	–	–
Closing	**–**	**–**	**–**
Residual value at year-end according to plan	**1,256**	**1,256**	**0**

2009-12-31	Total	Goodwill	Intangible
Accumulated acquisition value			
Opening	1,581	1,576	5
Exchange differences	–100	–100	–
Closing	**1,481**	**1,476**	**5**
Accumulated depreciation according to plan			
Opening	1		1
Depreciation during the year	2		2
Exchange differences	–		–
Closing	**3**		**3**
Accumulated impairment losses			
Opening	–	–	–
Exchange differences	–	–	–
Closing	**–**	**–**	**–**
Residual value at year-end according to plan	**1,478**	**1,476**	**2**

Goodwill is allocated to cash-generating units, corresponding to the operating segments, which have identifiable cash flows according to the organization of Munksjö's operations. Goodwill is distributed as follows:

Division of goodwill by cash-generating unit	2010	2009
Decor	1,256	1,476
Industrial Applications	–	–
Specialty Pulp	–	–
Group total	**1,256**	**1,476**

Goodwill is tested annually for impairment. Impairment losses are recognized if the recognized value exceeds the value in use. The value in use is the present value of the estimated future cash flows. The cash flows are based on financial plans that normally cover a period of five years. The financial plans have been prepared by the corporate management and approved by the Board of Directors. Cash flows beyond this five-year period have been extrapolated using an estimated growth rate of 1.0 per cent.

The calculation of the value in use is based on assessments and estimations. The most significant estimations concern organic sales development, current market prices, current cost levels with supplements for decreases in real price reductions and cost inflation, estimations regarding the development of the operating margin and the current weighted average cost of capital (WACC) used to discount future cash flows. The volume estimations generally adhere to an average organic growth of 1–3 per cent, depending on the business, based on historic experience. For the calculation of present value of expected future cash flows, a pre-tax WACC of 10.2 (8.6 per cent post-tax) has been used for all cash-generating units. All cash-generating units were tested for impairment in the fourth quarter of 2010. According to the result of the impairment testing of goodwill, there is no impairment. A sensitivity analysis shows that even if WACC is increased by one percentage point, there is no impairment.

Note 17 Tangible fixed assets for the Group, MSEK

2010-12-31	Total	Machinery & Equipment	Buildings	Land and land improvements.	Construction in progress
Accumulated acquisition value					
Opening	4,951	3,914	674	345	18
Investments	112	40	3	–	69
Divestments and disposals for the year	–163	–163	0	0	0
Reclassification	0	31	1	–	–32
Exchange differences	–252	–200	–42	–9	–1
Closing	**4,648**	**3,622**	**636**	**336**	**54**
Accumulated depreciation according to plan					
Opening	2,853	2,474	378	1	–
Depreciations	151	134	17	0	–
Divestments and disposals for the year	–164	–164	0	–	–
Exchange differences	–170	–144	–27	1	–
Closing	**2,670**	**2,300**	**368**	**2**	**–**
Accumulated amortization losses					
Opening	227	111	51	65	–
Exchange differences	–13	–7	–6	–	–
Closing	214	104	45	65	–
Residual value at year-end according to plan	**1,764**	**1,218**	**223**	**269**	**54**

2009-12-31	Total	Machinery & Equipment	Buildings	Land and land improvements.	Construction in progress
Accumulated acquisition value					
Opening	5,453	4,355	685	350	63
Investments	59	17	7	–	35
Divestments and disposals for the year	–423	–423	0	–	–
Reclassification	0	79	1	–	–80
Exchange differences	–138	–114	–19	–5	0
Closing	**4,951**	**3,914**	**674**	**345**	**18**
Accumulated depreciation according to plan					
Opening	2,840	2,468	371	1	–
Depreciations	169	150	19	0	–
Divestments and disposals for the year	–78	–78	–	–	–
Exchange differences	–78	–66	–12	–	–
Closing	**2,853**	**2,474**	**378**	**1**	**–**
Accumulated amortization losses					
Opening	591	472	54	65	–
Divestments and disposals for the year	–334	–334	0	–	–
Exchange differences	–30	–27	–3	–	–
Closing	227	111	51	65	–
Residual value at year-end according to plan	**1,871**	**1,329**	**245**	**279**	**18**

The taxable value of buildings and land in Sweden is MSEK 447 (461), of which buildings account for MSEK 402 (412).

Note 18 The parent company's participating interests in group companies, MSEK

	2010	2009
Acquisition value		
Opening value at the beginning of the year	3,825	2,419
Investments	–	1,406
Closing value at year-end	**3,825**	**3,825**
Accumulated impairment losses		
Opening value at the beginning of the year	2,273	1,758
Impairment losses for the year	–	515
Closing value at year-end	**2,273**	**2,273**
Book value	**1,552**	**1,552**

	Corporate ID	Registered Office	Share of votes %	Share of equity %	Number of shares	Book value
Munksjö Holding AB	556671-5552	Jönköping	100	100	1 000	1 552
Munksjö Sweden AB	556000-2262	Jönköping	100	100		–
Munksjö Aspa Bruk AB	556064-6498	Askersund	100	100		–
Munksjö Paper AB	556117-9044	Jönköping	100	100		–
Munksjö Inpak AS	950 511 346	Ski, Oslo, Norway	100	100		–
Munksjö Inpak AB	556718-5292	Dals Ed	100	100		–
Munksjö Paper S.P.A.	02666640129	Besozzo, Italy	100	100		–
Munksjö Vendite Italia S.r.l	03090000120	Busto Arsizio, Italy	100	100		–
Munksjö Spain Holding, S.L	B-63681605	Berástegui, Spain	100	100		–
Munksjö Paper, S.A.	A-20012563	Berástegui, Spain	100	100		–
Munksjö Paper (Taicang) Co., Ltd.	79109300-3	Taicang, China	100	100		–
Munksjö Germany Holding GmbH	HRB 501626	Unterkochen, Germany	100	100		–
Munksjö Paper GmbH	HRB 501106	Unterkochen, Germany	100	100		–
Kraftwerksgesellschaft Unterkochen GmbH	HRB 720446	Unterkochen, Germany	60	60		–
Munksjö Paper Inc.	52-1517747	Fitchburg, USA	100	100		–
						1,552

Note 19 Participating interests in associated companies, MSEK

	Koncernen	
	2010	2009
Book value at the beginning of the year	18	15
Share of earnings for the year	1	3
Book value	**19**	**18**

As of December 31, 2010, there was no goodwill associated with this item.

The Group's liabilities to associated companies amounts to MSEK 46 (38).

Associated company	Corporate ID	Registered Office	Country	Share of equity %	Share of votes %
Sydved AB	556171-0814	Jönköping	Sweden	33	33

Sydved AB has no contingent liabilities.

Note 20 Inventories, MSEK

	Group	
	2010	2009
Materials and supplies	75	68
Work in progress	23	26
Finished products	258	262
Advances paid	100	90
Total inventories	**456**	**446**

Operating costs include impairment losses of inventories amounting to MSEK 14 (13)

Note 21 Accrued expenses and deferred income, MSEK

	Group	
	2010	2009
Deferred income	16	16
Accruals	4	3
Other	2	2
Total accruals and deferred income	**22**	**21**

Note 22 Cash and cash equivalents, MSEK

Cash and cash equivalents are made up of the following items in the Group's cash flow analysis:

	Group	
	2010	2009
Cash in banks	281	254
	281	**254**

Bank deposits earn variable interest based on the bank's daily deposit rate.

The fair value for cash and cash equivalents is MSEK 281 (254)

	2010	2009
The total credit limit for the Munksjö Group amounts to	2,378	2,653
Of which, the following was utilized at the closing date:	2,317	2,611

The book value is affected by the periodization of borrowing costs MSEK –23 (–28).

Note 23 Equity, MSEK

Period	Change in share capital	Number of shares	Share equity MSEK
2004-09-30	Company formed	100,000	0.10
2005-02-25	New share issue	20,005	0.02
2009-07-21	New share and offset issue	27,480,184	27.48
2009-12-16	New share and offset issue	319,466	0.32
		27,919,655	**27.92**

Share capital	2010-12-31	2009-12-31
Number of preference shares	22,080,097	22,080,097
Number of ordinary shares	5,839,558	5,839,558
Total number of shares	**27,919,655**	**27,919,655**
Value per share, MSEK	1	1
Share capital, MSEK	27.92	27.92

The preferential shares have priority to the company's assets and profits up to an amount corresponding to a preferential amount of MSEK 20 per preference share, adjusted upwards with an annual interest rate of 10 per cent. All shares carry equal voting rights.

Other contributed capital
Refers to equity contributed by the shareholders. This includes share premium reserves transferred into the statutory reserve. Provisions to the share premium reserve are also recognized as contributed capital.

Reserves
Translation reserve
The translation reserve includes all exchange rate differences arising in the conversion of financial reports of foreign businesses, which prepared their financial reports in a currency other than the Group's functional currency. The parent company and the Group present their financial reports in Swedish kronor.

Hedge reserve
The hedge reserve comprises the effective portion of the cumulative net change in the fair value of a cash-flow-hedging instrument related to hedged transactions that have not yet occurred.

Retained earnings
Retained earnings, including the net profit/loss of the year, include the retained earnings of the parent company and its subsidiaries and associated companies.

Parent company
Under Swedish law, equity shall be allocated between non-distributable (restricted) and distributable (unrestricted) funds. The restricted equity consists of the share capital and the statutory reserve. The non-restricted equity consists of the share premium reserve and the retained earnings.

The Board of Director's management of shareholder equity
Munksjö's shareholder's equity is composed of the equity attributable to Munksjö's shareholders and equity attributable to minority shareholders. At year-end, the Group's equity amounted to MSEK 1,235 (1,209).

In order to preserve the relevant capital structure, the Group may distribute dividends to shareholders or sell assets to reduce interest-bearing liabilities.

Note 24 Other long-term provisions, MSEK

2010	Environmental reserves	Tax reserves
Opening balance on January 1, 2010	91	30
Provisions made during the year	7	–
Provisions used	–75	–
Closing balance on December 31, 2010	**23**	**30**
Of which were current provisions	–	
Of which were other non-current provisions	23	30
	23	**30**

2009	Environmental reserves	Tax reserves
Opening balance on January 1, 2009	91	30
Provisions made during the year	20	–
Provisions used	–20	–
Closing balance on December 31, 2009	**91**	**30**
Of which were current provisions	–	
Of which were other non-current provisions	91	30
	91	**30**

The provisions above have been made based on the risk assessment described in Note 3.

Note 25 Financial assets and liabilities, MSEK

	Group		Parent Company	
	2010	2009	2010	2009
Liabilities to credit institutions and shareholders that fall to payment:				
within 1 year	–	58	–	–
between 1–5 years	2,294	21	–	–
after 5 years	7	2,513	6.9	8.0
Total interest-bearing liabilities	**2,301**	**2,592**	**6.9**	**8.0**

Group 2010	Derivatives used in hedge accounting	Financial assets at fair value through profit and loss	Accounts and loan receivables	Financial liabilities at fair value through profit and loss	Carrying value	Fair value
Customer financing receivables			533		533	533
Other current receivables	35[1)]	0	93		128	128
Accruals and deferred income			22		22	22
Cash and cash equivalents			281		281	281
Summa	**35**	**0**	**929**	**0**	**964**	**964**
Interest-bearing liabilities				2,301	2,301	2,301
Accounts payable				209	209	209
Accrued expenses and prepaid income				223	223	223
Other current liabilities	114[2)]	–		42	156	156
Total	**114**	**–**		**2,775**	**2,889**	**2,889**

1) of which currency derivatives 14, electricity derivatives 18
2) of which pulp derivatives 50, interest derivatives 56

Note 25 Financial assets and liabilities, MSEK *cont.*

Group 2009	Derivatives used in hedge accounting	Financial assets at fair value through profit and loss	Accounts and loan receivables	Financial liabilities at fair value through profit and loss	Carrying value	Fair value
Customer financing receivables			473		473	473
Other current receivables	–	2	235		237	237
Accruals and deferred income			21		21	21
Cash and cash equivalents			254		254	254
Summa	**–**	**2**	**983**	**0**	**985**	**985**
Interest-bearing liabilities				2,592	2,592	2,592
Accounts payable				236	236	236
Accrued expenses and prepaid income				301	301	301
Other current liabilities	84[1)]	–		15	99	99
Summa	**84**	**–**		**3,144**	**3,228**	**3,228**

1) of which currency derivatives 28, of which pulp derivatives 50 and interest derivatives 6.

Munksjö has syndicated loans in MEUR and MSEK. The MEUR loan amounts to MEUR 150 and the MSEK loan amounts to MSEK 860. The interest on the loans are based on the 6-month Euribor rate plus 50 points and the 6-month STIBOR rate plus 50 points. The interest margin will be increased from 50 points to 100 points in 2012 and to 200 points in 2013.

According to Munksjö's financial covenants, the company shall, within each given calendar month, ensure that the average liquidity does not fall below the minimum amount of MEUR 5. There is also a capital expenditure limit for each year that must not be exceeded. The applicable amounts are MEUR 19 in 2010, MEUR 18 in 2011, MEUR 17 in 2012 and MEUR 18 in 2013.

Note 26 Financial risk management

The Group's main exposure to financial risk consists of currency risk (extensive transaction and translation exposure), liquidity and financing risk, interest risk and credit risk (also referred to as counterparty risk).

Munksjö's financing activities and the management of financial risks are generally carried out centrally and in compliance with a financial policy adopted by the Board of Directors. The financial risks are described below, as well as the most significant aspects of the management intended to mitigate them.

Currency risk

Transaction exposure

Munksjö's Swedish units are exposed to exchange rate fluctuations, as the main share of its income is invoiced in foreign currencies, primarily MEUR and USD, while costs are in MSEK. The transaction exposure is the profit and loss effect that arises between the time of sale and the time of payment following an exchange rate fluctuation. The foreign entities will primarily invoice in MEUR and their costs are incurred in the same currency.

Munksjö's operative entities are governed by the exchange rates applicable at any given time in order to achieve a continuous adjustment of the commercial conditions of the existing currency situation. The main objective of the operative entities is the operating margin, which is measured excluding the profit and loss effects from the hedging of the currency flows.

To reduce the effects of the transaction exposure, Munksjö continuously hedges a forecasted net flow in the foreign currencies according to the financial policy, which states that up to 75 per cent of the net flow in the upcoming 9-month period shall be hedged. At the end of 2010, the currency contracts that had not yet been nominally recognized as income amounted to MSEK 8 for MEUR and MSEK 9 for USD.

MSEK	MSEK	USD	EUR	Other
Sales 2010	510	700	2,430	10
Costs 2010	–1,340	–170	–1,900	0
(Net operating cash flow) Cash flow from operations	**–830**	**530**	**580**	**10**
(Transaction hedges as at 31 Dec 2010) Total secured 2010-12-31		**120**	**200**	

Translation exposure

Munksjö has assets in foreign currencies, primarily through the ownership of its German and Spanish subsidiaries. The translation exposure is the profit and loss effect that arises when the net assets of the foreign subsidiaries are translated into MSEK. The net assets in MEUR are partially hedged through borrowings in that currency.

Note 26 Financial risk management *cont.*

Liquidity and financing risk

Liquidity and financing risk refers to the risk that Munksjö cannot meet its payment obligations due to insufficient liquidity or difficulties in raising new loans. Munksjö has access to long-term financing of its operations. A refinancing was carried out in 2009, which included a new share issue, which strengthened the company's financial position. After the end of the period, an additional new share issue amounting to MEUR 65 was implemented, and a smaller loan of MEUR 15 was raised to finance an acquisition.

Even if the new share issue strengthens the Group's financial position, it cannot be precluded that Munksjö might still require additional financing in the future, such as through the raising of a loan or through a new share issue.

The access to additional financing is affected by a number of factors, including market conditions, the general availability of credit as well as Munksjö's credit rating and credit capacity. The access to additional financing is further dependent on the fact that customers, suppliers, and lenders must not get a negative opinion of Munksjö's short and long-term financial prospects. Disturbances and uncertainties on the capital and credit markets may also limit the availability of the capital required to operate the business.

Interest risk

The interest risk consists of the profit and loss effect caused by an interest rate fluctuation. The speed with which an interest rate trend will impact the profit or loss depends on the fixed interest terms of the loans and investments. If the entire loan portfolio had a variable interest rate, the profit and loss effect in one year of an interest rate fluctuation of 1 percentage point would amount to MSEK 23, calculated based on liabilities of MSEK 2,301 at year-end. The Group had an average fixed interest term of 6 months at year-end.

At the beginning of 2011, Munksjö held interest rate swaps of MSEK 1,260 (MEUR 140) on the syndicated loan. The fixed portion of the loan had an interest rate of 3.42 per cent, while the flexible portion held by Munksjö is based on the 3 months Euribor rate.

The interest rate swaps lessens the impact of an interest rate fluctuation.

In case of an interest rate fluctuation, costs are affected as stated below.

Interest +1%	MSEK +9.5 m
Interest +2%	MSEK+19.0 m

Credit risk

Credit risk refers to the risk that a counterparty, in a financial transaction, cannot meet its obligations. To avoid this, it is clearly defined in Munksjö's financial policy how any excess liquidity may be invested. The calculation of credit risk includes positive profit and loss effects on derivative contracts with a counterparty. Munksjö's maximum credit risk exposure corresponds to the fair values of the financial assets, see Note 25.

Customer structure and customer credit

Munksjö has long-standing customer relations, and the major share of the sales, 77 per cent, is to Europe. The sales can be based on framework agreements specifying general terms and conditions of supply and planned supply quantities; alternatively, the customer submits a request regarding the quality and quantity for a specific purpose. Various pricing models are used, either according to an issued price list or using a fixed price for a certain period. As regards pulp, there are market prices. The extension of credits to customers varies depending on the market and the product. Accounts receivables amounted to MSEK 533 at year-end 2010.

The Group has a credit policy that governs the management of customer credits. No credit insurance was used. The fair value of accounts receivables and supplier credits is commensurate with the recognized value.

Accounts receivable

	Group	
MSEK	2010	2009
Accounts receivable not due	457	391
Non-impaired accounts receivable overdue		
< 30 days	48	52
30–90 days	12	9
> 90 days	16	21
Non-impaired accounts receivable overdue	76	82
Total accounts receivable	**533**	**473**

Sensitivity analysis

It is stated below how the profit/loss before tax is affected in case of an isolated change in some of the most important income and cost factors of 2010.

Price risk

Munksjö hedges 50 per cent of its electricity consumption for the Swedish entities. This entails a price risk for the un-hedged portion. With regard to pulp, Munksjö has a policy of hedging no more than 50 per cent of the sales/purchases.

Each month, sales of 3,500 tons of long fiber pulp are hedged, as well as the purchase of 1,000 tons of short fiber pulp. The long fiber pulp is manufactured and sold by Munksjö, whereas the short fiber pulp is used in production.

Liquidity and financing risk

Munksjö has a syndicated loan from a consortium of international banks. The loans mature in 2015.

MSEK	
Syndicated loans MEUR	1,350
Syndicated loans MSEK	853
Other interest-bearing liabilities	91
Total	**2,294**

Maturity structure and terms

The currency forward contracts are entered into on a monthly basis, with a maturity of nine months. At year-end 2010, there were 9 forward contracts, maturing in January–September.

Interest rate swaps up to a value of MSEK 1,260 (MEUR 140) commence on January 3, 2011 with a maturity date of January 3, 2013. Settlement occurs on a quarterly basis. At year-end 2010, there was also a contract of MSEK 405 (MEUR 45) with a maturity date of August 8, 2011.

The electricity hedging is arranged via Statkraft, within predetermined maximum/minimum levels until 2013.

The pulp swaps have an agreed maturity of December31, 2012. Both electricity and pulp hedging are settled on a monthly basis.

Financial instruments, per level

The table shows derivative instruments valued at fair value (MSEK).

The division per level is made as follows: Level 1 means that there are quoted prices on active markets, which prices have been used in the valuation. Level 2 means that the valuation of the derivative is indirectly attributed from quoted prices. Level 3 means that the derivative instrument has been valued based on non-observable market data.

Munksjö's derivatives are classified in levels 1 and 2. No changes between levels occurred during the year.

Note 26 Financial risk management *cont.*

Assets, MSEK	Level 1	Level 2	Level 3	Total
Derivative instruments used for hedging purposes	18	17	–	35
Liabilities				
Derivative instruments used for hedging purposes	58	56	–	114

Financial instruments 2010

The currency and electricity made positive contributions as the Swedish kronor became stronger and electricity prices increased. The increased prices on long fiber pulp have negative impact on the pulp swaps and the continued low interest rate has a negative impact on the interest rate swaps.

Realized hedging MSEK	2010	2009
Currency	15	–94
Electricity	7	–6
Pulp derivatives	–37	62
Interest derivatives	–20	–4
Total	**–35**	**–42**

Note 27 Accrued expenses and prepaid income, MSEK

	Group	
	2010	2009
Provision for structural reorganization	44	95
Provision for invoices not yet received	41	53
Accrued wages and salaries	50	46
Accrued vacation pay	36	33
Accrued social security costs	33	31
Accrued customer bonus	6	14
Unrealized exchange-rate differences	5	10
Other	8	19
Total accrued expenses and prepaid income	**223**	**301**

Note 28 Assets pledged and contingent liabilities, MSEK

	Group		Parent company	
	2010	2009	2010	2009
Property mortgages for other commitments	811	854	–	–
Blocked bank accounts	37	184	–	–
Other pledged assets	124	139		
Pledge of shares in subsidiaries	–	–	1,551.6	1,551.6
Chattel mortgages	1,190	1,099	–	–
Total pledged assets	**2,162**	**2,276**	**1,551.6**	**1,551.6**

The properties and shares in the subsidiaries have been pledged with Deutsche Bank AG London as the representative of a bank syndicate that provides long-term financing to the Munksjö Group. The securities provided by the Munksjö Group's subsidiaries for the Group loans cannot be utilized in the cases when this would breach the laws and limitations in the country in question.

	Group		Parent company	
	2010	2009	2010	2009
Guarantees and other contingent liabilities	43	46	–	–
Total contingent liabilities	**43**	**46**	–	–
– of which apply to the subsidiaries	–	–	–	–

The subsidiaries have signed a general guarantee in respect of the Group's joint loan. The contingent liabilities provided by the Munksjö Group's subsidiaries in relation to the Group loans cannot be utilized in the cases when this would breach the laws and limitations in the country in question.

Note 29 Events after the balance sheet date

On December 14, 2010, Munksjö announced its intention to acquire ArjoWiggins' operations within decor paper, abrasive backing paper , thin papers, and artists' paper. The primary companies acquired were ArjoWiggins Arches SA and ArjoWiggins Deutschland GmbH with mills in Arches (France) and Dettingen (Germany). The acquisition was completed in March 2011 after clearance by the competition authorities, and the business will be included in the accounts as a part of the Munksjö Group as of March 1, 2011. The preliminary purchase price amounts to MSEK 840 (MEUR 95) on a debt-free basis. In March 2011, Munksjö issued new shares for approximately MSEK 575 (MEUR 65) to existing shareholders to partially finance the acquisition, which was otherwise financed by available funds and new loan financing of approximately MSEK 133 (MEUR 15). The acquired companies had sales of MSEK 2,150 (MEUR 225) in 2010, based on unaudited data, and their operating profit in the same period amounted to approximately MSEK 50 (MEUR 5). Approximately MSEK 1,670 (MEUR 175) of the sales is attributable to activities that will be recognized in the Decor business area by the Munksjö Group. Munksjö intends to recognize the remaining portions of the operations in the Industrial Applications business area. As Munksjö and the acquired entities have in part been competing on the same markets, Munksjö had no access to key people in the management of the acquired companies or to detailed financial information until after the acquisition was completed in mid-March 2011. Accordingly, it has not been feasible to complete the first report on the acquisition or provide further information than that which has already been stated above.

Note 30 Transactions with related parties

Salaries and remuneration to Board Members and senior executives are set out in Note 8 Remuneration to the Board of Directors and senior executives.

Munksjö has a shareholder loan of MSEK 7, which can be attributed as follows: EQT: MSEK 2, Board Members: MSEK 1 and current and former senior executives of the Munksjö Group: MSEK 4, the loan has an interest of EURIBOR +7.5 percent.. There have been no additional loans, purchases, or sales in relation to the Board of Directors or senior executives.

Munksjö Luxembourg Holding S.a.r.l. in Luxembourg owns 79 per cent of Munksjö AB's shares. The parent company of the largest group to which the parent company belongs is the venture capital company EQT (fund number III). Munksjö is invoiced on an annual basis for any expenses incurred by EQT that are directly attributable to Munksjö; in 2010, these expenses amounted to MSEK 0 (1).

One per cent of the shares in Munksjö AB are held by senior executives of the Munksjö Group. The remaining 20 per cent are held by former creditors in relation to subordinated loans.

The subsidiary Munksjö Aspa Bruk AB purchases wood from the associated company Sydved AB. Other than as stated above, there are no significant transactions with related parties.

Note 31 Effects of the transition to IFRS

This is the first financial report for Munksjö that has been prepared in accordance with IFRS. The accounting principles found in the accounting principles section have been applied by Munksjö in the preparation of the Group's financial statements for 2010 and the comparative year 2009 as well as the opening balance sheet as of January 1, 2009. In the preparation of the opening balance sheet for the Munksjö Group, all amounts recognized according to previously used accounting principles were translated in accordance with IFRS.

Explanations on how the transition from the previous accounting principles to IFRS have affected the financial position and profit/loss of the Munksjö Group are provided in the tables and explanatory notes below.

Applied IFRS standards

The standards set out below affected the Group's profit/loss and balance sheet.

a) IFRS 1 The first application of IFRS 1

Munksjö has decided to apply the exemption, which means that acquisitions made prior to January 1, 2009 do not need to be translated. Acquisitions made after January 1, 2009 have been recognized in accordance with IFRS 3 R.

Munksjö has chosen to set the accumulated translation differences present at the beginning of the 2010 financial year to zero. Any translation differences incurred thereafter are recognized separately under the heading exchange rate differences in other comprehensive income and they are included below the heading reserves in the balance sheet.

b) IFRS 3 Business combinations

In the consolidated financial statements, IFRS 3 R has been applied to all acquisitions made after January 1, 2009. According to IFRS 3, goodwill shall no longer be subject to amortization; instead, goodwill should be tested for impairment. This testing shall occur regardless of whether there is any indication of a decrease in value. There shall also be a more detailed distribution of intangible assets in case of corporate acquisitions. Until January 1, 2009, goodwill was amortized according to plan over its estimated service life. An impairment assessment was at least made annually. In accordance with IFRS, Munksjö stopped its amortization of goodwill on January 1, 2009.

c) IAS 39 Financial instruments

According to IAS 39, all financial assets and liabilities, including derivatives, should be accounted for according to their classification, either at fair value or at amortized cost. For any assets and liabilities recognized at fair value, the arising profit or loss of the evaluation should be recognized in the income statement or against equity, depending on whether hedge accounting has been applied or not. Munksjö applies hedge accounting for all derivatives as of 2010.

d) IAS 19 Employee benefits

As of 2009, IAS 19 is applied through the reporting of defined benefit plans in all subsidiaries of the Group according to shared principles instead for, as previously, according to the local regulations in each country. The difference that arose in relation to the establishment of a new opening liability as of January 1, 2009 has been recognized as an increase/decrease in the provision for pensions as well as a corresponding increase/decrease in equity. The payroll tax on the difference has been treated in a similar manner. Actuarial profits and losses are recognized in the operating profit/loss.

Note 31 Effects of the transition to IFRS *cont.*

Effects on the income statement and the balance sheet
The schedule below shows the effects of the above applications of IFRS to the 2009 income statement and balance sheet as of January 1, 2009 and December 31, 2009.

Balance sheet for Group 2009-01-01

	According to previous standards	Adjust-ment IFRS	According to IFRS
Assets			
Intangible fixed assets	1,581	–	1,581
Tangible fixed assets	1,857	165	2,022
Other assets	373	62	435
Total fixed assets	**3,811**	**227**	**4,038**
Inventories	541	–	541
Current receivables	532	216	748
Cash and cash equivalents	290	–184	106
Total current assets	**1,363**	**32**	**1,395**
Total assets	**5,174**	**227**	**5,433**
Equity and liabilities			
Equity	–315	–171	–486
(Non-controlling interests) Minority interests	–	35	35
Total equity	**–315**	**–136**	**–451**
Provisions and non-current liabilities	4,327	216	4,543
Current liabilities	1,162	179	1,341
Total equity and liabilities	**5,174**	**259**	**5,433**

(Income statement for the Group 2010) Balance sheet for the Group 2009-01-01 – 2009-12-31

	According to previous standards	Adjust-ment IFRS	According to IFRS
Total income	**2,979**	**67**	**3,046**
Changes in inventories	–	–49	–49
Raw materials and supplies	–1,344	–4	–1,348
Other external costs	–896	5	–891
Personnel costs	–615	–4	–619
Depreciation and impairments of fixed assets	–257	86	–171
(Share of result from assosiateed companies) Income from invest-ments in associated companies	–	3	3
Operating profit	**–133**	**101**	**–29**
Financial income	54	133	187
Financial expenses	–411	31	–380
Profit after net financial items	**–490**	**265**	**–222**
Income tax	79	–50	29
Profit/loss for the year	**–411**	**215**	**–193**

Balance sheet for Group 2009-12-31

	According to previous standards	Adjust-ment IFRS	According to IFRS
Assets			
Intangible fixed assets	1,383	95	1,478
Tangible fixed assets	1,697	174	1,871
Other fixed assets	361	42	403
Total fixed assets	**3,441**	**311**	**3,752**
Inventories	445	1	446
Current receivables	538	193	731
Cash and cash equivalents	438	–184	254
Total current assets	**1,421**	**10**	**1,431**
Total assets	**4,862**	**312**	**5,183**
Equity and liabilities			
Equity	1,160	15	1,175
(Non-controlling interests) Minority interests	–	34	34
Total equity	**1,160**	**49**	**1,209**
Provisions and non-current liabilities	3,028	190	3,218
Current liabilities	674	82	756
Total equity and liabilities	**4,862**	**321**	**5,183**

Proposed allocation of profit

Distribution of profit by the parent company	
Unrestricted equity in the parent company:	
Share premium reserve	1,818.3
Profit brought forward	–321.5
Net profit	–0.6
Total	**1,496.2**

The Board of Directors and the CEO propose:	
the total to be brought forward	1,496.2

Jönköping April 28, 2011

The Board and the CEO certify that the financial statements have been prepared in accordance with GAAP, that the consolidated financial statements have been prepared in accordance with the international accounting standards referred to in European Parliament Regulation (EC) No 1606/2002 of 19 July 2002 regarding the application of international accounting standards, and that these give a true and fair view of the company's and the Group's financial position and profit/loss, and that the Annual Report and the Group management report respectively give a true and fair view of the company's and the Group's activities, financial position and performance and describes significant risks and uncertainties that the company and the companies included in the Group stand for.

Fredrik Cappelen
Chairman

Caspar Callerström

Richard Chindt

Annika Krave

Ingvar Petersson

Jan-Christer Sjölinder

Jan Åström
CEO

Our audit report was issued on May 10, 2011
Ernst & Young

Karin Grann
Authorized Public Accountant

Audit Report

To the Shareholders of Munksjö AB (publ)
Org.nr 556669-9731

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the Managing Director of Munksjö AB (publ) for the year 2010. The annual accounts and the consolidated accounts of the company are included in the printed version of this document on pages 9–68. The Board of Directors and the Managing Director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of the International Financial Reporting Standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require means that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the Managing Director and significant estimates made by the Board of Directors and the Managing Director when preparing the annual accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts.

As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company any board member or the Managing Director, have, in any other way, in acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our Opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the Company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with the International Financial Reporting Standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the Group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual meeting of shareholders that the income statement and balance sheets of the parent company and the income statement or the statement of comprehensive income and the statement of financial position for the Group be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Jönköping, May 10, 2011

Ernst & Young AB

Karin Grann
Authorized Public Accountant

Corporate governance

Munksjö AB (publ), with registered office in Jönköping is a Swedish public limited company, majority-owned by EQT III Fund. Munksjö is a specialty paper company with a focused selection of high value-added paper products. The basis for corporate governance is the Articles of Association and the Swedish Companies Act, several Swedish and foreign laws and regulations, and Swedish Code of Corporate Governance. This report has not been reviewed by the company's auditors.

Annual General Meeting

The AGM is the Group's highest decision making body. There, shareholders exercise their influence through discussions and decisions. The AGM shall be held once a year to determine the income and balance statements, to decide on how the financial results will be distributed, and to elect the Board and auditors.

At the AGM in June 2010, the consolidated income statement and financial statement, adopted the Board's proposal not to pay dividends, and granted the Board and CEO discharge from liability. Board members Caspar Callerström, Fredrik Cappelen, Ingvar Petersson, Richard Chindt and Jan Åström were re-elected and Joakim Lundvall was appointed deputy director.

Nomination

The Nomination Committee's main task is to propose at the AGM Board members, Chairman, auditors and their remuneration. The Nomination Committee shall also provide proposals for new nomination or to propose a model for how the Nomination Committee shall be appointed.

Board composition

Munksjö AB's Board consists of five elected full members, a deputy and two members with two deputies appointed by the local trade unions Unionen, Ledarna as well as Svenska Pappersindustriarbetareförbundet. Board members are presented under the section entitled "Board".

Chairman

Fredrik Cappelen is Chairman of the Board and leads the Board's work. He has particular responsibility to monitor the company's developments between Board meetings and ensure that the members regularly receive the information needed to perform satisfactory work. The Chairman should liaise with the CEO and conduct meetings on various issues as needed.

The Board's work

The Board's role is to manage the company's business in the best possible way and in their work protect the shareholders' interests. The Board's work follows a calendar and rules of procedure as revised annually at the constituent meeting. The calendar indicates the main issues to be examined at different times of the year. The rules of procedure specify the distribution of labor between the Board and CEO and outline the work of the Audit Committee and Remuneration Committee and sets certification and delegation. The CEO participates in Board work and other members of Group Management participate when necessary. The Group's CFO is Secretary to the Board. In 2010, the Board held seven regular meetings including the statutory Board meeting in conjunction with the AGM, plus two additional sessions. The members' attendance is indicated in the table on page 71.

Through monthly reports and meetings, the Board receives information about the company's economic and financial status. Prior to each Board meeting, the Chairman and CEO go through the issues to be considered in the meeting and the basis for the Board's consideration of matters are sent to members approximately one week before each Board meeting.

At the beginning of the year, Munksjö's Board decided to prepare Munksjö for a potential IPO in 2011. As a consequence, a full audit of a number of steering documents for the Group has been carried out.

In December, Munksjö signed an agreement with Sequana to acquire ArjoWiggins' operations in decor paper, abrasive paper, thin print paper s and fine art papers along with the production facilities in Arches, France and Dettingen, Germany. The acquisition was discussed repeatedly by the Board during the year.

The company's auditors reported their findings from their audit of the financial statements and their review of interim financial statements and internal control of at least one meeting during the year.

The Chairman ensures that the work of the Board is evaluated annually and that the Nomination Committee receives the necessary information the results of the evaluation.

Policies, guidelines and instructions

The Board revises and adopts the Group's policies and guidelines annually, and the Group's Code of Conduct. The Code of Conduct, available on Munksjö's website, aims to give guidance to employees and business partners, minimize risks, strengthen the corporate culture and convey Munksjö's core values.

The CEO establishes guidelines and operational instructions based on the Board's established policies and guidelines. Guidelines and operating instructions issued by the CEO primarily involves financial reporting. All policies and guidelines are available on the Group's website.

Audit committee

The Board has established an audit committee to ensure the quality of the company's financial reporting. The Audit Committee consists of the entire Board. The person reporting is the CFO. The Audit Committee has been operational since January 1, 2011. The company's auditors will report to the Committee on their findings from the audit of financial statements and review of internal controls conducted in connection with the financial statements for the third quarter. The Committee meets each reporting period and whenever needed. The Audit Committee works to an annual calendar and instructions set by the Board and issues the results of its findings to the Board.

Remuneration committee

The Board has appointed a Remuneration committee composed of Chairman Frederick Cappelen and Board member Caspar Callerström. The Remuneration committee operates in accordance with instructions set annually by the Board and issues the results of its findings to the Board. The Committee delivers proposals on the CEO's salary and other employment conditions to the Board for approval. The Committee also approves the CEO's proposal for salaries and employment terms for senior executives under the "grandfather principle". Current principles state that the CEO and senior executives be offered a fixed market-based salary and in some cases even variable remuneration. The variable remuneration shall be limited and related to the fixed salary and based on the Group's financial goals.

Fees paid to Board

The total Board fees in Munksjö AB for 2010 amounted to MSEK 387,300. As decided at the AGM, the Chairman of the Board receives MSEK 220,000 per year and Board members MSEK 110,000 per year. Members appointed by trade unions receive an input fee per Board meeting. No additional fees are paid to members of the Board.

Auditors

At the AGM in 2006, the registered accounting firm Ernst & Young was appointed as auditor for the period until the Annual General Meeting 2011. The responsible auditor is authorized public accountant Karin Grann. Remuneration to the auditors shall be paid in accordance with an approved invoice after agreement. For information on remuneration in 2010, see Note 6.

CEO and corporate management

Munksjö's Board has appointed Jan Åström as President and CEO responsible for the ongoing management of the company. He leads the operational activities and prepares information and decisions to support the Board and presents his findings at Board meetings. The CEO has appointed corporate management consisting of the CFO, functional managers and managers of the various business areas.

Corporate management meets monthly to discuss the Group's and business areas' performance and financial status and issues concerning strategy, budget, forecasting and business development. The CEO and Group staff managers are located in Stockholm and Jönköping. In accordance with the policies and guidelines established by the Board, Group functions are responsible for business development, distribution of financial resources between the Group's operations, capital structure and risk management. Their duties also include matters concerning Group-wide research and development, acquisitions and sales, purchasing coordination, consolidated financial reporting, internal and external communications, IT and coordination and monitoring of safety, environmental, occupational health and quality and some major projects.

Operational control

The Group's operational activities are carried out in business units which may include several subsidiaries of Munksjö AB. In all business units active management / monitoring work is conducted under the leadership of the CEO and group staff managers. Management work includes following ongoing activities and that the business plan and budget are evaluated and determined for the business units. The operations are conducted under the rules, guidelines and policies estab-

Board attendance

Board members	Elected	Attendance	Independent of Company	Independent of Owners
Fredrik Cappelen	2005	9/9	Yes	Yes
Jan Reinås (resigned 2010–08)	2005	2/5	Yes	Yes
Caspar Callerström	2005	9/9	Yes	No
Richard Chindt	2009	9/9	Yes	Yes
Ingvar Petersson	2005	9/9	Yes	Yes
Jan Åström	2008	9/9	No	Yes
Jan-Christer Sjölinder, Employee	1997	9/9	No	Yes
Annika Krave, Employee	2004	5/9*	No	Yes
Joakim Lundvall, deputy	2009	9/9	Yes	No
Jan-Erik Blomqvist, employee, deputy	2003	4/9*	No	Yes
Lennart Jonasson, employee, deputy elected 2010-06	2010	3/5*	No	Yes
Lars-Inge Johansson, employee, deputy resigned 2010-06	2005	1/4*	No	Yes

* union representatives alters their participation in Board meetings during the year

lished for the Group and in accordance with local rules established for each business unit. Results unit managers are responsible for financial performance and shall ensure development of their units, and must also ensure that the synergies between the Group's various units are utilized.

Internal control

Internal control is designed to ensure that:

- Company objectives and strategies are monitored
- Shareholders' interests are protected
- External financial reporting, with reasonable certainty, reflects reality
- Financial reports are produced in accordance with accounting rules, laws and regulations and other requirements for a listed company

The Board has overall responsibility for ensuring that the Group has effective internal controls. The CEO is responsible for ensuring that processes and structures are in place to ensure the internal control and quality of financial reporting. Munksjö has no separate internal audit function (internal audit). The audit of internal controls is conducted by Group Controlling and Finance staff as an integrated part of the business and financial controller's work, which the Board has found appropriate in light of the Group's size and complexity. The assessment is based on a comprehensive risk analysis, which is then based on material aspects verified by direct examination. The Group has relatively few operating units with mainly well-established processes. Structural and steering documents in the form of policies, guidelines and instructions are in place to ensure a common vision and way of working within the Group. These include:

- Authorization instruction
- Finance Manual
    - Financial and Business Planning
    - Financial reporting
    - Financing and Cash Management
    - Investments and acquisitions
    - Hedging
- Risk management and insurance

Control activities are continuously carried out by the Group's controller organization and at company level within the different parts of the accounting and reporting process. Control activities are performed with a focus on known risks, but also to identify and correct any errors and discrepancies. Processes and systems are assessed continuously to identify improvements.

Board of directors and auditors

Fredrik Cappelen
Stockholm, Sweden
Born 1957
Chairman since 2009
(member since 2005)
Other board assignments:
Chairman, Byggmax Group AB, ICC Sweden and Sanitec Oy. Board member, Carnegie Investment Bank AB, Securitas AB and Granngården AB.
Previous positions: President and CEO, Nobia AB 1994–2008. Marketing Director, Stora Finepaper.
Education: Finance
Holdings: 26,634 shares

Jan Åström
Danderyd, Sweden
Born 1956
President and CEO of Munksjö AB since 2008.
Other board assignments:
Board member SEKAB AB and Sydved AB.
Previous positions: President and CEO, SCA. Deputy CEO and Executive Vice President, SCA AB. President and CEO of Modo Paper AB and President of SCA Fine Paper, Germany.
Education: Civil engineering
Holdings: 70,133 shares

Caspar Callerström
Stockholm, Sweden
Born 1973
Board member since 2005
Other board assignments:
Board member, Sanitec Oy and Scandic AB
Previous positions: Partner, EQT Partners AB
Education: Finance
Holdings: 0 shares

Ingvar Petersson
Stockholm, Sweden
Born 1941
Board member since 2005
Other board assignments:
Chairman, Billerud AB, Försäkringsbolaget PRI Pensionsgaranti Ömsesidigt, RAM One AB and Econova AB
Previous positions: Vice President, Stora Enso. First Executive Vice President, Stora. CEO, Kopparfors AB.
Education: University studies in business economics.
Holdings: 11,006 shares

Richard Chindt
Stockholm, Sweden
Born 1962
Board member since 2009
Other board assignments:
Board member, Equity Trust Sweden AB and Green Savings Scandinavia AB
Previous positions: CEO, Heart of Brands AB
Education: Finance
Holdings: 0 shares

Employee representatives

Annika Krave
Bengtsfors, Sweden
Born 1971
Employee representative since 2004. Member of Unionen trade union.
Employed at Munksjö Paper AB, Billingsfors, Sweden.
Education: Finance/computer science/marketing
Holdings: 0 shares

Jan-Christer Sjölinder
Askersund, Sweden
Born 1956
Employee representative since 1997. Member of the Swedish Trade Union Confederation (LO). Employed at Munksjö Aspa Bruk AB, Sweden.
Education: Finance
Holdings: 0 shares

Deputy board members

Joakim Lundvall
Stockholm, Sweden
Born 1970
Deputy board member since 2009
Other assignments: Director, EQT Partners AB
Previous positions: CEO, Essve. Self-employed with sales of heavy machinery and real restate. Engagement Manager, McKinsey & Company
Education: Finance. MBA
Holdings: 0 shares

Jan-Erik Blomqvist
Jönköping, Sweden
Born 1947
Deputy board member since 2003. Member of the Swedish Trade Union Confederation (LO). Employed at Munksjö Paper AB, Jönköping, Sweden.
Education: Studies in metal working and economics.
Holdings: 0 shares

Lennart Jonasson
Bengtsfors, Sweden
Born 1963
Deputy board member since 2010. Member of the Swedish Trade Union Confederation (LO). Employed at Munksjö Paper AB, Billingsfors, Sweden.
Education: Systems sciences
Holdings: 0 shares

Secretary to the board

Bo Eriksson
Stockholm, Sweden
Born 1950
CFO, Munksjö AB (until January 31, 2011)
Vice President Corporate Development (as of February 1, 2011)
Education: Finance
Holdings: 46,756 shares

Auditor

Karin Grann
Authorized Public Accountant, Ernst & Young AB, Jönköping, Sweden.
Auditor at Munksjö since 2006

Management

Jan Åström
President and CEO
Education: Civil engineering
Born: 1956
Employed since: 2008
Background: President and CEO, SCA. Deputy CEO and Executive Vice President, SCA AB. President and CEO of Modo Paper AB and President of SCA Fine Paper, Germany.
Other board assignments: Board member, SEKAB AB and Sydved AB
Holdings: 70,133 shares

Bo Eriksson
Controller Stora (until January 21, 2011)
Vice President Corporate Development (as of February 1, 2011)
Education: Finance
Born: 1950
Employed since: 2009
Background: 1999–2009 SVP Risk Management/Group Controller, Stora.
Other board assignments: Board member of Global Preparers Forum (GPF) and Joint International Group (JIG)
Holdings: 46,756 shares

Kim Henriksson
CFO (as of February 1, 2011)
Education: Finance
Born: 1968
Employed since: 2010
Background: 1994–1996 and 1999–2008: Morgan Stanley, most recently as Managing Director at M&A in Stockholm, Sweden.
Holdings: 74,755 shares (2011)

Åsa Fredriksson
Vice President HR and Information
Education: Finance
Born: 1972
Employed since: 1999
Background: Group Controller Munksjö Sweden AB, Controller Munksjö Paper AB, Economist Swedish Match Industries AB.
Holdings: 4,675 shares

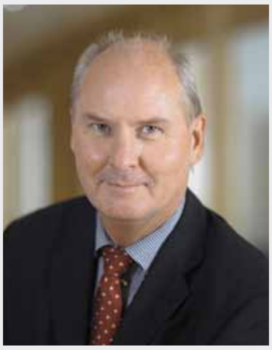
Anna Bergquist
Vice President Strategic Development
Education: Civil engineering
Born: 1980
Employed since: 2010
Background: McKinsey
Holdings: 56,050 shares (2011)

Bernhard Beck
Vice President Procurement
Education: Civil engineering, woodworking and technology
Born: 1956
Employed since: 1988
Background: Head of Purchasing. Head of Order Center and Head of Customer Service PWA Dekor (Munksjö Decor). Technical manager Papalera Calparsoro.
Holdings: 3,065 shares

Christian Mandl
Director Manufacturing Decor
Education: Civil engineering, mechanics
Born: 1949
Employed since: 1974
Background: Technical manager, Director of Manufacturing PWA Dekor (Munksjö Decor).
Holdings: 6,130 shares

Norbert Mix
Director Sales and Marketing Decor
Education: Finance, forestry economics
Born: 1957
Employed since: 2005
Background: 2006–2010 President and CEO of Munksjö Inc, USA. Sales and Technical Director Technocell Decor, Canada and USA. Technical Director Teknik Munksjö Decor, Inc USA. Head of Technical Customer Support PWA Dekor, Germany.
Holdings: 9,251 shares

Gerold Bausch
Director Technology and Development Decor
Education: Civil engineering, paper technology
Born: 1955
Employed since: 2005
Background: 1999–2004 Technical Manager, Koehler décor GmbH. Head of Technical Customer Support (international operations) PWA Dekor. Product Manager Julius Glatz GmbH. Product M Papeterie Versoix SA.
Holdings: 2,990 shares



Mats Flood
President Electrotechnical Paper
Education: High school engineering program, university studies in economics
Born: 1956
Employed since: 1984
Background: 1984–1991 Director of Sales Electrotechnical Paper AB and Converted Products.
Holdings: 2,390 shares

Bengt Lindqvist
President Specialty Pulp
Education: Technical education
Born: 1950
Employed since: 2000
Background: 2000–2006 Factory Manager Munksjö Aspa Bruk AB.
Factory Manager Södra Cell. Fiber line Project Manager Södra Cell. Block Manager SCA. Block Manager Södra Cell. Department Manager MoDo Husum.
Holdings: 2,240 shares

Sam Wiklund
Vice President Sales and Marketing Specialty Pulp
Education: Finance
Born: 1947
Employed since: 1983
Background: 1980–1983 Export Manager Kraft of Sweden AB. Area Export Manager Luxor AB.
Holdings: 1,195 shares

Ulf Maxén
President Thin Paper and Spantex
Education: Civil engineering
Born: 1964
Employed since: 2008
Background: 2006–2008 Site Manager Lantmännen Färskbröd AB. Technical Manager/ Production Manager, and Factory Manager SCA Hygiene Products and Director of Operations SCA Hygiene Products, Germany. Production Manager Mölnlycke Tissue AB.
Holdings: 4,675 shares

Rune Årnes
President Packaging Solutions
Education: BA in international marketing
Born: 1967
Employed since: 2008
Background: 2005–2008 CEO Fagerdala Cellplaster AB. Director of Administration, Director of Marketing Industry and Director of Production Industry Fagerdala Tradex AS, Norway. Sales Consultant Freia Malaco AS.
Holdings: 19,857 shares

Others

Key definitions

EBITDA
Operating profit/loss before depreciation and amortization.

EBITDA margin
EBITDA as a percentage of net sales.

Operating margin
Operating profit/loss after depreciation and amortization as a percentage of net sales.

Return on shareholders' equity
Profit/loss for the year as a percentage of average shareholders' equity.

Operating capital
Balance sheet total less interest-bearing assets, tax assets and non interest-bearing operating liabilities, including pension provisions.

Return on operating capital
Operating profit/loss as a percentage of operating capital.

Capital employed
Operating capital less net tax liability.

Return on capital employed
Operating profit/loss as a percentage of average capital employed.

Interest coverage ratio
Operating profit/loss plus financial income divided by financial expenses.

Interest-bearing net liability
Interest-bearing assets (including cash and equivalents) less interest-bearing liabilities.

Debt/equity ratio
Interest-bearing net debt divided by shareholders' equity including non-controlling interests

Equity/assets ratio
Shareholders' equity including non-controlling interests as a percentage of total assets.

Earnings per share
Profit/loss for the period divided by the average number of shares outstanding.

Equity per share
Shareholders' equity divided by the number of shares outstanding at the end of the period.

Number of employees
Number of permanent employees.

FTE
Number of hours worked divided by normal annual working hours.

Net sales per employee
Net sales divided by the average number of employees.

Production facilities

Unterkochen, Germany
Products: Decor paper
No. paper machines: 3
Capacity: 85,000 tons
FTEs: 267

Tolosa, Spain
Products: Decor paper
No. paper machines: 2
Capacity: 45,000 tons
FTEs: 160

Billingsfors, Sweden
Products: Spantex, thin paper, pulp and converting facility for Spantex
No. paper machines: 3
Paper capacity: 48,000 tons
Pulp capacity: 60,000 tons
FTEs: 279

Jönköping, Sweden
Products: Electrotechnical paper
No. paper machines: 1
Capacity: 22,000 tons
FTEs: 111

Taichang, China
Products: Paper converting, creping and/or cutting
Slitting machine: 1
Capacity: 500 tons
FTEs: 7

Aspa Bruk, Sweden
Products: Bleached and unbleached long fiber kraft pulp
Capacity: 200,000 tons
FTEs: 175

Arches, France
Products: Decor paper, abrasive backing paper and fine art paper
No. paper machines: 7
No. presses: 3
Decor capacity: 53,000 tons
Abrasive capacity: 22,000 tons
Fine arts capacity: 2,000 tons
Printing press capacity: 7,500 tons
FTEs: 465

Dettingen, Germany
Products: Decor paper, thin print paper
No. paper machines: 2
Capacity: 53,000 tons
FTEs: 196

Newly acquired production facilities

In December 2010, Munksjö signed an agreement to acquire ArjoWiggin's operations within decor paper, abrasive backing paper, thin print paper and fine art paper and the affiliated production facilities in Arches, France and Dettingen, Germany. The acquisition was completed on March 10, 2011. Above is a brief summary of each of the new facilities.

Addresses

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551 12 Jönköping, Sweden
Visiting address: Trädgårdsgatan 37 Jönköping
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Munksjö Aspa Bruk AB
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Email: info@es.munksjo.com

Munksjö Paper (Taicang) Co. Ltd
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New units:

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