Made by Munksjö™

Munksjö AB
Annual Report 2012

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Group overview

Munksjö in brief

Munksjö is one of Europe's leading players in specialty paper and specialty pulp. The Group develops, manufactures, markets and sells high-quality and value-creating specialty paper used in the manufacture of, for example, furniture, kitchen interiors and laminate flooring. Products used in industrial applications include Abrasive backing paper and electrotechnical paper for the insulation of high-voltage cables and transformers.

Longstanding customer relationships, high technical competence, production know-how and the capacity for product development have contributed to Munksjö's leading market positions. The products are sold globally, but the majority of sales are to customers in Europe. Munksjö has production facilities in France, China, Germany, Spain and Sweden. The Group has approximately 1 770 employees and three business areas: **Decor**, **Industrial Applications** and **Specialty Pulp**.

The **Decor** business area manufactures white and coloured decor paper that is used for such purposes as printing patterns and designs, including wood imitations on laminate surfaces. The products are used, for example, in the manufacturing of furniture, doors, kitchen interiors and flooring. This business area also includes Thin Print paper used for leaflets in pharmaceutical and cosmetic packaging and E2P, specialising in printing on decor paper.

The **Industrial Applications** business area manufactures specialty paper for industrial use. Examples of products include Abrasive backing paper for the manufacture of sandpaper primarily used by automotive and construction industries, electrotechnical paper for the insulation of transformers and cables; foils for applications such as kitchen units and furniture, as well as thin paper used as an interleaving in the steel, aluminium and glass industries. This business area also includes fine art paper under the Arches® brand.

The **Specialty Pulp** business area develops and produces eco-friendly bleached and unbleached long-fibre kraft pulp used by customers with high demands on the pulp's brightness, purity and strength.

CEO's comments

Munksjö's and Ahlstrom's plan to create the world's largest specialty paper company is ongoing

The internal decision points are completed, including the extraordinary General Meeting of Ahlstrom Corporation. This meeting, held on 27 November 2012 in Helsinki, voted unanimously for the combination of Munksjö and Ahlstrom's business area Label and Processing (Specialty paper).

With regard to the merger clearance from the EU Commission, a so called Phase II in-depth investigation within the segments for pre-impregnated decor papers and abrasive backing papers has begun. The transaction is expected to close during spring 2013, subject to the approval from the European Commission.

During the year Munksjö has completed the integration of the mills in Arches and Dettingen. Annual synergies, primarily within the Decor business, amounted to over MSEK 100. This work has been an excellent rehearsal for the coming synergy activities to be performed in connection with the combination of Ahlstrom's business area Label and Processing.

The working capital project, which commenced in the third quarter of 2011, has had a substantial impact on the year's performance and contributed to an operating cash flow of MSEK 480 for the full year 2012. In 2013 we will continue to prioritise the work releasing working capital and to focus on cost efficiency, both for fixed and variable costs. The market conditions for our products are still demanding even though some improvement in order intake is noted. The market was stabilised during the second half of the year and resulted in a somewhat increased order intake. EBITDA adjusted for non-recurring items for the fourth quarter 2012 was higher than the corresponding period last year for the first time during 2012.

The strengthening of the Group's position means that we are well prepared to meet upcoming challenges and opportunities.

Jan Åström
President and CEO

Director's 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 Registration Number 556669-9731, hereby submit the annual report for 2012.

Munksjö is one of Europe's leading players in specialty paper and specialty pulp. The Company has three business areas: Decor, Industrial Applications and Specialty Pulp. The **Decor** business area develops, manufactures, markets and sells white and coloured Decor paper that is used for such purposes as the printing of patterns and designs, including wood imitations for laminate surfaces. The products are used in the manufacturing of furniture, doors, kitchen interiors and flooring. This business area also includes Thin Print paper used for leaflets in pharmaceutical and cosmetic packaging and in E2P, specialising in printing on Decor paper.

The business area operates in a growth market driven by increased demand for laminated products. The production of Decor paper takes place at the production facilities in Dettingen and Unterkochen, Germany, in Arches, France and in Tolosa, Spain.

The **Industrial Applications** business area develops, manufactures, markets and sells specialty paper for industrial use. Examples of products include Abrasive backing paper used in the manufacture of abrasive paper primarily used in the automotive and construction industries, Electrotechnical paper for the insulation of transformers, foils for kitchen worktops and furniture, and Thin paper used as interleaving in the steel, aluminium and glass industries. This business area also includes Fine Art paper under the Arches® brand name.

The increased demand in the Industrial Applications business area is driven by such forces as real GDP growth, infrastructure investment, new construction and renovation of residential buildings, the demand for laminated products and developments in the steel, aluminium and glass industries. The manufacture of Abrasive backing paper takes place in Arches, France and in Jönköping, Sweden. The manufacture and conversion of Electrotechnical paper takes place in Jönköping, Sweden, and conversion is also conducted near Shanghai, China. The manufacture of Thin paper and foils (e.g. edge banding) takes place in Billingsfors, Sweden.

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

At the end of 2012, Munksjö had approximately 1 770 employees in Europe, North America and Asia. The majority of sales were to customers in Europe, but sales are also to Asia and the Americas.

Important events in 2012

In August 2012, Munksjö announced an agreement with Ahlstrom Corporation to combine Ahlstrom's Label and Processing business area with Munksjö, forming a new company to be named Munksjö Oyj. The new company will be a global leader in specialty paper with combined net sales in 2012 of approximately EUR 1.3 billion. The new company will have approximately 3 300 employees at 16 production sites in Europe, Brazil and China.

Following the proposed transaction, Munksjö´s current shareholders will own approximately 29 percent of the new company and Ahlstrom's current shareholders will own approximately 50 percent. Institutional investors Varma and Ilmarinen, as well as Ahlstrom and EQT III, have subscribed for all shares in a MEUR 100 directed share issue. The new company has committed credit facilities with a net debt of approximately MEUR 300. The transaction is expected to be completed during first half of 2013 and is subject to customary completion terms, such as merger clearances from the relevant competition authorities. Trading of the shares in the new company is expected to commence during the first half of 2013 on NASDAQ OMX Helsinki.

Munksjö celebrated its 150th anniversary in 2012. Production is still on going in the same location in Jönköping where operations began in 1862. At the beginning of 2012, the Decor business area's sales and marketing organisation was integrated into a new shared office in Aalen, Germany. The integration is one link in Munksjö's strategy of strengthening customer service levels and the continued development of the business area.

Near term outlook

The market was stabilized during the second half of the year and resulted in a somewhat increased order intake. The strengthening of the Group's position subsequent to the acquisition of Arches and Dettingen together with the cash flow and cost improvement initiatives undertaken during the previous quarters, means the Group is well positioned to meet upcoming opportunities. In 2013 we will continue to prioritise the work releasing working capital and to focus on cost efficiency, both for fixed and variable costs.

Net sales and profit

Net sales for the year amounted to MSEK 5 289 (5 454). Prices were stable in an uncertain market environment. The Swedish units were affected by the strengthening of the Swedish krona against the euro.

Adjusted for non–recurring items, operating profit amounted to MSEK 147 (222) with a margin of 2,8 percent (4,1).

Synergies, from the acquisition of Arches and Dettingen in 2011, were achieved according to plan during the year. Lower raw material and energy costs partially compensated for decreased volumes in the Decor and Industrial Applications business areas. Production curtailments were undertaken during the year in order to adapt to current market conditions.

Operating profit amounted to MSEK 65 (95). Profits were negatively affected by non-recurring items of MSEK 82, mainly related to the planned combination with Ahlstrom's Label and Processing business area and the anticipated listing on the Helsinki stock exchange as described in "Important events in 2012".

Net financial items amounted to MSEK –142 (–102), an increase of MSEK 40, mainly due to currency-exchange effects. Net financial items include the result from realised interest-rate hedges of MSEK –32 (–30). At year-end the value of unrealised interest–rate hedges was MSEK –1 (–30).

Taxes for the year totalled MSEK –14 (35). The tax charge is mainly due to significant level of non-deductible expenses related to the planned combination described in "Important events in 2012".

Net profit for the year amounted to MSEK –91 (28).

Hedging

Munksjö hedges portions of its forecasted net flow in foreign currencies. At year-end, the market value for unrealised currency hedges was MSEK 0 (–6). Realised currency hedges totalling MSEK 16 (22) were recognised in the operating profit for January-December 2012. The net consumption of electricity was hedged at 50 percent for all Swedish units.

In 2012, charges to operating profits related to electricity derivatives were MSEK –9 (4). At year–end, the value of unrealised hedges was MSEK –4 (–5). Munksjö Group hedged 1 000 tonnes of short-fibre pulp and 3 500 tonnes of long-fibre pulp on a monthly basis, up to and including December 2012. At year-end, Munksjö had unrealised pulp hedges valued at MSEK 0 (–26). During the year, the hedges impacted operating profit by MSEK –2 (–29). All hedging activities are centrally managed and reported in the segment, "Other."

Income statement

MSEK	2012	2011 1)	2010	2009
Net sales	**5 289**	**5 454**	**3 701**	**3 025**
Other income	23	20	35	21
Operating expenses	-5 247	–5 379	–3 433	–3 066
Operating profit	65	95	303	–17
Net financial expense	-142	–102	–90	–202
Profit/loss before tax	-77	–7	213	–219
Tax	-14	35	–71	28
Net profit/loss for the year	**-91**	**28**	**142**	**–191**

1) The acquisition of Arches and Dettingen is consolidated from March 2013.

Balance sheet and cash flow

Shareholders' equity on 31 December 2012 amounted to MSEK 1 720 (1 825) and the Group's balance-sheet total amounted to MSEK 5 853 (5 976). The change in equity was due to the losses incurred during the year of which MSEK 82 related to non-recurring items, increase in pension liabilities due to decrease in discount rate and currency translation effects due to the strengthened Swedish krona.

The interest-bearing net financial debt on 31 December 2012 was MSEK 1 869 (2 249), which resulted in a debt/equity ratio of 1,1 (1,2). Loans primarily comprise syndicated bank financings. Cash and cash equivalents totalled MSEK 492 (161). In addition, there were funds in escrow, totalling MSEK 5 (17). The cash flow from operating activities for the period January–December 2012 amounted to MSEK 480 (15) which was mainly due to an extensive working capital management project during the year.

Balance sheet

MSEK	2012	2011 1)	2010	2009
Assets	3 749	3 993	3 349	3 752
Inventory	780	919	456	446
Accounts receivables	695	748	533	4 73
Other current assets	137	155	150	258
Cash and cash equivalents	492	161	281	254
Total assets	**5 853**	**5 976**	**4 769**	**5 183**
Total equity	1 720	1 825	1 235	1 209
Non-current liabilities	2 888	2 999	2 862	3 218
Current liabilities	1 245	1 152	672	756
Total equity and liabilities	**5 853**	**5 976**	**4 769**	**5 183**

Key figures

	2012	2011	2010
EBITDA (adjusted)	368	427	476
Margins (adjusted)			
EBITDA-margin, %	7,0%	7,8%	12,9%
Operating margin, %	2,8%	4,1%	8,7%
Return (rolling 12 months)			
Return on capital, % (adjusted)	3,9%	6,1%	n.a
Return on equity, %	–5,1%	1,8%	n.a
Capital structure at the end of the period			
Operating capital, MSEK	3 560	4 064	3 270
Equity, MSEK	1 720	1 825	1 235
Interest-bearing net debt, MSEK	1 869	2 249	1 983
Net debt, times	1,1	1,2	1,6
Solidity, %	29,4%	30,5%	25,9%
Per share (basic and diluted)			
Earnings per share, SEK	-1,29	0,39	4,91
Equity per share, SEK	22,62	24,04	43,09
Average number of shares	74 636 119	66 850 042	27 919 655
Capital expenditures, MSEK	129	169	112
Average employees, FTE	1 679	1 635	1 055

Decor business area

Munksjö develops, manufactures, markets and sells Decor papers. Decor paper is a specialty paper for surface upgrading of wood-based panels, such as particle boards and MDF. They find their final application in furniture manufacturing, interior/exterior architecture or laminate flooring. The Group is one of the leading global players in Decor paper and provides innovative product solutions and customised services.

Net sales were stable compared with the previous year at MSEK 3 209 (3 204). Assuming the acquisition of Arches and Dettingen had occurred 1 January 2011, net sales decreased by approximately 8 percent. Despite a softer market for Decor base paper starting in the third quarter of 2011, volumes delivered and prices were broadly unchanged year-on-year. The Decor business area accounted for 61 percent of the Group's total net sales in 2012.

The adjusted operating profit amounted to MSEK 171 (179), with an adjusted operating margin of 5,3% (5,6). Operating profit amounted to MSEK 166 (135). The key drivers for profit development included effective management of the fixed cost base combined with lower raw material costs in the latter part of the year.

Net sales and profit

MSEK	2012	2011[2]	2010	2009
Net sales	3 209	3 204	1 763	1 444
EBITDA (adjusted) [1]	264	264	177	104
Depreciation and amortisation	-93	–85	–52	–63
Operating margin	166	135	125	41
Operating margin, %	5,2	4,2	7,1	2,8
Operating capital	2 301	2 656	2 273	2 539
Capital expenditures	41	56	40	25
Delivery volumes, tonnes	166 500	168 000	109 700	89 700
Employees, FTE	911	870	440	463

1) Adjusted for non-recurring items
2) The Arches and Dettingen acquisition is consolidated from March 2011

Products

Munksjö produces Decor papers in a wide range of colours according to customers' specifications. The Company also manufactures Pre-impregnated papers and is a niche player for select printed designs. In further processes, a major share of decor paper is printed with designs – e.g. wood grain, stone or abstract decors. Subsequently, the solid-colour and printed decor papers are impregnated with melamine, polyester or a mixture of urea and melamine resin and laminated onto a wood-based substrate, such as particle board or MDF. The final application is used in furniture manufacturing, interior/exterior architecture or laminate flooring. Surfaces utilising impregnated Decor paper offer several advantages including scratch and fade resistance and also preserve valuable resources such as rare tropical woods. They are easy to clean and offer almost unlimited design variations. The colour range comprises some 2 000 different colours, of which approximately 10 percent are different shades of white.

Munksjö divides its Decor paper businesses into five different categories:

- Print-base paper
- Decor paper for high- and low-pressure lamination
- Backer paper
- Pre-impregnated Decor paper
- Thin Print paper

Print-base paper is white or solid coloured decor paper ready for print. Print-base papers are high-tech papers with a very smooth surface, excellent dimensional stability and particularly good printability behaviour. Following print and lamination steps, this product is mainly used for laminate flooring and furniture production.

Decor paper for high- and low-pressure lamination is especially geared to this further processing step, offering high colour consistency and technological features for fast and economical impregnation. After lamination, decor papers become durable and achieve the surface properties that make this product best suitable for use in environments involving rough wear and tear. Examples of applications are: kitchen furniture and worktops, office furniture and even building facades for outdoor application.

Backer paper is a decor paper that prevents wood-based boards from bending during lamination. Backer paper must withstand moisture and temperature fluctuations.

Pre-impregnated decor paper is a partly pre-impregnated foil base paper offering high internal bond level and high printability results suitable for foil-finish applications. After printing (if requested), lacquering and gluing onto wood substrate, the finished product is suitable for furniture, doors, laminate flooring, roof and wall covering applications.

Thin Print paper is mainly used for pharmaceutical and cosmetic leaflets (packaging inserts and outserts). The main component of the papers is pulp, which is selected according to strict criteria to ensure excellent product quality and sustainability over time. Munksjö produces speciality Thin Print papers from 35 to 65 g/m² in bluish white, brilliant white and cream shade to offer each customer an adequate solution. Munksjö has longstanding expertise in manufacturing of Thin Print papers, and strives daily to match the needs of its customers. Munksjö takes particular care to maintain a good balance between printing and processing (converting) properties.

Product development

Munksjö is of the opinion that key success factors are being at the leading edge in terms of product development and the constant improvement of manufacturing and production processes. A considerable portion of the work on product development is carried out in close cooperation with customers. The work is focused on the ability to deliver high-precision Decor paper in accordance with customers' specifications. This has resulted in such improvements as thinner paper and paper that enables faster impregnation.

Today, Munksjö owns three decor patents, two European patents on pre-impregnated papers and one European patent regarding resin saving Decor paper.

Decor's product development is centralised at the Group's development centre in Apprieu, France. Read more about this in the section "Research and development" on page 11.

Marketing, sales and customers

Munksjö's marketing and sales activities for Decor paper are pursued by a joint sales-and-marketing organisation, based in Aalen, Germany. The organisation was further strengthened as a result of the acquisition of additional decor operations. The organisation also comprises sales offices in Vergiate and Turin, Italy, in Leominster outside Boston, USA, and in Taicang, Shanghai and Hong Kong, China. Munksjö is also represented by sales agents around the world. Munksjö Thin Print papers have sales representatives in Germany, France, Italy and India.

Munksjö believes that customer value for the manufacture of decor paper can be achieved by increasing the degree of refinement and the proximity to customers in product development, which is supported by our R & D and Technical Customer Service.

Decor paper customers can be divided into printing houses, laminators and impregnators. The majority of our customers are Western European companies, and some of these are backward-integrated in the value chain.

Munksjö's ten largest customers accounted for approximately 55 percent of the Group's net sales of decor paper in 2012.

Market size and growth

Munksjö estimates that the global market for decor paper in 2011 amounted to approximately 627 000 tonnes (excluding China). According to Munksjö's assessment, the market grew by an average annual growth rate of approximately 3 percent between 1999 and 2007 (excluding China) and has primarily been driven by an increased demand for laminate flooring. The reason for excluding China is the difficulty in extracting data from this highly encapsulated market, Munksjö estimate that the production and consumption in China is balanced at about 240 000 tonnes.

There was a significant drop in demand for decor paper from 2007 to 2009, in conjunction with the general recession and turbulence in global credit markets. However, Munksjö appraises that the global decor papers market strengthened in 2010 and the first half of 2011, but weakened in the latter part of 2011 and was stable through 2012.

The largest geographical market is Europe, which represented approximately 70 percent of the global market in 2011. The manufacture of decor paper is concentrated to a limited number of players, of which the majority have their production in Europe.

Industrial Applications business area

Munksjö develops, manufactures, markets and sells Abrasive backing paper for industrial end-applications, primarily for automotive and wood industries, as well as Electrotechnical paper for insulating high-voltage cables, transformers and bushings. This business area also includes Spantex®, which comprises foil for kitchen worktops and furniture, Thin paper used as interleaving for steel, aluminium and glass industries, as well as Fine Art paper used for watercolour painting, art and digital printing.

Net sales decreased to MSEK 1 291 (1 358). Munksjö Inpak A/S, which was divested in late 2011, had sales of MSEK 66. Demand weakened during the latter part of the year. Total volume was in line with the preceding year even if development among the product areas was mixed. The strengthening of the Swedish krona had a negative effect on the Swedish entities. Industrial Applications business area accounted for 24 percent of the Group's total net sales in 2012.

The adjusted operating profit amounted to MSEK 41 (35) with a margin of 3,2 percent (2,6). The operating profit was MSEK 37 (25).

The business area shows a better margin for the year although performance among its product areas was somewhat mixed.

Net sales and profit

MSEK	2012	2011 [2]	2010	2009
Net sales	1 291	1 358	924	877
EBITDA (adjusted) [1]	106	96	87	120
Depreciation and amortisation	-65	–61	–42	–47
Operating margin	37	25	45	73
Operating margin, %	2,9	1,8	4,9	8,3
Operating capital	499	546	407	387
Capital expenditures	51	44	30	20
Delivery volumes, tonnes	76 100	76 000	59 500	57 600
Employees, FTE	568	570	429	422

1) Adjusted for non-recurring items
2) The Arches and Dettingen acquisition is consolidated from March 2011

Products

Abrasive backing paper

Munksjö manufactures and sells Abrasive backing paper that is used for the production of coated abrasive products of various forms (discs, rolls, narrow or wide and sectional belts, etc.). Production primarily takes place at the mill in Arches, France.

There are different grinding requirements and different materials used as Abrasive backing; paper, fabric, vulcanised fibres, fibre cloth or a combination of these materials. Abrasive backing paper, which is used in the manufacture of coated abrasives, is used for sanding or polishing materials through wet or dry conditions by many industry sectors, such as the automotive, aviation engineering, furniture, wood, metal and construction industries.

Munksjö's well-known range of papers includes Abrasive backing paper for wet and dry grinding. The product range comprises all types of coated Abrasive backing paper, from multipurpose paper to latex, antistatic and high mechanical resistant paper, or materials for oil-based impregnation.

Munksjö is the sole supplier to have a complete range of backings, including both paper and cloth coatings, flexibilities and colours. Munksjö's Abrasive backing paper made of cloth is unique and ready-to-use and has been designed for production of high-quality grinding products. Munksjö's range comprises cotton, polyester and polycotton products (material made of polyester and cotton) in different weaving constructions for wet and dry grinding.

Electrotechnical paper

Electrotechnical paper is used for insulating high-voltage cables, transformers and bushings. Approximately 80 percent of the Electrotechnical paper that Munksjö produces is used in transformers for insulating the transformer core from the coils. The paper is also a vital component in the manufacture of submarine cables with high demands on the paper's insulating property, purity, strength and flexibility. Manufacturing takes place at the mill in Jönköping, with pulp from the mill in Billingsfors, Sweden. The conversion of Electrotechnical paper takes place in Jönköping, and in Taicang, China.

Spantex®

Spantex is a registered trademark for foil (impregnated paper) used in numerous applications, including the surface layer of wood-based substrate such as particle board. The product range includes durable edge-banding foils, balancing foils that protect chipboard against moisture, and varnished or pattern-printed ready-to-use foils. Manufacturing takes place at the mill in Billingsfors.

Thin paper

Approximately two-thirds of the Thin paper produced by Munksjö is used as an interleaving in the steel, aluminium and glass industries. There are stringent requirements placed on the purity of interleaving paper, since the smallest impurity, such as bark spots, can destroy the material instead of protecting it. Other Thin paper products produced by Munksjö include One-time carbonizing paper, OTC and masking paper for the textile industry. Thin paper is produced at the mill in Billingsfors.

Fine art paper

Arches' watercolour paper is considered to be the world's best and is used by artists the world over. Fine Art paper has characteristics that make it well-suited for painting and the printing of art motifs, and it is marketed under the Arches® Brand. Watercolour paper is made of cotton with a structure that provides strength and a characteristic feel. The paper is also used for exclusive books. The mill in Arches, France, has been manufacturing Fine Art paper since 1492.

Product development

Munksjö's product development in industrial applications is carried out in close cooperation with customers. The work is comprehensive and aimed at expanding and improving our product offering and effecting cost savings in customer applications. In 2012, innovative Abrasive backing paper products were launched thanks to joint efforts and know-how in Munksjö. Product development takes place at the development centre in Apprieu, France as well as at the individual mills.

Marketing, sales and customers

Munksjö's Abrasive backing paper is sold exclusively to manufacturers of coated abrasive products, who in turn sell these sanding products to wholesalers or directly to end customers. Woodworking, automotive, assembly industries and DIY form the largest end markets for Abrasive backing paper. Local integrated sales teams, located in France, Italy, China and the US cover most of the sales and contact with the customers. External sales agents and distributors cover India, Japan and Korea. Munksjö also offers professional technical customer service support (TCS) on site, as well as tools for supply chain management (SCM). With local storage platforms in China and the US, Munksjö can ensure fast delivery all over the world.

Munksjö's marketing and sales activities for Electrotechnical papers are conducted by a sales organisation based in Jönköping and through sales companies in Vergiate, Italy and Leominster, Massachusetts, in the US, as well as through the wholly owned company in Taicang, China. Customers include some of the largest global players in power transmission. Approximately 70 percent of sales of interleaving paper products consist of products primarily sold through agents. Other sales comprise products developed together with customers. Customers include the largest producers of high-quality aluminium, glass and stainless steel.

Spantex® sales are conducted through its own sales organisation based in Billingsfors and through agents. Customers comprise a large number of stakeholders, of whom many are sub-suppliers to leading furniture manufacturers.

Munksjö has signed a multi-year agreement with two major European distributors for the sale of Arches® Fine Art paper.

Specialty Pulp business area

The Specialty Pulp business area develops, manufactures, markets and sells environmentally friendly bleached and unbleached long-fibre kraft pulp for external customers with high demands on brightness, purity and strength.

Net sales amounted to MSEK 855 (917). Lower market pulp prices affected the net sales. A softer market for pulp in Europe was compensated by increased sales in Asia to lower net prices. Deliveries in 2012 were record-high, amounting to 184 600 tonnes (168 800). Specialty Pulp accounted for 15 percent of Munksjö's overall net sales in 2012.

The operating loss amounted to MSEK -16 (49) with a margin of –1,9 percent (5,3). The wood price decreased somewhat during the second half of the year.

Net sales and profit

MSEK	2012	2011	2010	2009
Net sales	855	917	1 027	727
EBITDA (adjusted) [1]	42	106	247	24
Depreciation and amortisation	-58	–57	–56	–60
Operating margin	-16	49	191	–36
Operating margin, %	–1,9	5,3	18,6	–5,0
Operating capital	600	764	547	551
Capital expenditures	29	56	39	14
Delivery volumes, tonnes	184 600	168 800	176 700	168 000
Employees, FTE	169	170	175	174

1) Adjusted for non-recurring items

Products

A distinction is made between long-fibre and short-fibre pulp used in paper production. Long-fibre pulp based on wood from conifers, such as pine and spruce, imparts strength to the paper, while short-fibre pulp made from hardwood trees, such as birch and eucalyptus, gives the paper good printing properties. Paper manufacturers use various combinations of long- and short-fibre pulp adapted to each paper grade and its range of applications.

Munksjö manufactures bleached and unbleached (Unbleached Kraft Pulp, UKP) long-fibre kraft pulp. Bleached pulp is manufactured for customers with high demands on brightness, purity and strength. It is used in the production of graphic paper, writing and printing paper, coated paper, board and hygiene products, as well as specialty products outside the paper sector, such as light switches, toilet seats and playing dices. Unbleached pulp is primarily used for the manufacture of paper for various filters, hygiene and paperboard products.

The manufacture of electrotechnical paper uses unbleached pulp of extra-high standards on purity (UKP-E Unbleached Kraft Pulp – electrotechnical grade). This pulp is largely used in electrotechnical paper for the insulation of high-voltage cables, transformers and bushings. There are only a few players in the world offering the quality supplied by Munksjö. Production takes place at Aspa Bruk, outside Askersund, Sweden.

Product development

Product development for bleached pulp focuses on the production of purer and brighter pulp. Development of Munksjö's unbleached pulp is mainly focused on further increasing the purity of the pulp to achieve the highest possible insulating properties for the transmission of power in electrotechnical applications.

Marketing, sales and customers

Munksjö's customers are mainly small and medium-sized mills producing niche products. Sales for the Nordic countries are conducted directly from Aspa Bruk, while sales outside the Nordic region are handled through agents and trading houses.

Munksjö safeguards long-term and stable customer relationships that create continuity in operations. A total of 90 percent of sales are to customers in Europe, with Germany forming the largest submarket. Sales outside Europe are to customers in, for example, India, Japan and China.

Pulp production – a natural hedge for Munksjö

In 2012, Aspa Bruk sold approximately 185 000 tonnes of long-fibre pulp to external customers. During the same period, the mills in Arches, Dettingen and Unterkochen used approximately 140 000 tonnes of mainly short-fibre pulp purchased from external producers. In addition, Munksjö produces pulp in Billingsfors that is used for the manufacture of specialty paper in Billingsfors and Jönköping.

Since Munksjö is both a seller and buyer of pulp, from a Group perspective, Munksjö is naturally hedged against fluctuations in the price of pulp, which contributes to increased stability in its profitability.

The pulpwood used for the pulp manufactured at Aspa Bruk is purchased from Sydved, a company that Munksjö owns jointly with Stora Enso. Joint ownership in Sydved contributes to lower transport costs for pulpwood and high reliability in deliveries. Munksjö has an in-house purchasing organisation that handles the procurement of pulpwood for Billingsfors.

Financial information per quarter

Net sales accumulated, per quarter per segment and group

	12 months			3 months							
MSEK	Jan–Dec 2012	Jan–Dec 2011	Jan–Dec 2010	Oct–Dec 2012	Jul–Sep 2012	Apr–Jun 2012	Jan–Mar 2012	Oct–Dec 2011	Jul–Sep 2011	Apr–Jun 2011	Jan–Mar 2011
Decor	3 209	3 204	1 763	860	763	813	773	840	866	880	618
Industrial Applications	1 291	1 358	924	319	282	362	328	353	343	383	279
Specialty Pulp	855	917	1 027	210	201	222	222	208	208	262	239
Other and eliminations	–66	–25	–13	–16	–9	–24	–17	–12	–3	–6	–4
Group	**5 289**	**5 454**	**3 701**	**1 373**	**1 237**	**1 373**	**1 306**	**1 389**	**1 414**	**1 519**	**1 132**

Operating profit/loss (adjusted) accumulated, per quarter per segment and group

	12 months			3 months							
MSEK	Jan–Dec 2012	Jan–Dec 2011	Jan–Dec 2010	Oct–Dec 2012	Jul–Sep 2012	Apr–Jun 2012	Jan–Mar 2012	Oct–Dec 2011	Jul–Sep 2011	Apr–Jun 2011	Jan–Mar 2011
Decor	171	179	125	48	38	33	52	42	21	67	49
Industrial Applications	41	35	45	–4	–5	28	22	16	7	10	2
Specialty Pulp	–16	49	191	–27	4	14	–7	–36	36	33	16
Other and eliminations	–49	–41	–38	–1	–5	–29	–14	–7	–17	–15	–2
Group	**147**	**222**	**323**	**16**	**32**	**46**	**53**	**15**	**47**	**95**	**65**

Operating margin (adjusted) accumulated, per segment and group

	12 months			3 months							
Percent	Jan–Dec 2012	Jan–Dec 2011	Jan–Dec 2010	Oct–Dec 2012	Jul–Sep 2012	Apr–Jun 2012	Jan–Mar 2012	Oct–Dec 2011	Jul–Sep 2011	Apr–Jun 2011	Jan–Mar 2011
Decor	5,3	5,6	7,1	5,6	5,0	4,1	6,7	5,0	2,4	7,6	7,9
Industrial Applications	3,2	2,6	4,9	–1,3	–1,8	7,7	6,7	4,5	2,0	2,6	0,7
Specialty Pulp	–1,9	5,3	18,6	–12,9	2,0	6,3	–3,2	–17,3	17,3	12,6	6,7
Group	**2,8**	**4,1**	**8,7**	**1,2**	**2,6**	**3,4**	**4,1**	**1,1**	**3,3**	**6,3**	**5,7**

Non-recurring items, accumulated, per quarter per segment and group

	12 months			3 months							
MSEK	Jan–Dec 2012	Jan–Dec 2011	Jan–Dec 2010	Oct–Dec 2012	Jul–Sep 2012	Apr–Jun 2012	Jan–Mar 2012	Oct–Dec 2011	Jul–Sep 2011	Apr–Jun 2011	Jan–Mar 2011
Decor	–5	–44	–	–3	0	–2	0	–3	–3	–28	–10
Industrial Applications	–4	–10	–	–2	–2	0	0	0	2	–6	–6
Specialty Pulp	0	0	–	0	0	0	0	0	0	0	–
Other	–73	–73	–20	–14	–38	–18	–3	–20	–12	–32	–9
Group	**–82**	**–127**	**–20**	**–19**	**–40**	**–20**	**–3**	**–23**	**–13**	**–66**	**–25**

Financial information per quarter, *continued*

Operating profit/loss, accumulated, per quarter per segment and group

	12 months			3 months							
MSEK	**Jan–Dec 2012**	**Jan–Dec 2011**	**Jan–Dec 2010**	**Oct–Dec 2012**	**Jul–Sep 2012**	**Apr–Jun 2012**	**Jan–Mar 2012**	**Oct–Dec 2011**	**Jul–Sep 2011**	**Apr–Jun 2011**	**Jan–Mar 2011**
Decor	166	135	125	45	38	31	52	39	18	39	39
Industrial Applications	37	25	45	–6	–7	28	22	16	9	4	–4
Specialty Pulp	–16	49	191	–27	4	14	–7	–36	36	33	16
Other and eliminations	–122	–114	–58	–15	–43	–47	–17	–27	–29	–47	–11
Group	**65**	**95**	**303**	**–3**	**–8**	**26**	**50**	**–8**	**34**	**29**	**40**

Operating margin, accumulated, per quarter per segment and group

	12 months			3 months							
Percent	**Jan–Dec 2012**	**Jan–Dec 2011**	**Jan–Dec 2010**	**Oct–Dec 2012**	**Jul–Sep 2012**	**Apr–Jun 2012**	**Jan–Mar 2012**	**Oct–Dec 2011**	**Jul–Sep 2011**	**Apr–Jun 2011**	**Jan–Mar 2011**
Decor	5,2	4,2	7,1	5,2	5,0	3,8	6,7	4,6	2,1	4,4	6,3
Industrial Applications	2,9	1,8	4,9	–1,9	–2,5	7,7	6,7	4,5	2,6	1,0	–1,4
Specialty Pulp	–1,9	5,3	18,6	–12,9	2,0	6,3	–3,2	–17,3	17,3	12,6	6,7
Group	**1,2**	**1,7**	**8,2**	**–0,2**	**–0,6**	**1,9**	**3,8**	**–0,6**	**2,4**	**1,9**	**3,5**

Delivered volumes, accumulated, per quarter per segment and group

	12 months			3 months							
Tonnes	**Jan–Dec 2012**	**Jan–Dec 2011**	**Jan–Dec 2010**	**Oct–Dec 2012**	**Jul–Sep 2012**	**Apr–Jun 2012**	**Jan–Mar 2012**	**Oct–Dec 2011**	**Jul–Sep 2011**	**Apr–Jun 2011**	**Jan–Mar 2011**
Decor	166 500	168 000	109 700	45 500	41 200	40 900	38 900	41 200	44 800	46 600	35 400
Industrial Applications	76 100	76 000	59 500	18 500	17 700	20 500	19 400	19 400	18 000	21 200	17 400
Specialty Pulp	184 600	168 800	176 700	46 800	46 200	43 500	48 100	41 300	35 900	47 300	44 300
Other and eliminations	–8 400	–800	–2 300	–2 000	–2 000	–2 500	–1 900	–500	–100	–200	0
Group	**418 800**	**412 000**	**343 600**	**108 800**	**103 100**	**102 400**	**104 500**	**101 400**	**98 600**	**114 900**	**97 100**

Procurement

Munksjö's strategy is to cooperate with suppliers by offering them business opportunities with the entire Group to ensure that the best overall prices and services are obtained for the products/services that the Group purchases. More than the price alone, there are a number of other factors impacting possible negotiations.

Bulk purchasing is one vital tool for making Munksjö a more attractive customer to our suppliers and improving our negotiating strength significantly.

To maximise Munksjö's flexibility and freedom of action while reducing the risks of raw material shortages, the Group's procurement strategy is to rely on more than one supplier for each raw material.

Munksjö's purchasing comprises nine separate categories with employees from each business area contributing with their expertise to achieve the best possible results. These groups conduct joint purchasing and procurement activities and evaluate the service and production of suppliers. The organisation is centrally coordinated. The categories comprise the following areas: pulp, titanium dioxide and fillers, logistics, packaging, maintenance and capex, energy, chemicals, paper machine clothing, as well as colours and pigments. Each category has an appointed person responsible for negotiating together with a team of specialists, the frame agreements that serve all companies within the Group.

Munksjö's purchasing organisation utilises a structured method for ensuring a complete and systematic procurement process.

Capital expenditure

In 2012, the Group's investments amounted to MSEK 129 (169). The majority of investments were minor replacement capital expenditures.

The single largest ongoing project is a wet pulp loading station and conveyer system in Aspa pulp mill. This project will allow Billingsfors to fully utilise its pulp production and the pulp will be dried and sold to end customers by Aspa. This project will enable full capacity utilisation leading to lower production costs

Research and development

Research and development is essential to the manufacture of specialty paper, which is produced and designed with the aim of meeting customer-specific requirements concerning quality and functionality. Munksjö has highly specialised know-how regarding paper technologies, print technologies, impregnation and moulding techniques, which creates conditions conducive to product development. All of Munksjö's product segments utilise the modern and well-equipped development centre in Apprieu, France, where product development, materials analyses, research concerning alternative raw materials and patent administration is pursued. The work at the development centre strengthens Munksjö's capacity for product development, which is an increasingly important competitive factor. Prototypes of new papers are produced and their properties are evaluated (optical or mechanical). Munksjö's scientific service allows the staff to categorise the products and the customer's products by analysis of the structure and composition (fibres and chemicals).

Development projects are initiated and carried out in collaboration with customers, as well as within the framework of Munksjö's own product development. Furthermore, a significant portion of research and development in the paper industry comprises investments by suppliers in the course of their development of production equipment. Munksjö works actively to patent the inventions produced by the Group, primarily at the development centre in Apprieu.

Employees

At the end of the year, Munksjö had 1 769 (1 802) employees, corresponding to 1 679 (1 635) full-time equivalent employees (FTE's). The number from last year does not include a full year average of employees from the operations acquired and is therefore not comparable to 2012. Comparing full year figures, the number of employees has gone down due to redundancies in connection to the acquisition and reduction of temporary staff. Refer to Note 7. The average age of Munksjö's employees is 45, with an average term of employment of 17 years. Staff turnover for the Group as a whole is relatively low and amounts to less than three percent.

Munksjö strives to have a non-discriminatory corporate culture based on responsibilities, competence and respect. Munksjö fosters a work atmosphere characterised by respect for the equality of all human beings. All current and potential employees should be treated fairly and without prejudice.

Munksjö recognises the fundamental right of employees to choose whether to be represented by a recognised union and respects the right of employees and their unions to negotiate collective agreements.

Munksjö has good relationships with the relevant unions. Munksjö's practices are based on internationally recognised labor-law guidelines and adherence to the applicable regulations of countries where it has operations.

Code of Conduct

Munksjö has adopted a Code of Conduct to emphasise the principals that shall apply to the company's contacts with employees, business associates and other stakeholders. Refer to Munksjö website. Munksjö's executive management and employees have a shared responsibility for compliance with the Code. In addition to this Code of Conduct, there are Group-wide guidelines that establish the framework for handling various situations.

European work's council

In its capacity as an international group of companies, Munksjö has chosen to have a European work's council, the Munksjö Works Council, MWC. This is a forum for information and consultation between employee representatives and executive management in matters of common interest. The aim is to encourage the fulfilment of the Group's business objectives.

Munksjö's Works Council comprises a total of eleven representatives elected at their respective workplaces for a period of four years. The MWC meet twice a year. The meetings follow a common agenda through which information from Group Management is provided regarding Group-wide activities and financials as well as information exchanges between workplaces. Of the eleven representatives are two from France, three from Germany, two from Spain and four from Sweden.

A healthy and safe work environment

Munksjö endeavours to offer its employees a healthy and safe work environment and strives continuously to minimise the number of incidents and accidents. The aim is to achieve the Group's target of reducing the number of workplace accidents to zero through preventive training, monitoring and determining measures to be taken for possible events within a structured process.

Group management, local executive management, union representatives, safety engineers and employees work hard together to achieve this goal. At a minimum, all of Munksjö's production facilities/offices should comply with the country's laws and applicable collective agreements.

Remuneration

Munksjö sets salaries on an individual basis and in several subsidiaries, there are performance-based salary components based on a combination of financial goals and other operations targets. The company is committed to paying fair salaries and benefits in accordance with the relevant standards in countries where the Group is active.

Sustainability initiatives

Munksjö is strongly committed to pursuing and developing business activities in a sustainable manner. Munksjö endeavours to contribute to sustainable development with respect to financial, environmental and social issues, thereby creating advantages for the Company's shareholders, employees, customers, suppliers and other stakeholders. Munksjö continuously strives to improve its efforts in sustainable development.

Munksjö conducts licensed operations in Sweden, France, China, Germany and Spain.

Munksjö pursues its activities in a high environmental standard and in accordance with applicable laws and regulations of the countries where the Group is represented. Munksjö's paper and pulp manufacturing activities cause the emission of substances to both water and air. Munksjö's production processes and products, which by nature require the use of chemicals and materials that are potentially harmful for the environment, also result in certain waste products. Munksjö's operations are subject to comprehensive regulations, primarily regarding the environment, health and safety. The manufacture of paper and pulp requires permits pursuant to prevailing environmental legislation and these permits include stipulations specifically concerning production volumes, emissions and noise levels, as well as the handling of waste and chemicals.

Munksjö's environmental work encompasses product development and information concerning products, efficient and quality-assured production, as well as knowledge and communication from an environmental perspective. Munksjö works continuously to offer a solid range of environmentally-friendly products through:

- Munksjö's products and manufacturing processes are designed so that energy and raw materials are used efficiently, with waste and residual products minimised in the course of the products' life cycle.
- Munksjö's products being produced primarily from renewable raw materials, and being reusable and safe to use; Munksjö is ensuring that the origins of the raw materials are in line with governing laws and regulations.
- Munksjö's support of the prudence concept, by which materials and methods that represent environmental and health risks are avoided whenever suitable alternatives are obtainable; Munksjö promotes the use of suitable and recognised environmental management systems throughout the organisation.

Corporate governance

Munksjö AB (publ) is a Swedish limited liability company with its registered domicile in Jönköping, Sweden and operative headquarters in Stockholm. From financial year 2011 onward, Munksjö began applying the Swedish Code of Corporate Governance, herein referred to as the "Code." The Code is mandatory for all Swedish companies with stocks listed in organised markets within Sweden and must be fully applied in connection with the first Annual General Meeting (AGM) held in the year after its listing on the stock exchange. Companies are not required to comply with all Code regulations, but are allowed the possibility of choosing alternative solutions that they deem to be better-suited to their particular circumstances, provided that these deviations, if any, are disclosed. The alternative solutions must be described and their basis explained (the comply-or-explain principle) in the Corporate Governance report.

Munksjö applies the Code, with the exception that a Nomination Committee will be appointed only following the achievement of an increased distribution of ownership/stock-exchange listing. Furthermore, the Company's Q3 interim reports was reviewed by the Company's auditors.

The full Governance report is available on page 59.

Risk factors

Munksjö operates in a competitive international market. Each business unit is responsible for assessing operational and financial risks. Each business unit regularly analyses and processes risk assessments for their own unit.

An overall risk assessment must comprise all aspects of operations and a general assessment of global trends. Identified risk factors are classified in the risk areas of: industry and market related risks, risks related to operations and strategies, legal and financial risks, all of which are described below without any particular order of precedence. These risk factors could, separately or in combination with other risks, have a negative impact on Munksjö's operations, earnings and financial position.

Industry and market-related risks

The effect of the economy on demand
Munksjö is affected by capital-market conditions and the general economic situation in Europe and the rest of the world. An economic downturn generally has a negative impact on the Company's activities. Economic trends for individual industries affect the Group's business areas to varying degrees. Decor is primarily dependent on private consumption and construction activities. Industrial Applications is vulnerable to several subsectors such as the vehicle and steel industry, but is also affected by infrastructure investment levels, while Specialty Pulp is dependent on the paper and packing board industries, among others.

Competition
Munksjö pursues business activities in competitive industries. The Group considers the most critical competitive factors to be quality, flexibility, technology, product development and service. If Munksjö fails to meet and adapt to customer demands to the same extent as its competitors, the Group's delivery volumes could decline. The prices of the products are affected by such factors as demand, the total production capacity in the market, competitors' product offerings and the prices of component materials.

Interchangeable parts and products
Demand for Munksjö's products depends very much on how the end customer evaluates similar products made with alternative materials. If the use of other material 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 each business area, unless the variations are directly related to changes corresponding to costs.

Risks related to raw materials and suppliers
Munksjö purchases pulpwood, short-fibre kraft pulp, titanium dioxide, energy and transport services from external suppliers. Disruptions in the supply of key input materials could have considerably adverse effects on Munksjö. Price increases in component materials and services that cannot be compensated by a corresponding price increase in Munksjö's products could have an adverse effect on the Group.

Pulpwood
Pulpwood is used in the production of long-fibre kraft pulp. Munksjö owns 33 percent of Sydved AB, which accounted for approximately 80 percent of the Group's total purchases of pulpwood in 2012. Remaining wood needs were covered by purchases in the local timber market. The price of pulpwood is primarily driven by the demand from the pulp and sawmill industries, but is also influenced by other consumers of wood pulp, such as bio-energy and heating stations. A decrease in availability or an increase in the price of pulpwood could have a negative impact on Munksjö.

Kraft pulp
Short fibre kraft pulp is used to manufacture decor paper. The price of short-fibre kraft pulp has historically been volatile and has been shown to follow cyclical trends. Prices are affected by such factors as the production capacity of pulp producers, their inventory levels and market demands. A future rise in the price of short-fibre kraft pulp could have a considerably negative impact on the profitability of the Decor business area's operations.

Munksjö produces and sells long-fibre kraft pulp, but also uses some of it for its own production. The price of long-fibre kraft pulp has historically been volatile and has been shown to follow cyclical trends. The price trend is affected by such factors as the production capacity of competitors, their inventory levels and general demand.

Munksjö's vulnerability to price fluctuations in pre-sold long-fibre pulp is offset by the need for procuring short-fibre pulp, which is used in the Group's production.

Titanium dioxide
Titanium dioxide is a key component in the production of decor paper. The production of decor paper places specific requirements on the properties of raw materials. The decor paper market's consumption of titanium dioxide represented approximately 5 percent of global consumption. Munksjö works with several suppliers and typically signs volume contracts.

The availability of titanium dioxide depends in part on the continued investment of producers in the mining of minerals used in the production of titanium dioxide. The price is primarily influenced by demand from industries in which titanium dioxide is a key component, as well as cost levels related to mineral extraction and production. Prices have risen sharply in recent years and continued price increases cannot be ruled out.

Energy
Munksjö's pulp and paper production is energy intensive. In recent years, Munksjö has made considerable investments in in-house energy production to reduce energy utilised in the course of production. In 2012, Munksjö produced approximately 50 percent of its energy needs in-house.

Transport services
Munksjö is dependent on external suppliers for the transportation of component materials to the Group's production sites and the delivery of products to customers. Any supply disruptions leading to a loss of production or affecting Munksjö's ability to fulfill commitments to customers could have a negative impact.

Environmental responsibility
Munksjö's activities in pulp and paper manufacturing are generally licensed in accordance with the environmental regulations of each country and affect external environments primarily through emissions into the air and water. Production processes also result in some waste products.

Munksjö has made significant investments to ensure lower energy consumption in the production process and to reduce emissions into the air and water. All of Munksjö's licensed businesses operate within the constraints of granted permits. There is a risk of Munksjö failing to live up to the terms of the permits or the permits being modified, which could lead to production losses and penalties for Munksjö. The Group also risks being held liable for environmental damage related to current or previous activities and could, in such cases, incur clean-up costs and other follow-up remediation measures.

Swedish and international environmental regulations are constantly changing and moving towards increasingly stringent requirements concerning environmental impact. Any future changes in regulations could necessitate investments by the Group or require that measures be taken to enable continued production.

Production sites
Munksjö is dependent on maintaining an efficient utilisation of capacity at its production facilities. Production takes place through a chain of processes where a loss of production could be caused by a disruption or breakdown anywhere in any link, for example as the result of handling errors, sabotage or fire. Munksjö prevents disruptions and breakdowns through well-developed checks and procedures, adherence to maintenance plans and the training its employees. The Group also has insurance coverage for any future disruptions or breakdowns.

Product development and efficiency measures
Munksjö works in an integrated manner with its customers and is dependent on its ability to provide flexible, customised product solutions. In addition, efficient production processes and the optimal utilisation of capacity are key factors for the Munksjö's ability to control costs.

In recent years, Munksjö has invested in product development and measures to enhance efficiency. Operations and profits could be negatively impacted if the company fails to develop its production processes and products in pace with competitors, or if the Group is forced to make further investments due for example, to technological developments in the industry.

Integration processes
Munksjö's strategy to further strengthen its position in the markets for decor paper and other specialty papers can lead to mergers and acquisition activities. In such an event, Munksjö will be exposed to integration-related risks such was those related to employees, customers and higher-than-expected costs for integration, as well as estimated synergy savings 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 regular daily operations.

Product liability
Munksjö supplies products that are subject to detailed product specifications on a number of features and provides quality assurance procedures to this end. However, there is a risk of Munksjö delivering products that do not meet customer specifications, which could damage customer relationships or increase costs.

Workplace safety
To create a safe work environment, Munksjö applies safety procedures and provides regular training for employees, but the risk of work-related accidents cannot be ruled out. Accidents can lead to employees coming to harm and to disruptions in production processes, which could have a negative financial impact on the Group and damage its reputation and ability to recruit qualified personnel.

Natural disasters
Munksjö's operations are located in areas where natural disasters rarely occur. However, storms, floods and earthquakes cannot be ruled out, and such events may directly or indirectly have a negative impact on the Group.

IT infrastructure
Munksjö's operations are dependent on an IT infrastructure for the management of certain internal processes. Difficulties in maintaining, upgrading or integrating IT systems, as well as breakdowns in these systems, could disrupt production and administrative procedures. Consequently, any problems or work stoppages related to IT infrastructure could affect the company negatively.

Labor market-related risks
The majority of Munksjö's employees belong to various unions, depending on their position and country of employment. Disruptions and work stoppages to the Group's operations as a result of labor related disputes or in conjunction with organisational changes can have a negative impact on the Group.

Key employees
Munksjö is to a certain extent dependent on key individuals. Furthermore, the Group operates in a high-tech industry where employees who are skilled and experienced in production are vital to competitive advantage. Munksjö's ability to recruit and retain employees holding the relevant qualifications is essential to the Group's future development. If Munksjö fails to retain and recruit key individuals, it could have a significantly adverse effect on the Group.

Legal risks

Disputes
Munksjö is involved in certain litigation processes and further disputes could arise in the course of day-to-day operations, primarily on issues such as contracts, taxes, alleged defects in product deliveries and environmental issues. Ongoing and potential future litigation could be costly, time-consuming, involve comprehensive amounts of money and disrupt regular activities. Furthermore, the outcome of a complicated dispute could be difficult to predict. It cannot be ruled out that an unfavourable outcome in a dispute could have negative consequences for Munksjö.

Financial risks

Munksjö is exposed to a number of financial risks, including currency risks, financial risks, liquidity risks, interest-rate risks, counterparty credit risks in financial transactions and customer-credit risks. The Group's financial risk management is described in Note 25.

Insurance coverage

To reduce some of the potential effects of risks mentioned earlier, Munksjö has coverage for operational aspects where suitable insurance offers are available and deemed to be economically justifiable. The operational aspects covered are property and production stoppages, product liability and other liabilities, directors' and officers' liabilities, transport, as well as vehicle and travel insurances. The policies are covered by well-established insurance companies.

However, there are no guarantees that the Group's insurance coverage can be maintained on terms acceptable to the Company, or that the policies will cover all of the Company's losses or encompass all the requirements for potential future damages that may arise.

Financial accounts

Consolidated statement of comprehensive income

MSEK	Note	2012	2011	2010
Net sales	4	5 289	5 454	3 701
Other income		23	20	35
Total income		**5 312**	**5 474**	**3 736**
Changes in inventories		–68	–76	–26
Materials and supplies		–2 712	–2 828	–1 718
Other external costs	5	–1 240	–1 275	–920
Personnel costs	7	–1 006	–995	–617
Depreciation and amortisation	10	–221	–205	–153
Share of profit in equity accounted investments	16	0	0	1
Operating profit		**65**	**95**	**303**
Financial income	11	167	208	8
Financial costs	11	–309	–310	–98
Net financial expense		**–142**	**–102**	**–90**
Profit/(loss) before tax		**–77**	**–7**	**213**
Taxes	12	–14	35	–71
Net profit/(loss) for the year		**–91**	**28**	**142**
Other comprehensive income				
Exchange differences on translation of foreign operations		–35	–4	–111
Change in cash flow hedge reserve		36	–26	–34
Cash flow hedge transferred to this year’s result		27	33	35
Actuarial gains and losses on defined benefit plans		–33	–12	–5
Tax attributable to other comprehensive income		–6	1	1
Total comprehensive income, net of tax		**–102**	**20**	**28**
Profit attributable to:				
Parent company shareholders		–96	26	137
Non-controlling interests		5	2	5
		–91	**28**	**142**
Total comprehensive income attributable:				
Parent company shareholders		–106	18	28
Non-controlling interests		4	2	–
		–102	**20**	**28**
Earnings per share*, MSEK	13	–1,29	0,39	4,91

* There were no dilution effects

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of financial position

MSEK	Note	2012-12-31	2011-12-31	2010-12-31
ASSETS				
Non-current assets				
Tangible assets	15	2 038	2 153	1 764
Goodwill	14	1 343	1 395	1 256
Other intangible assets	14	92	104	0
Equity accounted investments	16	19	19	19
Other non-current assets		17	0	0
Deferred tax assets	12	240	322	310
Total non-current assets		**3 749**	**3 993**	**3 349**
Current assets				
Inventory	17	780	919	456
Accounts receivable	25	695	748	533
Other current assets	18	99	125	150
Current tax asset		38	30	–
Cash and cash equivalents	19	492	161	281
Total current assets		**2 104**	**1 983**	**1 420**
TOTAL ASSETS		**5 853**	**5 976**	**4 769**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of financial position

MSEK	Note	2012-12-31	2011-12-31	2010-12-31
EQUITY AND LIABILITIES				
Equity				
Attributable to parent company's shareholders				
Share capital	20	74	74	28
Share premium		2 345	2 345	1 818
Reserves		1 679	1 666	1 665
Retained earnings		–2 410	–2 291	–2 308
		1 688	**1 794**	**1 203**
Non controlling interests		32	31	32
Total equity		**1 720**	**1 825**	**1 235**
Non-current liabilities				
Non-current borrowings	21, 22	2 232	2 287	2 294
Loans from shareholders	21	6	7	7
Other non-current liabilities		16	28	1
Provisions for pensions	9	308	277	183
Deferred tax liabilities	12	238	309	324
Non-current provisions	23	88	91	53
		2 888	**2 999**	**2 862**
Current liabilities				
Current borrowings	21, 22	128	133	–
Accounts payable		600	449	209
Liabilities to equity accounted investments		87	38	46
Accrued expenses and deferred income	24	362	435	223
Current tax liabilities		11	33	38
Other current liabilities		57	64	156
		1 245	**1 152**	**672**
Total liabilities		**4 133**	**4 151**	**3 534**
TOTAL EQUITY AND LIABILITIES		**5 853**	**5 976**	**4 769**
Pledged assets	27	2 583	2 587	2 162
Contingent liabilities	27	12	11	10

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

	Attributable to owners of the parent									
MSEK	Share capital	Statutory reserve	Share premium	Other contri–buted equity	Foreign currency translation reserve	Hedging Reserve	Retained Earnings	Total	Non–controlling interest	TOTAL EQUITY
Balance at 1 January 2010	**28**	**23**	**1 818**	**1 839**	**–41**	**–51**	**–2 441**	**1 175**	**34**	**1 209**
Profit/(loss) for the year	–	–	–	–	–	–	137	137	5	142
Other comprehensive income before tax	–	–	–	–	–106	1	–5	–110	–5	–115
Tax on other comprehen-sive income	–	–	–	–	–	–	1	1	–	1
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**0**	**0**	**0**	**0**	**–106**	**1**	**133**	**28**	**0**	**28**
Dividends	–	–	–	–	–	–	–	0	–2	–2
BALANCE AT 31 DECEMBER 2010	**28**	**23**	**1 818**	**1 839**	**–147**	**–50**	**–2 308**	**1 203**	**32**	**1 235**
Profit/(loss) for the year	–	–	–	–	–	–	26	26	2	28
Other comprehensive income before tax	–	–	–	–	–4	7	–12	–9	–	–9
Tax on other comprehensive income	–	–	–	–	–	–2	3	1	–	1
Total comprehensive income for the year	**0**	**0**	**0**	**0**	**–4**	**5**	**17**	**18**	**2**	**20**
New share issue	46	–	527	–	–	–	–	573	–	573
Dividends	–	–	–	–	–	–	–	0	–3	–3
BALANCE AT 31 DECEMBER 2011	**74**	**23**	**2 345**	**1 839**	**–151**	**–45**	**–2 291**	**1 794**	**31**	**1 825**
Profit/(loss) for the year	–	–	–	–	–	–	–96	–96	5	–91
Other comprehensive income before tax	–	–	–	–	–34	63	–33	–4	–1	–5
Tax on other comprehensive income	–	–	–	–	–	–16	10	–6	–	–6
Total comprehensive income for the year	**0**	**0**	**0**	**0**	**–34**	**47**	**–119**	**–106**	**4**	**–102**
New share issue	–	–	–	–	–	–	–	0	–	0
Dividends	–	–	–	–	–	–	–	0	–3	–3
BALANCE AT 31 DECEMBER 2012	**74**	**23**	**2 345**	**1 839**	**–185**	**2**	**–2 410**	**1 688**	**32**	**1 720**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

MSEK	Note	2012	2011	2010
Operating activities				
Operating profit/(loss)		65	95	303
Adjustment for:				
Depreciation	14,15	221	205	153
Interest received		15	16	8
Interest paid		–114	–100	–74
Tax paid		–39	–41	–9
Net cash generated from operating activities before changes in working capital		**148**	**175**	**381**
Cash flow from changes in working capital				
Changes in inventories		139	–50	–40
Changes in operating liabilities		185	–65	–129
Changes in operating receivables		8	–45	–46
Net cash generated from operating activities		**480**	**15**	**166**
Investing activities				
Acquisition of subsidiaries, net of cash acquired	3	–	–676	–
Purchase of tangible fixed assets	15	–122	–169	–112
Proceeds from sale of tangible fixed assets		–	29	–
Purchase of intangible fixed assets	14	–7	–1	–
Cash flow used in investing activities		**–129**	**–817**	**–112**
Financing activities				
Dividends to non-controlling interests		–3	–3	–3
New share and offset issue		–	573	–
Proceeds from borrowings		–	127	–
Repayment of borrowings		–11	–14	–
Cash flow from financing activities		**–14**	**683**	**–3**
CASH FLOW FOR THE YEAR		**337**	**–119**	**51**
Cash and cash equivalents at the beginning of the year		**161**	**281**	**254**
Cash flow for the year		337	–119	51
Exchange gains/(losses) on cash and cash equivalents		–6	–1	–24
CASH AND CASH EQUIVALENTS AT YEAR-END	19	**492**	**161**	**281**

The accompanying notes are an integral part of these consolidated financial statements.

Notes

Note 1 Significant accounting policies

General
Munksjö AB, Corporate Identity Number, 556669-9731, is a Swedish company, registered in Jönköping, Sweden. The company's address is Box 14, 551 12 Jönköping. The consolidated accounts for 2012 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 March 18 and are expected to be adopted by the AGM on April 11.

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

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

Non-current assets and non-current liabilities consist of amounts that are expected to be recovered or paid more than 12 months after the reporting period. Current assets and current liabilities consist 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 ("EU") for application in the European Union.

The accounting policies 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 in the consolidated accounts.

Standards issued but not yet effective in the European Union
IAS 19, 'Employee benefits' was amended in June 2011 and is effective for annual periods beginning on or after 1 January 2013. The amendment abolishes the use of the corridor method. All actuarial gains and losses must be reported in Other Comprehensive Income "OCI" as they occur; all past service costs are to be recognised immediately; and interest cost and expected return on plan assets will be replaced by a net interest amount that is calculated by applying the discount rate to the net defined benefit liability. The amendment will have a limited impact on the Group as it does not use the corridor method and actuarial gains and losses are recognised in OCI. The majority of defined benefit plans are unfunded therefore the impact of calculating expected return on plan assets at the same interest rate applied to discounting the liability is expected to be insignificant.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010 and amended in December 2011. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. The Group is yet to assess IFRS 9's full impact but is not expected to early adopt this standard.

IFRS 10, Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess IFRS 10's full impact and early adopted is not anticipated. The standard has an EU approved effective date of 1 January 2014.

IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess IFRS 12's full impact and early adopted is not anticipated. The standard has an EU approved effective date of 1 January 2014.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The standard is effective from 1 January 2013 and will not have a material impact on the Group.

IAS 1, 'Presentation of financial information', changes the grouping of items in other comprehensive income ('OCI'). Items that could be recycled to profit and loss at a future point in time will be presented separately from items that will never be recycled. This amendment affects presentation only and has no impact on the Group's financial position or performance. The standard will be adopted from 1 January 2013.

There are no other IFRSs, amendments or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Valuation policies 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 amortised 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 balances
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 reporting date exchange rate. Exchange rate differences arising from the conversions are recognised in profit/loss for the year. Non-monetary assets and liabilities recognised at their historical costs are translated at the exchange rate applicable at the time of the transaction. Non-monetary assets and liabilities recognised 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 a functional 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 consolidated statements of comprehensive income 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 resulting 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.

Judgements and estimates in the financial accounts
Preparation of the financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the figures reported for assets, liabilities, income and expenses. The actual outcome may deviate from these estimates and judgements. The estimates and assumptions are reviewed regularly. Changes in estimates are reported in the period in which they are made. Judgements 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 in subsequent years are disclosed in greater detail in Note 2.

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 organised 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 policies. Under normal circumstances this means that Munksjö has more than 50 percent of the voting rights. The assessment of whether a controlling influence exists, takes into account potential voting shares that can be exercised or converted without delay.

Subsidiaries are recognised 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 recognised as goodwill. If the cost is less than the fair value of the acquired subsidiary's assets, liabilities and contingent liabilities, the difference is recognised directly in the income statement. Intra-Group transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. Accounting policies for subsidiaries are changed where necessary to ensure consistent application of the Group's policies.

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 non-controlling interests as transactions with equity owners of the Group. Divestments to and purchases from non-controlling interests result in gains and losses for the Group, which are reported in equity. Transactions between owners are reported exclusively within shareholders' equity.

Associated companies
Associated companies are those in which the Group has a significant, but non-controlling influence over operational and financial policies, 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, "Share of profit in 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 together with dividends received 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 recognised in accordance with the same policies 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 non-current 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 recognised 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.

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

Revenue
Revenue encompasses the fair value of what has been received or is expected to be received for sold goods and services sold 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 revenue comprises mainly the sale of manufactured products. Revenue for sales of goods is recognised in the Consolidated Statement of Comprehensive Income when significant risks and rewards associated with the ownership of the goods are transferred to the buyer in accordance with the terms of delivery. The Groups's terms of delivery are based on Incoterms 2010.

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.

Government grants

Government grants are recognised 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 grant. Grants related to expense items are recognised on a systematic basis in the Consolidated Statement of Comprehensive Income in the same way and across the same periods as the expenses that the grants are intended to offset. Government grants related to fixed assets reduce the gross cost of the fixed assets.

Leasing

Operating leasing agreements

Leases in which a significant part of the risks and benefits of ownership are retained by the lessor are classified as operational leases. 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 retains the economic risks and benefits associated with ownership, are classified as financial leases. At the start of the leasing period, financial leases are reported in the Consolidated Statement of Financial Position at the lower of the leased asset's fair value and the net present value of the minimum lease payments. Each leasing payment is apportioned between the liability and financial costs. The corresponding payment obligations, after deductions for financial costs, are included in the Consolidated Statement of Financial Position, in Non-current and Short-term borrowings. The interest is recognised in the consolidated statement of comprehensive income 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 consists of interest income from invested funds, dividend income, value gains from financial assets measured at fair value in the net profit, as well as those gains from interest rate swaps. Dividend income is recognised when the right to receive the dividend has been established. Results from the sale of financial investments are recognised 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 interest related to discounted provisions, losses on financial assets measured at fair value via the Consolidated Statement of Comprehensive Income, impairment of financial assets, and losses on interest rate swaps.

All borrowing expenses are reported in the consolidated statement of comprehensive income using the effective interest method. Borrowing expenses are not reported in the consolidated statement of comprehensive income 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.

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 amortised 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 recognised 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 enacted or substantially enacted at the reporting date. Adjustment of current tax related to earlier periods is also included.

Deferred tax is calculated using the liability method on temporary differences between the carrying amounts and taxable values of assets and liabilities. Temporary differences are not recognised if they arise on initial recognition of goodwill or the initial recognition of assets and liabilities in a transaction other than a business combinations that do not affect either the accounting or taxable profit at the time of the transaction.

Temporary differences are not recorded relating to investments 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 realised or settled. Deferred tax is calculated by applying the tax rates enacted or substantially enacted at the reporting date.

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

Deferred tax assets and liabilities are offset when there is a legal right to offset current tax assets and liabilities, and when the deferred tax assets and tax liabilities are attributable to taxes charged by 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 on a net basis.

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 at fair value through profit and loss, loans and accounts receivable, and other financial assets and liabilities. On initial 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 recognised as assets in the consolidated Statement of financial position include cash and cash equivalents, accounts receivable, financial investments and derivatives. Liabilities include accounts payable, borrowings and derivatives.

Financial instruments which are not derivatives are initially recognised at a cost corresponding to the instrument's fair value including direct transaction expenses. Exceptions are those categorised as financial assets or liabilities recognised at fair value through profit and loss, which are recognised at fair value excluding transaction expenses which are recognised immediately in the consolidated statement of comprehensive income. If a derivative instrument is used for hedge accounting and to the extent that it is effective, changes in the fair value of the derivative instrument are reported in other comprehensive income. Where hedge accounting is not applied, fair value gains and losses on derivatives are reported as income or expense in operating result, or within net financial items based on the nature of the derivative instrument and whether hedging is related to an operating or a financial item. When applying hedge accounting, the ineffective portion is recognised 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 recognised as interest and other changes in value of interest swaps are recognised as other financial income or expenses. Fair values are based on directly observable market prices or derived from market prices.

Financial assets and liabilities measured at fair value through profit and loss

This category consists of two sub-Groups: financial assets and liabilities held for trading and other financial assets or liabilities that the company has initially designated in this category. A financial asset is classified as being held for trading if it is retained with the intention of being sold in the near future. Assets belonging to this category are measured at fair value with changes in value recognised in the consolidated statement of comprehensive income. This category includes derivatives that are not designated as hedging instruments or are ineffective.

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 amortised cost. The amortised cost is determined based on the effective interest calculated at the time of acquisition. Accounts receivable are recognised at the amount estimated to be received, i.e. with a deduction for doubtful receivables.

Cash and cash equivalents comprise cash and short term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short term deposits net of outstanding bank overdrafts.

Impairment of financial assets

At each reporting date, the company evaluates whether there is objective evidence that any financial asset or Group of assets may be impaired. Objective evidence constitutes observable events that have an adverse impact on the future cash flows of the financial asset. 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 for trading and loan and accounts receivable, which are recognised at amortised 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. Impairment is recognised as a cost in the Consolidated Statement of Comprehensive Income.

Other financial liabilities

Loans and other financial liabilities, such as accounts payable, are included in this category. The liabilities are measured at the amortised cost. Details of the category in which the Group's financial assets and liabilities are placed are given under Note 21 Financial assets and liabilities.

Derivatives and hedge accounting

The Group's derivative instruments have been acquired to hedge its interest, exchange rate, electricity and pulp price exposures. In order to fulfil the requirements on hedge accounting in accordance with IAS 39, there must be a clear hedge relationship. The Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The Group also documents how it will assess the effectiveness of changes in the hedging instruments fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. For the purpose of hedge accounting, hedges are classified as: Fair value hedges, cash flow hedges or hedges of net investment in a foreign operation. The Group does not have fair value hedges or net investment hedging.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income in the hedging reserve. The gain or loss relating to the ineffective portion is charged immediately to the profit or loss. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is recognised in the profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is recognised immediately in the profit or loss.

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecasted transactions, interest rate swaps to hedge variable rate borrowings and forward commodity contracts for its exposure to volatility in electricity and pulp prices.

Offset of financial instruments

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

Tangible assets

Owned assets

Tangible assets are recognised 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 include costs relating to delivery and handling, installation, land registration certificates, consultancy services and legal services. Interest on borrowings directly attributable to the purchase, construction or production of assets that take considerable time to complete are capitalised.

The cost for self-constructed fixed assets include expenses for materials, employee benefits and other manufacturing costs 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 derecognised 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 recognised as other operating income/expense. Accounting policies for the impairment of assets are shown below.

Leased assets
Assets leased through financial leasing agreements are recognised 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 present value of the minimum lease payments at the commencement of the agreement. Obligations to pay future lease payments are recognised as current and non-current interest bearing liabilities.

Subsequent expenditure
Subsequent expenditure is capitalised only 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 derecognised 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 policies
Depreciation is charged on a straight line basis over the asset's estimated useful life. The Group applies the component approach, whereby the components' 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	10-30 years
Other machinery	10 years
Vehicles, equipment and components	2-5 years

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

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

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. 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 recognised 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 are recognised as intangible assets.

Electricity certificates
Electricity certificates are awarded for production of electricity from renewable resources and are measured at the estimated fair value and recognised as accrued income. Corresponding income is recognised 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 rights for the emission of carbon dioxide within the EU trading scheme. The allocation for the initial three-year period 2005–2007 exceeded the actual total emissions. The allocation for 2008–2012 also exceeded the emissions somewhat. When emission rights are received, the estimated surplus is recognised at fair value as accrued income, the surplus is continually valued at market value.

Depreciation policies
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 may have 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 capitalised development expenditure and software is 3–7 years. The useful lives of assets are reassessed at least once a year.

Impairment of tangible and intangible assets and participations in subsidiaries, associated companies and joint ventures
The value of tangible and intangible assets with definite useful lives are tested for impairment if there is an indicator that they may have suffered impairment. If a need for impairment is indicated, the recoverable amount of the asset is calculated 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 recognised when an asset's or cash generating unit's (Group of units') carrying value exceeds the recoverable amount. Impairment is recognised 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.

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 amortisation, if no impairment had been carried out.

Impairments of investments or loans held to maturity or loan receivables and accounts receivable recognised at amortised 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 realisable 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 realisable value is the expected sale price less expected selling costs.

Earnings per share

Earnings per share is calculated by dividing the Group profit or loss attributable to ordinary shareholders of the parent company by the weighted average number of ordinary shares outstanding during the period.

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 is not a defined contribution plan. 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 recognised 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. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The current value of the defined benefit obligation is established by discounting estimated future cash flows using market yields on high quality corporate bonds issued in the same currency as the benefits 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. Sufficient information is not available to use defined benefit accounting for this multi-employer plan therefore it is accounted for as if it is a defined contribution plan.

Actuarial gains and losses resulting from experience adjustments and changes in actuarial assumptions are recognised in other comprehensive income for the year during the period in which they arise.

Past-service costs are recognised 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 amortised 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.

Severance benefits

An expense for remuneration in connection with termination of employment for employees is recognised 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 recognised 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 recognised 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 reporting date.

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 announced. No provisions are made for future operating costs.

Contingent liabilities

A contingent liability is recognised 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 recognised as a liability or provision because it is not likely that an outflow of resources will be required.

Note 2 Judgements and estimates

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

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 recognised goodwill as of December 31, 2012 amounted to MSEK 1 343, see Note 14.

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 308 as of December 31, 2012, see Note 9.

Taxes

Deferred tax is calculated on temporary differences between the carrying amounts and taxable values of assets and liabilities. Assessments and estimates 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 240, were recognised, see Note 12.

Note 3 Business combinations

ArjoWiggins' Decor paper, abrasive backing paper, thin print paper and fine arts paper activities were acquired on March 10, 2011. The acquisition included 100% of participation at two of ArjoWiggins' production sites in France (ArjoWiggins Arches SAS) and Germany (ArjoWiggins Deutschland GmbH), some patents and stock in the US and China.

The reason for the acquisition was to create a complete specialty paper range for Munksjö's customers. The acquisition of ArjoWiggins' activities complemented Munksjö's product range and strengthened Munksjö's already strong position in the decor paper segment. Furthermore, the acquisition has lead to cost reductions through synergy effects. The goodwill from the acquisition is mainly attributable to the synergy effects expected through the merger of Munksjö and ArjoWiggins' activities and has been allocated to the Industrial Applications business area in its entirety. There is also a value associated with the extra employees as a result of the acquisition, which has not been reported as a separate item. The goodwill is not deductible for income tax purposes.

The following table summarises the purchase price for the activities and the assets and assumed liabilities reported on the acquisition date. The total purchase price was MSEK 691 and was paid for in cash.

MSEK	
Customer relations	70
Patents	44
Other intangible assets	3
Tangible fixed assets	393
Total tangible and intangible assets	**510**
Financial fixed assets	115
Deferred tax assets	131
Total fixed assets	**756**
Inventories	413
Accounts receivable	154
Other current receivables	48
Cash and cash equivalents	15
Total current assets	**630**
TOTAL ASSETS	**1 386**
Non-current interest-bearing liabilities	20
Pension provisions	80
Deferred tax liabilities	143
Other non-current provisions	11
Total non-current liabilities	**254**
Current liabilities	
Current interest-bearing liabilities	113
Accounts payable	333
Current tax liabilities	4
Other current liabilities	131
Total current liabilities	**581**
TOTAL LIABILITIES	**835**
Total fair value of identifiable assets	**551**
Goodwill	140
Total purchase price	**691**
Acquisition effect on cash flow	
Cash and cash equivalents in acquired business	15
Purchase price paid in cash	–691
Cash outflow from acquisition	**–676**

Acquisition-related costs in 2011 amounted to MSEK 28 and are included in other external costs. The fair value of accounts receivable was MSEK 154. The gross amount of accounts receivable amounted to MSEK 162, of which MSEK 8 was expected to be doubtful.

The acquired units in the period from the acquisition date of March 10, 2011 to December 31, 2011 contributed net sales included in the Group's consolidated statement of comprehensive income of MSEK 1 744. Furthermore, they also contributed with an operating loss of MSEK 4 for the same period. If the acquisition had taken place on January 1, 2011 then the Group's consolidated statement of comprehensive income would have shown further net sales of MSEK 377, EBITDA of MSEK 19 and operating profit of MSEK 7 in 2011.

The acquisition method has been applied to consolidate the acquired entities.

Note 4 Segment information

Munksjö is one of Europe's leading players in developing, manufacturing, marketing and selling specialty paper. The Group also produces specialty pulp.

Munksjö's high-grade specialty paper is used in laminate products in the flooring, furniture and kitchens industries where different foils are used, combining design with stability. The Group's electrotechnical paper is used as an effective insulation for high-voltage cables and transformers. Abrasive backing paper is a component of abrasive paper and thin paper is used to protect steel and glass. Specialty paper represents around 80% of Munksjö's sales and specialty paper pulp the remaining 20%.

Operations are divided into three business areas which are also the Groups reportable segments: **Decor**, including paper for laminate products and pharmaceutical leaflets paper. **Industrial Applications**, including electrotechnical paper, abrasive backing paper, thin paper and fine art paper and **Specialty Pulp**, which manufactures specialty pulp for external sales.

Manufacturing of decor paper takes place at production sites in Unterkochen and Dettingen in Germany, Tolosa in Spain and Arches in France. Manufacturing of abrasive bracking paper and fine art paper takes place in Arches, France. Thin print paper is manufactured in Dettingen, Germany. Manufacturing of electrotechnical paper takes place in Jönköping in Sweden. Manufacturing of thin paper and Spantex® (like edge banding) takes place in Billingsfors in Sweden. Production of specialty pulp takes place at Munksjö's plant at Aspa Bruk in Sweden.

Munksjö employs around 1 770 people in Europe, North America and Asia. The majority of supplies take place in Europe, but sales are also made in Asia, North and South America.

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 utilised.

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% of the company's income.

MSEK 2012	Decor	Industrial Applications	Speciality Pulp	Other and eliminations	Group
Net sales, external	3 202	1 272	815	–	5 289
Net sales, internal	7	19	40	–66	0
Net sales	**3 209**	**1 291**	**855**	**–66**	**5 289**
Operating profit	**166**	**37**	**–16**	**–122**	**65**
Financial income					167
Financial costs					–309
Tax					–14
Profit/loss for the year					**–91**
Other information					
Operating capital	2 301	499	600	160	3 560
Capital expenditure	41	51	29	8	129
Depreciation and amortisation	93	65	58	5	221
Average number of employees	911	568	169	31	1 679

Note 4 Segment information, *continued*

MSEK 2011	Decor	Industrial Applications	Speciality Pulp	Other and eliminations	Group
Net sales, external	3 202	1 340	912	–	5 454
Net sales, internal	2	18	5	–25	0
Net sales	**3 204**	**1 358**	**917**	**–25**	**5 454**
Operating profit	**135**	**25**	**49**	**–114**	**95**
Financial income					208
Financial costs					–310
Tax					35
Profit/loss for the year					**28**
Other information					
Operating capital	2 656	546	764	98	4 064
Capital expenditure	56	44	56	13	169
Depreciation and amortisation	85	61	57	2	205
Average number of employees	870	570	170	25	1 635

MSEK 2010	Decor	Industrial Applications	Speciality Pulp	Other and eliminations	Group
Net sales, external	1 763	924	1 013	1	3 701
Net sales, internal	–	–	14	–14	–
Net sales	**1 763**	**924**	**1 027**	**–13**	**3 701**
Operating profit	**125**	**45**	**191**	**–58**	**303**
Financial income					8
Financial costs					–98
Tax					–71
Profit/loss for the year					**142**
Other information					
Operating capital	2 273	407	547	43	3 270
Capital expenditure	40	30	39	3	112
Depreciation and amortisation	52	42	56	3	153
Average number of employees	440	429	175	11	1 055

Note 4 Segment information, *continued*

Net sales per market MSEK	2012	2011	2010
Sweden	201	262	250
Germany	1 072	1 164	1 003
Rest of the European Union	2 053	1 997	1 270
Rest of Europe	317	364	319
Asia	633	700	436
Rest of the world	1 013	967	423
Group total	**5 289**	**5 454**	**3 701**

Net sales in the table above has been divided based on customers' geographic location.

Operating capital per country MSEK	2012	2011	2010
Sweden	1 073	1 229	986
Germany	1 733	1 915	1 489
Spain	398	454	765
France	367	476	–
Other	–11	–10	30
Group total	**3 560**	**4 064**	**3 270**

Tangible and intangible fixed assets per country MSEK	2012	2011	2010
Sweden	1 190	1 213	1 183
Germany	1 687	1 796	1 482
Spain	295	317	327
France	247	304	–
Other	54	22	28
Group total	**3 473**	**3 652**	**3 020**

Note 5 Other external costs

Group, MSEK	2012	2011	2010
Transport costs	–208	–192	–174
Energy costs	–357	–382	–285
Repair, maintenance and development costs	–191	–206	–155
Equipment, storage material and other production costs	–205	–221	–170
Leasing and rental costs	–20	–23	–9
Operating costs for administration, sales, purchasing and IT	–259	–229	–120
Provision for restructuring	–	–24	–
Other	–	2	–7
Other external costs	**–1 240**	**–1 275**	**–920**

Note 6 Remuneration to auditors

MSEK	2012	2011	2010
Ernst & Young			
Audit fees	5	6	2
Audit-related fees	2	1	1
Tax service fees	–	–	–
Other fees	–	2	1
Total	**7**	**9**	**4**

Note 7 Employees

Average number of employees	2012 Average number of employees	Men	2011 Average number of employees	Men	2010 Average number of employees	Men
Sweden	572	83%	586	83%	579	83%
Norway	–	–	12	83%	30	82%
Germany	451	88%	434	89%	267	90%
Spain	162	91%	161	89%	160	89%
France	468	94%	419	82%	–	–
Italy	7	43%	6	43%	2	50%
USA	9	44%	8	50%	10	60%
China	10	80%	9	78%	7	86%
Average number employees	**1 679**		**1 635**		**1 055**	

Board and other senior executives	2012	2011	2010
Board members			
Women %	25%	25%	4%
Men %	75%	75%	96%
CEO and other senior executives			
Women %	17%	14%	8%
Men %	83%	86%	92%

Salaries, other fees and social security fees, MSEK

2012	Board and CEO	Bonus to CEO	Other Employees
Sweden	5	1	241
Germany	–	–	230
Spain	–	–	72
France	–	–	176
USA	–	–	6
Italy	–	–	1
China	–	–	2
Salaries and other fees	**5**	**1**	**728**

Total salaries and other fees	734
Social security fees	271
Other personnel costs	1
	1 006
Of which are pension fees for CEO	1
Of which are pension fees for other employees	45

2011	Board and CEO	Bonus to CEO	Other Employees
Sweden	8	1	240
Norway	–	–	7
Germany	–	–	228
Spain	–	–	72
France	–	–	167
USA	–	–	5
Italy	–	–	4
China	–	–	1
Salaries and other fees	**8**	**1**	**724**

Total salaries and other fees	733
Social security fees	261
Other personnel costs	1
	995
Of which are pension fees for CEO	1
Of which are pension fees for other employees	45

Note 7 Employees, *continued*

2010	Board and CEO	Bonus to CEO	Other Employees
Sweden	7	2	216
Norway	1	–	10
Germany	–	–	148
Spain	–	–	74
USA	–	–	4
Italy	–	–	1
China	–	–	1
Salaries and other fees	**8**	**2**	**454**

Total salaries and other fees	464
Social security fees	151
Other personnel costs	2
	617
Of which are pension fees for CEO	2
Of which are pension fees for other employees	23

CEO, Board of Directors and senior executives – see Note 8

Note 8 Remuneration to the Board of Directors and senior executives

Remuneration to the Board of Directors

According to resolutions made at the 2012 Annual General Meeting, an annual fee of SEK 550 000 will be paid to the Chairman of the Board, and annual fees of SEK 275 000 will be paid to the other Board Members appointed by the Annual General Meeting, who are not employed by the company. The chairman of the audit committee will receive SEK 75 000 and other members will receive SEK 50 000. The chairman of the remuneration committee will receive SEK 50 000 and other members will receive SEK 25 000.

KSEK

Annual remuneration for period:		2011	2010	2009
Year paid out:		2012	2011	2010
Fredrik Cappelen	Chairman from 2009	600	223	176
Jan Reinås	Chairman to 2009	–	–	179
Ingvar Petersson		350	113	120
Richard Chindt		325	113	30
Jan Åström	CEO	–	–	–
Caspar Callerström		–	–	–
Elisabet Salander Björklund		250	–	–

Senior executives

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 as well as individual targets. 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 24 months, with remuneration and an obligation to work. There is no severance pay in addition to salary during notice periods.

Pensions

Pension arrangements for senior executives include customary occupational pensions. Pension arrangements for senior management are determined on an individual basis and comprise of defined benefit and defined contribution plans.

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 compelling reasons to do so.

Note 8 Remuneration to the Board of Directors and senior executives, *continued*

Remuneration and benefits for the CEO KSEK	Year	Gross salary	Variable remuneration [1]	Other benefits	Pension expenses	Total
Jan Åström	2012	3 806	1 573	9	1 349	6 737
Jan Åström	2011	3 694	468	–	1 302	5 464
Jan Åström	2010	3 169	2 482	7	1 896 [2]	7 554

1) Variable remuneration applies to operating year, payment the following year.
2) Of which SEK 1 420 000 was the conversion of a previous wage waiver

Remuneration and benefits for other senior executives KSEK	Year	Gross salary	Variable remuneration [1]	Other benefits	Pension expenses	Total
Other senior executives	2012	15 375	4 838	911	4 823	25 947
Other senior executives	2011	16 544	2 929	1 123	3 372	23 968
Other senior executives	2010	14 001	2 376	845	2 839	20 061

1) Variable remuneration applies to operating year, payment the following year.

Note 9 Provisions for pensions and similar obligations

Munksjö has defined benefit pension plans for salaried employees in Sweden (the ITP plan) and for employees of foreign subsidiaries, in Germany, France and the United States of America ("USA"). 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 mainly unfunded except for the USA which is partially funded.

Some of the pension obligations for salaried employees in Sweden are met through provisions in the Statement of comprehensive income 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 are insured through a number of insurance policies. The insurance companies cannot provide sufficient data to recognise the ITP plan as a defined benefit plan, and it is therefore recognised as a defined contribution plan, according to UFR 3. This year's pension plan contributions amounted to MSEK 4 (4, 4). The main insurance provider is Alecta and at year-end, their surplus, in the form of its collective funding ratio, amounted to 129% (113%, 146%). 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 recognised in the consolidated statement of comprehensive income, the difference between the commitments and the plan assets and the amounts recognised in the Statement of comprehensive income for each plan:

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

Assets/liabilities for pension plans	2012	2011	2010
Present value of unfunded defined-benefit obligations	243	223	163
Present value of funded or partially funded defined-benefit obligations	124	110	71
Fair value of plan assets	–59	–56	–51
Pension liabilities for the period	**308**	**277**	**183**

Amounts recognised in the consolidated statement of comprehensive income are as follows	2012	2011	2010
Service costs for the period	15	13	2
Interest costs	16	14	12
Expected return on plan assets	–4	–4	–4
Pension costs recognised in net profit/(loss) for the period	**27**	**23**	**10**
Actuarial gains and losses recognised in other comprehensive income	33	12	5
Total pension costs recognised in total comprehensive income	**60**	**35**	**15**

Note 9 Provisions for pensions and similar obligations, *continued*

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

	2012	2011	2010
At January 1	333	234	263
Interest costs	16	14	12
Current year service costs	15	13	2
Benefits paid	–20	–22	–20
Business combinations	–	83	–
Settlements	–	–	–13
Actuarial gains and losses for obligations	34	9	7
Exchange rate translation	–11	2	–17
At December 31	**367**	**333**	**234**

The fair value of plan assets is shown below:

	2012	2011	2010
At January 1	56	51	50
Expected return	4	4	4
Employer contributions	5	4	4
Business combinations	–	4	–
Benefits paid	–4	–4	–4
Actuarial gains and losses	1	–3	2
Exchange rate translation	–3	–	–5
At December 31	**59**	**56**	**51**

The major categories of plan assets are as follows:

	2012	2011	2010
Shares	35	33	32
Bonds	21	21	18
Endowment insurance	3	2	1
Total	**59**	**56**	**51**

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

	2012	2011	2010
Discount rate:			
Sweden	3,50%	3,75%	3,75%
Germany	3,20% to 3,10%	5,30% to 5,40%	4,80%
France	2,80%	4,65%	–
Other	3,75%	4,75%	5,25%

Expected return on plan assets:

	2012	2011	2010
Sweden	–	–	–
Germany	–	–	–
France	2,80%	3,00%	–
Other	8.00%	8,00%	8,00%

Expected future salary increases:

	2012	2011	2010
Sweden	3.00%	3,00%	3,00%
Germany	2.50%	2,50%	2,50%
France	2,50%	2,50%	–
Other	3,75%	3,75%	3,75%

Expected future pension increases:

	2012	2011	2010
Sweden	1,75%	2,00%	2,00%
Germany	2.00%	2,00%	2,00%
France	2.00%	2,00%	–
Other	3.00%	3,00%	3,00%

Five-year overview

	2012	2011	2010	2009	2008
Obligations	367	333	234	263	259
Plan assets	–59	–56	–51	–50	–48
Deficit / surplus	**308**	**277**	**183**	**213**	**211**
Experience-based adjustments in obligations	34	9	5	11	–
Experience-based adjustments in plan assets	1	–3	1	8	–

Note 10 Depreciation and amortisation

MSEK	2012	2011	2010
Machinery and equipment	–179	–172	–134
Industrial buildings	–25	–19	–17
Other intangible fixed assets	–17	–14	–2
Total depreciation and amortisation	**–221**	**–205**	**–153**

Note 11 Net financial items

MSEK	2012	2011	2010
Interest income on cash and current investment	15	16	5
Exchange rate gains	152	192	3
Financial income	**167**	**208**	**8**
Interest expense on financial liabilities[1]	–119	–114	–74
Unwinding of discount on provisions	–16	–10	–7
Exchange rate losses	–169	–173	–3
Other financial costs	–5	–13	–14
Financial costs	**–309**	**–310**	**–98**
Net financial expense	**–142**	**–102**	**–90**

1) This includes losses from realised interest derivatives of MSEK –32 MSEK –30 and MSEK –20 respectively.

Note 12 Taxes

MSEK	2012	2011	2010
Profit/loss before taxes	**77**	**–7**	**213**
Current tax income/expense			
Tax income for the period, Sweden	–	–	–
Tax attributable to previous years, Sweden	–	–	4
Tax expense for the period, outside Sweden	–15	–10	–23
Adjustment of tax attributable to previous years, outside Sweden	–1	–3	–3
	–16	**–13**	**–22**
Deferred tax:			
Relating to recognition and use of tax loss carry forwards	–19	13	–56
Relating to recognition and reversal of temporary differences	21	35	7
Deferred tax	2	48	–49
Total tax expense	**–14**	**35**	**–71**

Reconciliation of effective tax rate MSEK

	2012	2011	2010
Profit/loss before taxes	**–77**	**–7**	**213**
Swedish income tax	20	1	–56
Effect of other tax rates for foreign subsidiaries	–2	3	–
Effect of change in deferred tax rate[1]	–4	–	–
Taxes from prior years	–	3	1
Tax losses carry forward not capitalised	–1	–13	–
Non–deductable expenses and tax exempt income	–27	41	–16
Tax in consolidated statement of comprehensive income	**–14**	**35**	**–71**

1) The Swedish tax rate will decrease from 26,3% to 22,0% from 1 January 2013.

Change in deferred tax on temporary differences and loss carry forwards

MSEK	Opening balance 2012	Translation Difference	Recognised in profit/loss	Recognised in other compre-hensive income	Closing balance 2012
Receivables	–18	–	–	17	–1
Utilisation of loss carry forwards	–268	3	27	–	–238
Untaxed reserves	109	1	–23	–	87
Tangible asset	185	–4	–2	–	179
Other	–21	1	1	–10	–29
Net deferred tax asset	**–13**	**1**	**3**	**7**	**–2**
Liabilities					238
Assets					–240
					–2

Note 12 Taxes, *continued*

MSEK	Opening balance 2011	Business Combinations	Recognised in profit/loss	Recognised in other compre-hensive income	Closing balance 2011
Receivables	–1	–13	–4	–	–18
Utilisation of loss carry forwards	–255	1	–14	–	–268
Untaxed reserves	127	55	–73	–	109
Tangible asset	175	11	–1	–	185
Other	–32	–29	38	2	–21
Net deferred tax asset	**14**	**25**	**–54**	**2**	**–13**
Liabilities					309
Assets					–322
					–13

MSEK	Opening balance 2010	Recognised in profit/loss	Recognised in other compre-hensive income	Closing balance 2010
Receivables	–1	0	–	–1
Utilisation of loss carry forwards	–325	–70	–	–255
Untaxed reserves	149	22	–	127
Tangible assets	175	0	–	175
Other	–35	3	–	–32
Net deferred tax liability	**–37**	**51**	**0**	**14**
Liabilities				324
Assets				–310
				14

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 recognised 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 in 2010 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 utilising them.

The Group has loss carry forwards of MSEK 1 056 (936, 921), which are available for offsetting against future taxable profits in the companies that incurred the losses. All loss carry forwards have a perpetual term apart from in Spain, where the limit is 15 years. In Spain the loss carry forward amounts to MSEK 231 (294, 324).

Note 13 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.

	2012	2011	2010
Earnings attributable to the parent company's shareholders, from remaining operations, MSEK	–96	26	137
Weighted average number of outstanding shares (millions)	74,64	66,85	27,92
Earnings per share, SEK	**–1,29**	**0,39**	**4,91**

Note 14 Intangible fixed assets

2012, MSEK	Total	Goodwill	Intangibles
Accumulated acquisition value			
Opening	1 518	1 395	123
Business combinations	0	–	–
Additions	7	–	7
Exchange differences	–54	–52	–2
Closing	**1 471**	**1 343**	**128**
Accumulated amortisation according to plan			
Opening	19	0	19
Business combinations	0	–	–
Amortisation	17	–	17
Exchange differences	0	–	–
Closing	**36**	**0**	**36**
Accumulated impairment losses			
Opening	0	–	–
Exchange differences	0	–	–
Closing	**0**	**–**	**–**
Net Book Value at year end	**1 435**	**1 343**	**92**

2011, MSEK	Total	Goodwill	Intangibles
Accumulated acquisition value			
Opening	1 261	1 256	5
Business combinations	257	140	117
Additions	1	–	1
Exchange differences	–1	–1	0
Closing	**1 518**	**1 395**	**123**
Accumulated amortisation according to plan			
Opening	5	–	5
Business combinations	0	–	–
Amortisation	14	–	14
Exchange differences	0	–	–
Closing	**19**	**0**	**19**
Accumulated impairment losses			
Opening	–	–	–
Exchange differences	–	–	–
Closing	**0**	**0**	**0**
Net Book Value at year end	**1 499**	**1 395**	**104**

The intangibles assets acquired in the business combination in 2011 amounted to MSEK 117 comprising of customer relationships MSEK 70, patents MSEK 44 and other of MSEK 3.

2010, MSEK	Total	Goodwill	Other Intangible assets
Accumulated acquisition value			
Opening	1 481	1 476	5
Exchange differences	–220	–220	–
Closing	**1 261**	**1 256**	**5**
Accumulated amortisation according to plan			
Opening	3	–	3
Amortisation	2	–	2
Exchange differences	–	–	–
Closing	**5**	**0**	**5**
Accumulated impairment losses			
Opening	–	–	–
Exchange differences	–	–	–
Closing	**0**	**0**	**0**
Net Book Value at year end	**1 256**	**1 256**	**0**

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

Division of goodwill by cash-generating unit	2012	2011	2010
Decor	1 204	1251	1 256
Industrial Applications	139	144	–
Specialty Pulp	–	–	–
Group total	**1 343**	**1 395**	**1 256**

Goodwill is tested annually for impairment. Impairment losses are recognised if the carrying 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 2% (2%,1%) which reflects the estimated long term inflation rate.

The calculation of the value in use is based on assessments and estimates. The most significant estimates concern sales development, current market prices, current cost levels with supplements for changes in real price and cost inflation, estimates regarding the development of the operating margin and the current weighted average cost of capital (WACC) used to discount future cash flows. The volume estimates generally adhere to an average growth of 1-2%. For the calculation of present value of expected future cash flows, a pre-tax WACC of 10,0% (10,1%) has been used for all cash-generating units. The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's potential investors. The cost of debt is based on the interest bearing borrowings the group is obliged to service. The beta factors are evaluated annually based on publicly available market data. All cash-generating units were tested for impairment in the fourth quarter of 2012. According to the result of the impairment testing of goodwill, there is no impairment. A sensitivity analysis shows that if WACC is increased or if long term growth is reduced by one percentage point, there is no impairment.

Note 15 Tangible fixed assets

2012, MSEK	Total	Machinery & Equipment	Buildings	Land and land improvements	Construction in progress
Accumulated acquisition value					
Opening	6 262	4 862	926	341	133
Business combinations	0	–	–	–	–
Additions	122	52	2	0	68
Disposals	–80	–80	0	–	–
Reclassifications	0	111	0	–	–111
Exchange differences	–130	–105	–20	–4	–1
Closing	**6 174**	**4 840**	**908**	**337**	**89**
Accumulated depreciation according to plan					
Opening	3 893	3 333	558	2	–
Business combinations	0	–	–	–	–
Depreciation	204	179	25	0	–
Disposals	–79	–79	–	–	–
Exchange differences	–99	–82	–17	–	–
Closing	**3 919**	**3 351**	**566**	**2**	**0**
Accumulated impairment losses					
Opening	216	106	45	65	–
Exchange differences	1	–	–	1	–
Closing	**217**	**106**	**45**	**66**	**0**
Net book value	**2 038**	**1 383**	**297**	**269**	**89**

2011, MSEK	Total	Machinery & Equipment	Buildings	Land and land improvements	Construction in progress
Accumulated acquisition value					
Opening	4 648	3 622	636	336	54
Business combinations	1 800	1 504	264	4	28
Additions	206	58	35	1	112
Disposals	–371	–357	–14	–	–
Reclassifications	0	52	9	–	–61
Exchange differences	–21	–17	–4	–	–
Closing	**6 262**	**4 862**	**926**	**341**	**133**
Accumulated depreciation according to plan					
Opening	2 670	2 300	368	2	–
Business combinations	1 391	1 202	189	–	–
Depreciation	191	172	19	–	–
Disposals	–342	–327	–15	–	–
Exchange differences	–17	–14	–3	–	–
Closing	**3 893**	**3 333**	**558**	**2**	**0**
Accumulated impairment losses					
Opening	214	104	45	65	–
Exchange differences	2	2	–	–	–
Closing	**216**	**106**	**45**	**65**	**0**
Net Book Value	**2 153**	**1 423**	**323**	**274**	**133**

Note 15 Tangible fixed assets, *continued*

2010, MSEK	Total	Machinery & Equipment	Buildings	Land and land improvements	Construction in progress
Accumulated acquisition value					
Opening	4 951	3 914	674	345	18
Additions	112	40	3	–	69
Disposals	–163	–163	–	–	–
Reclassifications	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	–
Depreciation	151	134	17	–	–
Disposals	–164	–164	–	–	–
Exchange differences	–170	–144	–27	1	–
Closing	**2 670**	**2 300**	**368**	**2**	**–**
Accumulated impairment losses					
Opening	227	111	51	65	–
Exchange differences	–13	–7	–6	–	–
Closing	**214**	**104**	**45**	**65**	**–**
Net Book Value	**1 764**	**1 218**	**223**	**269**	**54**

Note 16 Equity accounted investments

MSEK	2012	2011	2010
Book value at the beginning of the year	19	19	18
Share of earnings for the year	0	0	1
Book value at the end of year	**19**	**19**	**19**

Shares in associated companies consist entirely of Sydved AB. As of December 31, 2012, there was no goodwill associated with this item. The Group's liabilities to the associated company amounts to MSEK 87 (38, 46).

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

Share of Sydved AB's assets, equity, net sales and profit before tax, MSEK	2012	2011	2010
Assets	115	131	154
Equity	19	19	19
Net sales	1 030	1 107	1 008
Profit before tax	0	0	1

Sydved AB has no contingent liabilities.

Note 17 Inventories

MSEK	2012	2011	2010
Materials and supplies	135	191	75
Work in progress	13	19	23
Finished products	469	544	258
Consumables and spare parts	163	165	100
Total inventories	**780**	**919**	**456**

Operating costs include impairment losses of inventories amounting to MSEK 8 (10, 14).

Note 18 Other current assets

MSEK	2012	2011	2010
Value added tax	25	38	45
Escrow cash account	5	17	37
Deferred income	–	11	16
Prepaid expenses	23	7	4
Fair value of unrealised hedges	4	10	5
Other	42	42	43
Total	**99**	**125**	**150**

Note 19 Cash and cash equivalents

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

MSEK	2012	2011	2010
Cash in banks	492	161	281
	492	**161**	**281**

Bank deposits earn variable interest based on the bank's daily deposit rate. The fair value for cash and cash equivalents is MSEK 492 (161, 281).

	2012	2011	2010
The total credit limit for the Munksjö Group amounts to:	2 436	2 475	2 378
Of which, the following was utilised at the closing date:	2 383	2 420	2 317

Note 20 Equity

Please refer to parent entity notes for details on share capital and share premium.

Other contributed capital
Refers to equity contributed by the shareholders.

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.

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

Note 21 Financial assets and liabilities

MSEK	2012	2011	2010
Liabilities to credit institutions and shareholders that fall to payment:			
within 1 year	128	133	–
between 1–5 years	2 232	2 287	2 294
after 5 years	6	7	7
Total interest-bearing liabilities	**2 366**	**2 427**	**2 301**

2012	Derivatives used in hedge accounting	Financial assets at fair value through profit and loss	Accounts and loan receivables	Financial liabilities at amortised cost	Carrying value	Fair value
Customer financing receivables	–	–	695	–	695	695
Other current receivables	4 1)	–	95	–	99	99
Cash and cash equivalents	–	–	492	–	492	492
Total	**4**	**0**	**1 282**	**0**	**1 286**	**1 286**
Interest-bearing liabilities	–	–	–	2 366	2 366	2 366
Accounts payable	–	–	–	687	687	687
Accrued expenses and deferred income	8 2)	–	–	354	362	362
Other liabilities	–	–	–	73	73	73
Total	**8**	**0**	**0**	**3 480**	**3 488**	**3 488**

1) of which currency derivatives 4
2) of which interest derivatives 1, electricity 4, currency 3

2011	Derivatives used in hedge accounting	Financial assets at fair value through profit and loss	Accounts and loan receivables	Financial liabilities at amortised cost	Carrying value	Fair value
Customer financing receivables	–	–	748	–	748	748
Other current receivables	10 1)	–	115	–	125	125
Cash and cash equivalents	–	–	161	–	161	161
Total	**10**	**0**	**1 024**	**0**	**1 034**	**1 034**
Interest-bearing liabilities	–	–	–	2 427	2 427	2 427
Accounts payable	–	–	–	487	487	487
Accrued expenses and deferred income	77 2)	–	–	358	435	435
Other liabilities	–	–	–	92	92	92
Total	**77**	**0**	**0**	**3 364**	**3 441**	**3 441**

1) of which currency derivatives 4, pulp derivatives 6
2) of which pulp derivatives 33, interest derivatives 29, electricity 5, currency 10

Note 21 Financial assets and liabilities, *continued*

2010	Derivatives used in hedge accounting	Financial assets at fair value through profit and loss	Accounts and loan receivables	Financial liabilities at amortised cost	Carrying value	Fair value
Customer financing receivables	–	–	533	–	533	533
Other current receivables	35 [1)]	–	115	–	150	150
Cash and cash equivalents	–	–	281	–	281	281
Total	**35**	**0**	**929**	**0**	**964**	**964**
Interest-bearing liabilities	–	–	–	2 301	2 301	2 301
Accounts payable	–	–	–	209	209	209
Accrued expenses and deferred income	–	–	–	223	223	223
Other liabilities	114 [2)]	–	–	42	156	156
Total	**114**	**0**	**0**	**2 775**	**2 889**	**2 889**

1) of which currency derivatives 17, electricity derivatives 18
2) of which pulp derivatives 58, interest derivatives 56

Munksjö has syndicated loans in EUR and SEK. The MEUR loan amounts to MSEK 1 291 and the MSEK loan amounts to MSEK 853. There is also a MSEK revolver loan amounting to MSEK 123. The interest on the loans is based on the 3-month Euribor rate plus 100 points and the 3-month STIBOR rate plus 100 points. The interest margin will increase 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 17 in 2012 and MEUR 18 in 2013. In 2012, the consolidated earnings before interest, tax and depreciation ("EBITDA") to consolidated net interest expense shall not be less than 3,2 and the consolidated net borrowings to consolidated EBITDA needs to be 5,9 or less. It is also required that the total consolidated cash flow for a year is higher than the consolidated total net interest payable plus financial liabilities falling due for repayment.

Note 22 Leasing commitments, MSEK

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

Future operating lease commitments:

Operational leasing	2012 Future minimum leasing fees	Of which, premises	2011 Future minimum leasing fees	Of which, Premises	2010 Future minimum leasing fees	Of which, Premises
Within 1 year	13	6	10	5	13	8
2–5 years	23	13	31	18	29	23
More than 5 years	2	–	–	–	–	–
Total	**38**	**19**	**41**	**23**	**42**	**31**

The Group's operational leasing costs for machinery and equipment plus rent on external properties amounted to MSEK 20 (23, 9).

Note 22 Leasing commitments, *continued*

Future financial lease commitments:

Financial leasing	Within 1 year	2–5 years	More than 5 years	Total
2012				
Minimum lease payments	5	45	7	57
Interest	1	3	1	5
Present value of minimum lease payments	**4**	**42**	**6**	**52**
2011				
Minimum lease payments	7	48	10	65
Interest	2	5	1	8
Present value of minimum lease payments	**5**	**43**	**9**	**57**
2010				
Minimum lease payments	5	43	–	48
Interest	2	4	–	6
Present value of minimum lease payments	**3**	**39**	**–**	**42**

Assets in the consolidated statement of financial position as at 31 December under financial leasing consisted on machinery with a net book value of MSEK 50 (55, 42).

Note 23 Provisions

MSEK	Restructuring	Environmental reserves	Tax reserves	Total
Opening balance on January 1, 2010	95	91	30	216
Provisions made during the year	5	7	–	12
Provisions used during the year	–56	–75	–	–131
Closing balance on December 31, 2010	**44**	**23**	**30**	**97**
Business combinations				
Reclassifications	–32	32	–	0
Provisions made during the year	24	18	–	42
Provisions used during the year	–11	–12	–	–23
Closing balance on December 31, 2011	**25**	**61**	**30**	**116**
Provisions made during the year	–	3		3
Provisions used during the year	–25	–3		–28
Exchange differences	–	–3		–3
Closing balance on December 31, 2012	**–**	**58**	**30**	**88**
Current Provisions (note 24)	–	–	–	–
Non-current provisions	–	58	30	88
Closing balance on December 31, 2012	**–**	**58**	**30**	**88**

Restructuring provisions consisted mainly of employee related redundancy and early retirement provisions. During 2011, provisions previously classified as restructuring were reclassified as environmental to better reflect the nature and timing of the related provision.
The provisions above have been made based on the assessment described in Note 2.

Note 24 Accrued expenses and deferred income

MSEK	2012	2011	2010
Provision for restructuring (note 23)	–	25	44
Accrual for invoices not yet received	113	93	41
Accrued wages and salaries	72	52	50
Accrued vacation pay	55	61	36
Accrued social security costs	65	79	33
Accrued customer bonus	32	27	6
Current derivatives assets	8	77	5
Other	17	21	8
Total accrued expenses and prepaid income	**362**	**435**	**223**

Note 25 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 65–85% of the net flow in the upcoming 9–month period shall be hedged. At the end of 2012, the currency contracts that had not yet been nominally recognised as income amounted to MSEK 3 (4,8) for MEUR and MSEK –3 (–10, 9) for USD.

MSEK	SEK	USD	EUR	Other
Net sales 2012	415	970	3 900	4
Net expenses 2012	–1 460	–175	–3 320	–
Exposure	**–1 045**	**795**	**580**	**4**
Total hedged 2012-12-31	**–**	**205**	**195**	**–**

2011, MSEK	SEK	USD	EUR	Other
Net sales 2011	450	800	4 200	4
Net expenses 2011	–1 440	–182	–3 800	–
Exposure	**–990**	**618**	**400**	**4**
Total hedged 2011-12-31	**–**	**220**	**200**	**–**

2010, MSEK	SEK	USD	EUR	Other
Net sales 2010	510	700	2 430	10
Net expenses 2010	–1 340	–170	–1 900	–
Exposure	**–830**	**530**	**530**	**10**
Total hedged 2010-12-31	**–**	**120**	**200**	**–**

Translation exposure

Munksjö has assets in foreign currencies, primarily through the ownership of its German, French 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.

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 non-current financing of its operations. A refinancing was carried out in 2009, which included a new share issue, which strengthened the company's financial position. During 2011, an additional new share issue amounting to MSEK 573 was implemented, and a smaller loan of MSEK 118 was raised to finance an acquisition (see note 3).

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 current and non-current financial prospects. Disturbances and uncertainties on the capital and credit markets may also limit the availability of the capital required to operate the business.

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

MSEK	31 December 2012	31 December 2011	31 December 2010
Syndicated EUR loans	1291	1 340	1350
Syndicated SEK loans	853	853	853
Syndicated EUR revolver loans	123	128	–
Other interest-bearing liabilities	99	106	98
Total	**2 366**	**2 427**	**2 301**

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 2 325 at year-end. The Group had an average fixed interest term of 3 months at year-end.

At the end of 2012, Munksjö held interest rate swaps of MSEK 1 207 (1 252, 1 260) on the syndicated loan. The fixed portion of the loan had an interest rate of 3.42%, 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 +10
Interest +2%	MSEK +20

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 21.

Customer structure and customer credit

Munksjö has long-standing customer relations, and the major share of the sales, 70%, 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 695 (748, 533) at year-end 2012.

The Group has a credit policy that governs the management of customer credits. The fair value of accounts receivables and supplier credits is commensurate with the recognised value.

Accounts receivable, MSEK	2012	2011	2010
Accounts receivable not due	631	678	457
Non-impaired accounts receivable overdue			
< 30 days	50	52	48
30–90 days	8	8	12
> 90 days	6	10	16
Non-impaired accounts receivable overdue	64	70	76
Total accounts receivable	**695**	**748**	**533**

Price risk

Munksjö hedges 50% of its electricity consumption for the Swedish entities. This entails a price risk for the unhedged portion.

With regard to pulp, Munksjö has a policy of hedging no more than 50% of the sales/purchases.

During 2012, sales of 3 500 tonnes of long fiber pulp were hedged each month, as well as the purchase of 1 000 tonnes of short fiber pulp. The long fiber pulp is manufactured and sold by Munksjö, whereas the short fiber pulp is used in production.

The following table shows the estimated effect on profit before tax for price changes from pulp, electricity and titanium dioxide.

	MSEK
Pulp +5%	+7
Energy +5%	–18
Titanium dioxide +5%	–53

Maturity structure and terms

The currency forward contracts are entered into on a monthly basis, with a maturity of nine months. At year-end 2012, there were 9 EUR and 9 USD forward contracts, maturing in January–September. Interest rate swaps up to a value of MSEK 1 207 (1 252, 1 260) & MEUR 140 (140, 140), commencing on January 3, 2012 with a maturity date of January 3, 2013. Settlement occurs on a quarterly basis. The electricity hedging is arranged via Statkraft, within predetermined maximum/minimum levels until 2015.

The pulp swaps have an agreed maturity of December 31, 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 2 and 3. No changes between levels occurred during the year.

Derivative instruments used for hedging purposes, MSEK	Level 1	Level 2	Level 3	Total
2012				
Assets		4	–	4
Liabilities		4	4	8

Financial instruments

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.

Realised hedging MSEK	2012	2011	2010
Currency	16	22	15
Electricity	–9	–29	7
Pulp derivatives	–2	4	–37
Interest derivatives	–32	–30	–20
Total	**–27**	**–33**	**–35**

Note 26 Subsidiaries

The consolidated accounts include the following entities

	Corporate ID	Registered Office	Share of votes %	Share of equity %
Munksjö AB	556669-9731	Jönköping	Parent	Parent
Munksjö Holding AB	556671-5552	Jönköping	100	100
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 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 France Holding SAS	529514408	Arches, France	100	100
Munksjö Arches SAS	428720668	Arches, France	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 Dettingen Gmbh	HRB 361000	Dettingen, Germany	100	100
Munksjö S.P. Italy SRL	12306490157	Italy	100	100
Munksjö Paper Inc.	52-1517747	Fitchburg, USA	100	100

Note 27 Assets pledged and contingent liabilities

Assets pledged, MSEK	2012	2011	2010
Property mortgages for other commitments	804	743	811
Blocked bank accounts	5	17	37
Other pledged assets	112	140	124
Chattel mortgages	1 662	1 687	1 190
Total pledged assets	**2 583**	**2 587**	**2 162**

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

Contingent liabilities, MSEK	2012	2011	2010
Guarantees and other contingent liabilities	12	11	10
Total contingent liabilities	**12**	**11**	**10**

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 utilised in the cases when this would breach the laws and limitations in the country in question.

Note 28 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 6, which can be attributed as follows: EQT: MSEK 2, Board Members: MSEK 1 and current and former senior executives of the Munksjö Group: MSEK 3, the loan has an interest of EURIBOR 360 days +7,5 percent, which amounted to MSEK 0,6 (0,6, 0,6). 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 80 percent 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 2012, these expenses amounted to MSEK 0 (3, 0,1).

One percent of the shares in Munksjö AB are held by senior executives of the Munksjö Group. The remaining 19 percent are held by former creditors in relation to subordinated loans.

The subsidiary Munksjö Aspa Bruk AB purchases wood and woodchips from the associated company Sydved AB. During the year Aspa Bruk AB purchased 879 000 m^3 (847 000, 841 000) of wood and woodchips amounting to MSEK 414 (442, 390).

The subsidiary Munksjö Paper GmbH is buying electricity and gas from Stadtwerke Aalen GmbH who owns 40% of Munksjö Paper GmbH's subsidiary Kraftwerksgesellschaft Unterkochen GmbH, the related purchase amounts to MEUR 6,3 (7,2, 8,3).

Other than as stated above, there are no significant transactions with related parties.

Parent company’s income statement

MSEK	Note	2012	2011
Income		22,0	10,9
Other external costs	2	–5,2	–12,5
Personnel costs	3	–23,4	–12,1
Operating profit/loss		**–6,6**	**–13,7**
Financial income	4	0,2	0,1
Financial expenses	4	–0,6	–0,6
Net financial items		**–0,4**	**–0,5**
Profit/loss before taxes		**–7,0**	**–14,2**
Current tax	5	–	2,3
Deferred tax	5	0,7	1,2
PROFIT/LOSS FOR THE YEAR		**–6,3**	**–10,7**

There are no items of other comprehensive income. Purchases from group companies amounted to (–) MSEK (–). Income from group companies amounted to MSEK 22,0 (10,9).

The accompanying notes are an integral part of these financial statements.

Parent company's balance sheet

MSEK	Note	2012	2011
ASSETS			
Fixed assets			
Shares in subsidiaries	6	2 125,1	2 125,1
Deferred tax assets		2,4	1,7
Total fixed assets		**2 127,5**	**2 126,8**
CURRENT ASSETS			
Receivables in subsidiaries		1,6	14,8
Other receivables		1,0	–
Total current assets		**2,6**	**14,8**
TOTAL ASSETS		**2 130,1**	**2 141,6**
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital	7	74,6	74,6
Statutory reserve		22,7	22,7
		97,3	97,3
Non–restricted equity			
Share premium reserve		2 345,1	2 345,1
Accumulated profit/loss		–326,5	–315,8
Profit/loss for the year		–6,3	–10,7
		2 012,3	**2 018,6**
TOTAL EQUITY		**2 109,6**	**2 115,9**
LIABILITIES			
Non–current liabilities			
Shareholder loans	8	6,1	6,9
		6,1	**6,9**
Current liabilities			
Accounts payable		3,0	1,0
Liabilities to subsidiaries		0,4	12,3
Other liabilities		11,0	5,5
Total liabilities		**20,5**	**25,7**
TOTAL EQUITY AND LIABILITIES		**2 130,1**	**2 141,6**
Pledged assets	9	2 125,1	2 125,1
Contingent liabilities	9	70,7	4,5

The accompanying notes are an integral part of these consolidated financial statements.

Parent company's changes in equity

	Restricted equity		Non-restricted equity			
MSEK	Share capital	Statutory reserve	Share premium	Retained earnings	Net profit/ loss for the year	EQUITY
BALANCE AT 1 JANUARY 2011	**27,9**	**22,7**	**1 818,3**	**–321,5**	**–0,6**	**1 546,8**
Previous year's profit/loss brought forward	–	–	–	–0,6	0,6	0,0
New share issue	46,7	–	526,8	–	–	573,5
Equity part of Group contribution				6,3		6,3
Profit/Loss for the year	–	–	–		–10,7	–10,7
BALANCE AT 31 DECEMBER 2011	**74,6**	**22,7**	**2 345,1**	**–315,8**	**–10,7**	**2 115,9**
Previous year's profit/loss brought forward	–	–	–	–10,7	10,7	0,0
Equity part of Group contribution	–	–	–	–	–	–
Profit/Loss for the year	–	–	–	–	–6,3	–6,3
BALANCE AT 31 DECEMBER 2012	**74,6**	**22,7**	**2 345,1**	**–326,5**	**–6,3**	**2 109,6**

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

Parent company's cash flow statement

MSEK	Note	2012	2011
Operating activities			
Operating loss		–6,6	–13,7
Adjustment for items not affecting cash flow		–	0,6
Interest paid		–0,6	–0,5
Cash flow from operating activities before changes in operating capital		**–7,2**	**–13,6**
Cash flow from changes in operating capital			
Changes in operating liabilities		–5,0	18,8
Changes in operating receivables		12,2	–13,8
Cash flow from operating activities		**0,0**	**–8,6**
Investing activities			
New share issue		–	–573,5
Cash flow from investing activities		**0,0**	**–573,5**
Financing activities			
New share and offset issues		–	573,5
Group contributions		–	8,6
Cash flow from financing activities		**0,0**	**582,1**
Cash flow for the year		**0,0**	**0,0**
Cash and cash equivalents at the beginning of the year		**0,0**	**0,0**
Cash flow for the year		0,0	0,0
CASH AND CASH EQUIVALENTS AT YEAR-END		**0,0**	**0,0**

The accompanying notes are an integral part of these consolidated financial statements.

Parent company notes

Note 1 Accounting policies

General
Munksjö AB, Corporate Identity Number, 556669-9731, is a Swedish company, registered in Jönköping, Sweden. The company's address is Box 14, 551 12 Jönköping. The accounts of the Parent Company for 2012 were approved by the Board of Directors on March 18 and are expected to be adopted by the AGM on April 11.

Summary of key accounting policies
The key accounting policies applied are presented below.

The functional currency of the Parent Company is SEK. Amounts are stated in MSEK, unless otherwise indicated.

Fixed assets and non-current 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 consist solely of amounts that are expected to be recovered or paid within 12 months of the end of the reporting period.

Parent Company's accounting policies
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. Other statements issued by the Swedish Financial Accounting Standards Council 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 policies
The differences between the Group's and Parent Company's accounting policies are shown below. The accounting policies 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 and associated companies are recognised in the Parent Company in accordance with the cost method. All dividends from subsidiaries, associated companies and joint ventures are recognised 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.

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 at the lower of cost or fair value.

Anticipated dividends
Anticipated dividends from subsidiaries are recognised 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 recognised in the income statement as they occur.

Taxes
In the Parent Company, untaxed reserves are recognised in the balance sheet without dividing them into equity and deferred tax liability, unlike in the consolidated accounts. Correspondingly the Parent Company does not recognise 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 (RFR2). Shareholder contributions are recognised directly in 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 minimising the Group's total tax are recognised directly against retained earnings after deductions for their current tax effect.

Group contributions comparable with a dividend are recognised as income. This means that Group contributions received and their current tax effect are recognised in profit/loss for the year. Group contributions made and their current tax effect are recognised directly against retained earnings. Group contributions comparable with shareholder contributions are recognised, 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 Remuneration to auditors

MSEK	2012	2011
Ernst & Young AB		
Audit fees	0,2	1,3
Audit–related fees	1,7	–
Tax service fees	–	–
Other fees	–	0,5
Total	**1,9**	**1,8**

Note 3 Personnel costs

Sweden, MSEK	2012	2011
Wages, salaries, benefits and fees	15,1	7,8
Of which to Board and President	6,2	4,7
Of which bonus	0,5	0,5
Social security	7,0	3,7
Of which pension expense	3,0	1,6
Of which to Board and President	1,3	0,8

Other personnel costs amounted to MSEK 1,3 and related to mainly to recruitment and training. Further information on the Board, president and senior management is presented in Note 7 and 8 to the Group accounts.

Note 4 Net financial items

MSEK	2012	2011
Interest income on cash and current investment	0,0	0,0
Exchange rate gains and losses	0,2	0,1
Financial income	**0,2**	**0,1**
Interest expense on financial liabilities	–0,6	–0,6
Exchange rate gains and losses	0,0	0,0
Other financial costs	–	–
Financial costs	**–0,6**	**–0,6**
Net financial items	**–0,4**	**–0,5**

Note 5 Taxes

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

MSEK	2012	2011
Profit/loss before taxes	**–7,0**	**–14,2**
Tax income for the period	–	2,3
	–	**2,3**
Deferred tax:		
Relating to recognition and use of tax loss carry forwards	0,7	1,2
Relating to recognition and reversal of temporary differences	–	–
	0,7	1,2
Total tax expense	**0,7**	**3,5**

Reconciliation of effective tax rate, MSEK	2012	2011
Profit/loss before taxes	**–7,0**	**–14,2**
Swedish income tax	–	2,3
Deferred tax	0,7	1,2
Tax in income statement	0,7	3,5

Note 6 The parent company's participating interests in Group companies

MSEK	2012	2011
Acquisition value		
Opening value at the beginning of the year	4 398,1	3 824,6
Investments	–	573,5
Closing value at year–end	**4 398,1**	**4 398,1**
Accumulated impairment losses		
Opening value at the beginning of the year	2 273,0	2 273,0
Impairment losses for the year	–	–
Closing value at year–end	**2 273,0**	**2 273,0**
Book value	**2 125,1**	**2 125,1**

The investment during 2011 of MSEK 573,5 relates to the Group acquisition described in Note 3 of the Consolidated Financial Statements.

Note 7 Equity

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 and offset share issue	27 480 184	27,48
2009-12-16	New and offset share issue	319 466	0,32
2011-03-18	New share issue	46 716 464	46,72
		74 636 119	**74,64**

Share capital	2012	2011
Number of preference shares	22 080 097	22 080 097
Number of ordinary shares	52 556 022	52 556 022
Total number of shares	**74 636 119**	**74 636 119**
Value per share, MSEK	1	1
Share capital, MSEK	74,64	74,64

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 by a factor of 10%. All shares carry equal voting rights.

Note 8 Financial assets and liabilities

	2012	2011
Liabilities to shareholders that fall to payment:		
within 1 year	–	–
between 1–5 years	–	–
after 5 years	6,1	6,9
Total interest-bearing liabilities	**6,1**	**6,9**

Note 9 Assets pledged and contingent liabilities

Assets pledged, MSEK	2012	2011
Pledge of shares in subsidiaries	2 125,1	2 125,1
	2 125,1	**2 125,1**

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

Contingent liabilities, MSEK	2012	2011
Guarantees and other contingent liabilities in support of subsidiaries	69,5	4,5
Other contingent liabilities	1,2	–
Total contingent liabilities	**70,7**	**4,5**

Some companies within the Group 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 utilised in the cases when this would breach the laws and limitations in the country in question. Munksjö AB has guaranteed the liabilities of some of its subsidiaries the maximum exposure being MSEK 69,5 (4,5)

Note 10 Paid and proposed dividends

No dividends were paid in 2012 and 2011. There is no proposal to distribute dividends.

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.

Proposed allocation of profit

Distribution of profit by the parent company, MSEK	
Unrestricted equity in the parent company:	
Share premium reserve	2 345,1
Profit brought forward	–326,5
Net profit	–6,3
Total	**2 012,3**

The Board of Directors and the President propose that:	
The total be brought forward	2 012,3

Jönköping 18 March 2013

The Board and the President 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 currently face.

Fredrik Cappelen
Chairman of the Board

Caspar Callerström
Director

Richard Chindt
Director

Annika Krave
Employee representative

Ingvar Petersson
Director

Elisabet Salander Björklund
Director

Jan-Christer Sjölinder
Employee representative

Jan Åström
Board member and President

Our audit report was issued on 20 March 2013.

Ernst & Young AB

Karin Grann
Authorised Public Accountant

Auditor's report

To the annual meeting of the shareholders of Munksjö AB, corporate identity number 556669-9731

Report on the annual accounts and consolidated accounts
We have audited the annual accounts and consolidated accounts of Munksjö AB for the year 2012. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 2–57.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts
The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions
In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2012 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2012 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

Report on other legal and regulatory requirements
In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of Munksjö AB for the year 2012.

Responsibilities of the Board of Directors and the Managing Director
The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

Auditor's responsibility
Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinions
We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Jönköping 20 March 2013

Ernst & Young AB

Karin Grann
Authorized Public Accountant

Corporate Governance

Munksjö AB (publ) is a Swedish limited liability company with registered office in Jönköping, Sweden. The company has prepared itself for a potential stock-listing why it from financial year 2011 onward, began applying the Swedish Code of Corporate Governance, herein referred to as the "Code." Following the Code companies are not required to comply with all Code regulations, but are allowed the possibility of choosing alternative solutions that they deem to be better suited to their particular circumstances, provided that these deviations, if any, are disclosed. The alternative solutions must be described and their basis explained (the comply or explain principle) in the corporate governance report.

Munksjö applies the Code, with the exception that a Nomination Committee will be appointed only following the achievement of an increased distribution of ownership/stock-exchange listing. Furthermore, neither the company's quarter two nor quarter three interim report has been reviewed by the company's auditors.

Management tools

A number of laws and other regulations form the basis/management tools for corporate governance. Examples of these are the Swedish Companies Act, Swedish Annual Accounts Act and the Swedish Code of Corporate Governance.

Second to the AGM, the Board of Directors has ultimate responsibility, and is thus responsible for the organisation and management of the company.

Internal governance is supported by the Articles of Association adopted by the AGM, the Rules of Procedure for the Board of Directors, instructions to the CEO and the Board Committees.

The following policies and guidelines have been adopted by the Board of Directors:

- Rules of Procedure for the Board of Directors
- Board instructions to the CEO and delegation procedures
- Rules of Procedure for the Board of Directors' various advisory committees (Audit and Remuneration)
- Communication Policy
- Insider policy
- Code of Conduct
- Remuneration policy
- Sustainability Policy
- Financial Policy

Annual General Meeting

In accordance with the Swedish Companies Act, the AGM is the company's highest decision making body. At the AGM and any extraordinary general meetings that may be held, shareholders exercise their voting rights on key issues such as the adoption of income statements and balance sheets, the allocation of the company's profit, the granting of discharge from liability to the Board and CEO, the election of Board members and auditors, as well as remuneration to the Board and auditors.

In accordance with the Articles of Association, notice to attend the AGM and extraordinary general meetings, as well as other notifications to shareholders, are sent by post when required by law, otherwise by e-mail. In connection with a possible stock-exchange listing, this procedure will be modified to reflect the best practices applicable to the issuing of notices for listed companies.

Munksjö's AGM 2012 was held on 18 April, with 84,3 percent of the votes represented. The AGM passed resolutions on such items as:

- The allocation of earnings according to the Board's proposal, meaning that it will be carried forward.
- A fee of SEK 550 000 to be paid to the Chairman of the Board and SEK 275 000 SEK to other Board members who are not employed by the company or its principal owner, EQT; the auditor's fee to be paid in accordance with a special agreement based on time spent.
- Remuneration to the Board Committee to be paid in the form of SEK 75 000 to the Chairman of the Board, SEK 50 000 to members of the Audit Committee and SEK 50 000 to its chairman, and SEK 25 000 to members of the Remuneration Committee.
- It was recorded that the employee's representatives according to the Trade Union Representatives Act consists of two ordinary directors and two deputy directors. The ordinary directors are Annika Krave and Jan-Christer Sjölinder with Jan Erik Blomqvist and Lennart Jonasson as deputy directors. After the AGM deputy director Jan Erik Blomqvist resigned from the board and was replaced by Marcus Englund.

The following members were elected to the Board: Fredrik Cappelen, Caspar Callerström, Ingvar Petersson, Richard Chindt and Jan Åström.

Election Committee

No formal Election Committee has been appointed by the AGM since Munksjö has a concentrated ownership structure with a distinct principal owner. In the event of increased distribution of ownership, an Election Committee will be established.

Auditors

Munksjö's appointed auditor is Ernst & Young. The chief auditor is authorized public accountant Karin Grann, who has held the position since 2006. In accordance with the Articles of Association, an auditor is appointed for a term of four years. At the Annual General meeting 2010, Ernst & Young and Karin Grann was re-elected. In connection with a potential listing on a stock exchange, this must be changed to a term of one year in accordance with the law.

The auditors review the parent company and the Group's annual reports and accounting, as well as the management of the Board of Directors and CEO. Auditors were present at two Board meetings during the year and at all Audit Committee meetings. In addition to the audit assignment, Ernst & Young has assisted with some accounting consultation for certain foreign group companies. In the event of any approaching assignments, the independence of auditors is scrutinised prior to the commencement of the assignment. Remuneration to the auditors is presented in the table below.

Remuneration to auditors

MSEK	2012	2011	2010
Ernst & Young			
Audit fees	5	6	2
Audit-related fees	2	1	1
Tax service fees	–	–	–
Other fees	–	2	1
Total	**7**	**9**	**4**

Board of Directors

The Board of Directors is the second highest decision-making body after the AGM. In accordance with the Swedish Companies Act, the Board of Directors is responsible for the organisation and management of the company, which means that the Board of Directors is responsible for such matters as setting goals and strategies, safeguarding the procedures and systems for evaluating the goals that have been set, continuous assessment of Munksjö's financial state and earnings, as well as the appraisal of management operations. The Board of Directors is also responsible for ensuring the due preparation of the annual report, including consolidated financial statements and interim reports, and their compliance with prevailing rules and regulations. Furthermore, the Board of Directors is responsible for appointing the CEO.

The Board members are elected every year at the AGM for the period until the next AGM. In accordance with the company's Articles of Association, the Board of Directors must, insomuch as is elected by the Annual General Meeting, comprise at least five members and a maximum of ten members without deputies. The Chairman of the Board is elected by the Annual General Meeting and has a special responsibility for the management of the Board's work and ensuring that it is well-organised and pursued with efficiency. The Chairman of the Board does not participate in the operational management of Munksjö.

The Board of Directors follows written procedures that are revised yearly and adopt at the yearly statutory Board meeting. The Rules of Procedure regulates the Board's practices, functions and the distribution of work between the Board members and CEO. In connection with the first Board meeting, the Board of Directors also sets the instructions on financial reporting and instructions to the CEO.

The Board of Directors holds meetings in accordance with a yearly schedule, with certain fixed issues that are established in advance:

- In the first quarter, annual reports and corporate governance reports are reviewed and approved. In addition, strategic issues, the group company's financial performance and the assessment of requirements for special auditing functions (internal auditing) are reviewed.
- In the second quarter, interim reports are approved. Reviews of significant policies are undertaken, and a long-term plan is adopted.
- In the third quarter, financial projections and investments are evaluated. The quarter two interim report is approved and issues concerning markets and financing are evaluated.
- In the fourth quarter, the annual projection/budget is approved, issues presented by the Audit Committee are appraised, the Board's work is evaluated and the interim report approved.

Board attendance

Board members	Elected	Board meetings	Attendance Remuneration Committee	Attendance Audit Committee	Independent of company	Independent of owners
Fredrik Cappelen	2005	12/12	3/3		Yes	Yes
Caspar Callerström	2005	11/12	3/3	4/4	Yes	No
Richard Chindt	2009	12/12		4/4	Yes	Yes
Ingvar Petersson	2005	10/12		4/4	Yes	Yes
Elisabet Salander Björklund	2011	12/12	3/3		Yes	Yes
Jan Åström	2008	12/12			No	Yes
Jan-Christer Sjölinder, employee	1997	12/12*			No	Yes
Annika Krave, employee	2004	5/12*			No	Yes
Marcus Englund, employee, deputy (from June 2012)	2012	5/12			No	Yes
Jan-Erik Blomqvist, employee, deputy (until June 2012)	2003	2/12*			No	Yes
Lennart Jonasson, employee, deputy	2010	3/12*			No	Yes

* the employee representatives divide their participation at Board meetings during the year

In addition to these issues which are processed at regular Board meetings, meetings may be arranged to process issues that cannot be transferred to a regular meeting. In addition to Board meetings, the Chairman of the Board and CEO are in continuous dialog concerning the management of the company.

Munksjö's Board of Directors currently comprises six members elected by the AGM, including the Chairman and two employee representatives with two deputies appointed by the local labor organisations, Unionen and the Swedish Pulp and Paper Workers' Union. The Board members are presented in more detail in the section, "Board of Directors and auditors" in the Annual Report.

Evaluation of the Board's work

The Board of Directors evaluates its work yearly through a systematic and structured process. The Chairman of the Board is responsible for implementation.

Independence

In accordance with the Code, the majority of the Board members elected by the AGM must be independent in relation to the company and at least two members must be independent in relation to the largest shareholders. Munksjö's Board has been deemed to live up to this requirement on independence in accordance with the Code.

The Board of Director's supervision of financial reporting

The Board of Directors supervises the quality of financial reporting by means of instructions to the CEO. The CEO is responsible for reviewing and assuring the quality of all externally published financial reports.

The Board of Directors' Audit Committee (refer below) contributes to the presentation of high-quality of financial reporting. The Board of Directors obtains detailed up-to-date financial information on a monthly basis and the financial state of affairs is processed at every Board meeting.

Board Committees

Audit Committee

The Audit Committee comprises of Ingvar Petersson (Chairman), Caspar Callerström and Richard Chindt. The primary task of the Audit Committee is to ensure quality in the company's external financial reports and to ensure that the internal controls are functioning in an appropriate manner. This is primarily accomplished through the continuous review of critical accounting issues and through the processing of the company's external financial reports. The company's auditors report their findings from the review of internal controls and financial accounts to the committee. The Audit Committee meets a minimum of once every quarter and whenever required. The committee works in accordance with instructions and according to calendar adopted by the Board of Directors, and reports the results of its work to the Board of Directors. The Audit Committee held four meetings in 2012.

Remuneration Committee

The Remuneration Committee comprises of the Chairman of the Board Fredrik Cappelen (Chairman), Elisabet Salander Björklund and Caspar Callerström. The committee's principal task is to propose salaries, other benefits and other terms of employment for the Group's CEO. The committee's task also includes approval of proposals on the principles of remuneration and other terms of employment for other senior executives from the CEO. The committee held three meetings in 2012.

Fees paid to Board

Fees and other remuneration to the Board of Directors, including the Chairman, are established by the AGM. At the AGM on 18 april 2012, it was resolved that the fee to the Chairman of the Board would amount to SEK 550 000 (annually) and to SEK 275 000 (annually) for the regular Board members appointed by the AGM who are not employed by Munksjö or EQT. An annual fee of SEK 75 000 is to be paid to the Chairman for his work in the Audit Committee, and SEK 50 000 is to be paid to each of the other members. A fee of SEK 50 000 is to be paid to the Chairman for his work in the Remuneration Committee and SEK 25 000 is to be paid to each of the other members. A reading fee will be paid for each Board meeting to the employee representatives.

The company's Board members are not entitled to any benefits upon resigning as members of the Board.

CEO and other senior executives

The CEO is subordinate to the Board of Directors and has foremost responsibility for the Group's ongoing management and day-to-day operations. The division of duties between the Board of Directors and CEO are outlined in Rules of Procedure for the Board of Directors and instructions to the CEO. The CEO is also responsible for producing reports and compiling information from Group Management prior to Board meetings and to be the submitter of materials at Board meetings. In accordance with the instructions on financial reporting, the CEO is responsible for Group financial reporting and should accordingly ensure that the Board of Directors obtains sufficient information to enable their continuous evaluation of Munksjö's financial state. The CEO must keep the Board of Directors informed on continuous basis regarding the development of Munksjö's operations, the size of net revenues, the Group's earnings and financial state, cash flow and credit situation, important business transactions and other circumstances that may be considered relevant to the company's shareholders (such as substantial disputes, cancellation of agreements that are vital to Munksjö and significant circumstances concerning Munksjö's mills). The CEO and other senior executives are presented in more detail under "Group Management", in the Annual Report.

Guidelines on remuneration for senior executives

Senior executives

The 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.

Guidelines

The Board of Directors has adopted guidelines on remuneration and other terms of employment for the CEO and other senior executives essentially as follows.

Remuneration to the Board of Directors

Remuneration to the Board of Directors is paid in accordance with resolutions by the Annual General Meeting.

Remuneration to the Board of Directors

KSEK

Annual remuneration for period:		2011	2010	2009
Year paid out:		2012	2011	2010
Fredrik Cappelen	Chairman from 2009	600	223	176
Jan Reinås	Chairman to 2009	–	–	179
Ingvar Petersson		350	113	120
Richard Chindt		325	113	30
Jan Åström	CEO	–	–	–
Caspar Callerström		–	–	–
Elisabet Salander Björklund		250	–	–

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 as well as individual targets. 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. The maximum variable remuneration to the CEO is 65 percent of the fixed remuneration and the maximum for other senior executives is 50 percent of the fixed remuneration.

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. The individual maximum notice period given by the company are 24 months, with remuneration and an obligation to work. There is no severance pay in addition to salary during notice periods.

Pensions

Pension arrangements for senior executives include customary occupational pensions. Pension arrangements for senior management are determined on an individual basis and comprise of defined benefit and defined contribution plans.

Other benefits

To the extent that other benefits are paid out, they consist of company cars, housing benefits and health care 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 compelling reasons to do so.

Processes and procedures for financial reporting and internal controls

Internal control is a process influenced by the Company's Board of Directors, management and other employees, and is designed to provide reasonable assurance that the company's objectives will be achieved in the following areas:

- Appropriate and efficient operations,
- Reliable financial reporting and
- Compliance with governing laws and ordinance.

The Board of Directors has the overall responsibility for the internal controls. The CEO is responsible for ensuring that processes and procedures are available to safeguard the internal controls and quality in financial reporting. Structure and steering documents in the form of policies, guidelines and instructions provide the basis for ensuring the maintenance of high quality on the internal controls and financial reporting.

Structure and steering documents in the form of policies, guidelines and instructions provide the basis for ensuring the maintenance of high quality on the internal controls and financial reporting.

Detailed financial reports are produced each month, on both a unit and Group level. Based on these reports, meetings are held with each unit, where the CEO, Group CFO and other centrally placed employees, together with the operational management of the unit, review the month's outcome in comparison with projections, etc. At these meetings, reviews and analysis are carried out on the market situation, order bookings, earnings trend, cash flow and tied-up capital. In addition, improvement measures are initiated, if any. Projections for the year are usually updated in conjunction with the end of each quarter.

Control activities are carried out on a continuous basis by Group employees with various functions. Munksjö's auditors also review a number of selected procedures and processes each year. In 2012, an additional project was initiated by the Audit Committee, aimed at evaluating the launch of internal controls. The project commenced with a risk analysis to identify a number of central areas where control activities are concentrated. These were the sales and procurement procedures, as well as IT-related procedures.

Munksjö does not have a special inspection function (internal audit). The Board of Directors has deemed that the Group's size and level of complexity does not warrant such a function.

Compliance

Munksjö's market is global and the company has production facilities in Sweden, Europe and China. Wherever the company is active, the company faces demands which we must live up to. The goal is that Munksjö will be perceived as a trustworthy and reliable partner which conducts its business with integrity and in compliance with laws and regulations governing its operations.

Munksjö is committed to creating value for its shareholders and other stakeholders and to building relationships based upon openness, trust and respect with its employees, business partners, shareholders and other stakeholders – and to do so in a socially and environmentally responsible manner. Achieving this requires strong financial performance, environmental stewardship and social commitment.

The Competition Compliance Manual was established in 2008. Awareness of the potential application of the competition rules and compliance to avoid infringing them will protect Munksjö against allegations of anti-competitive activity. The manual is updated yearly and key personnel are educated every two years on the Competition Compliance manual and the antitrust rules.

Code of conduct

Munksjö's code of conduct has been adopted to stress the principles by which the company conducts its relations with employees, business partners and other stakeholders. It applies to all Board members, managers and employees of Munksjö. The Code of Conduct was updated in June, 2012.

The Code of Conduct is available on the website, www.munksjo.com.

Fredrik Cappelen
Chairman of the Board

Caspar Callerström
Director

Richard Chindt
Director

Annika Krave
Employee representative

Ingvar Petersson
Director

Elisabet Salander Björklund
Director

Jan-Christer Sjölinder
Employee representative

Jan Åström
Board member and President

Board of directors and auditor

Fredrik Cappelen
Stockholm, Sweden, born 1957
Chairman since 2009
(member since 2005)
Other board assignments:
Chairman Byggmax Group AB, Granngården, Dustin AB and Sanitec Oy. Board member Securitas 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 AB. Deputy CEO and EVP SCA AB. President and CEO of Modo Paper AB and President of SCA Fine Paper, Germany.
Education: M. Sc. Chemical Engineering
Holdings: 70 133 shares

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

Ingvar Petersson
Stockholm, Sweden, born 1941
Board member since 2005
Other board assignments: Chairman 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 Gynius AB and Green Savings Scandinavia AB
Previous positions: CEO Heart of Brands AB
Education: Finance
Holdings: 0 shares

Elisabet Salander Björklund
Falun, Sweden, born 1958
Board member since 2011
Other board assignments: Board member Mistra, SweTree Technologies AB, Firefly AB and Marcus Wallenberg Prize Foundation
Other assignments: CEO Bergvik Skog AB
Previous positions: EVP Stora Enso
Education: Master of Science, Forestry
Holdings: 0 shares

Employee representatives

Annika Krave
Bengtsfors, Sweden, born 1971
Employee representative since 2004. Member of Unionen.
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 Svenska Pappers-industriarbetarförbundet.
Employed at Munksjö Aspa Bruk AB, Sweden.
Education: Finance
Holdings: 0 shares

Deputies

Marcus Englund
Jönköping, Sweden, born 1981
Deputy board member since 2012. Member of Unionen.
Employed at Munksjö Paper AB, Jönköping, Sweden.
Education: Electrical automation
Holdings: 0 shares

Lennart Jonasson
Bengtsfors, Sweden, born 1963
Deputy board member since 2010. Member of Svenska Pappers-industriarbetarförbundet.
Employed at Munksjö Paper AB, Billingsfors, Sweden.
Education: Systems sciences
Holdings: 0 shares

Secretary to the board

Bo Eriksson
Stockholm, Sweden, born 1950
Senior Vice President Corporate Development Munksjö AB
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 of Munksjö AB since 2008.
Education: M.Sc. Chemical Engineering
Born: 1956
Employed since: 2008
Background: 2002–2007 President and CEO SCA AB, 2000–2002 Deputy CEO and EVP SCA AB, 1999–2000 President and CEO Modo Paper AB, 1996–1999 President SCA Fine Paper, Germany
Other board assignments: Member SEKAB AB and Sydved AB
Holdings: 70 133 shares

Bo Eriksson
Senior Vice President Corporate Development
Education: Finance
Born: 1950
Employed since: 2009
Background: 2009–2010 CFO Munksjö AB, 1999–2009 SVP Risk Management/ Group Controller, Stora Enso, Financial manager Stora, CFO Kinnevik
Other board assignments: Member of Global Preparers Forum (GPF), Joint International Group (JIG)
Holdings: 46 756 shares

Kim Henriksson
Executive Vice President and CFO
Education: Finance
Born: 1968
Employed since: 2010
Background: 1994–1996 and 1999–2008: Morgan Stanley, most recently as Managing Director within M&A in Stockholm, Sweden.
Holdings: 74 755 shares

Åsa Fredriksson
Senior 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
Senior Vice President Strategic Development
Education: Civil engineering
Born: 1980
Employed since: 2010
Background: Engagement manager McKinsey
Holdings: 56 050 shares

Business area managers

Christian Mandl
Business Area Manager 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

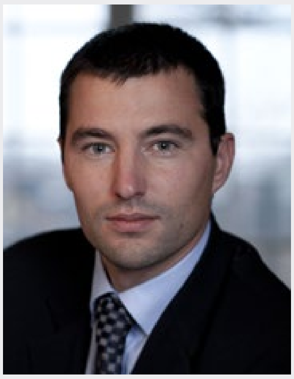
Norbert Mix
Business Area Manager Sales and Marketing Decor
Education: Finance, forestry economics
Born: 1957
Employed since: 2005
Background: 2006–2010 President and CEO of Munksjö Inc, USA. Sales and Technical Director Technocell Decor, Canada and USA. Technical Director Teknik Munksjö Decor, Inc USA.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

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.
Other board assignments: Ledamot SPCI och Sydved AB
Holdings: 2 240 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

Roland Le Cardiec
Vice President Thin Print Paper and Fine Art Paper
Utbildning : Ingénieur Civil des Mines (MSc)
Born: 1957
Employed since: 2011
Background: 1988–2011 BU VP, EMEA Project Director, General Manager China Platform, S&M Manager, Production Manager at ArjoWiggins 1981–1988 Production Manager at Le Nickel-SLN (Eramet)
Holdings: 0 shares



Nikita Mulard
Vice President Abrasive
Education: Paper science engineer and Environment Master
Born: 1972
Employed since: 2011
Background: 1998–2000 Chemical Sales Engineer in paper industry, 2000–2003 Application Engineer for recycling paper process, 2003–2011 working for the abrasive paper backing business as Technical Customer Service Manager, since 2007 as Technical Director, since 2009 as Sales Director
Holdings: 0 shares

Others

Key definitions

EBITDA
Operating profit/loss before depreciation and amortisation.

EBITDA margin
EBITDA as a percentage of net sales.

Operating margin
Operating profit/loss after depreciation and amortisation 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 divided by net interest paid to financial institutions.

Net Interest-bearing 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.

Interest bearing liabilities and assets
Liabilities and assets which have a contractual obligation/right to pay/receive interest to/from a financial institution.

Production facilities

Jönköping, Sweden
The mill in Jönköping was founded in 1862 and started to produce insulating paper for cables in 1909. The business and product range has since expanded to now include all of Munksjö's Electrotechnical paper production and certain Abrasive backing papers.
Products: Electrotechnical and Abrasive backing paper
Number of paper machines: 1
Capacity: 22 000 tonnes
Employees (FTE): 110

Aspa Bruk, Sweden
The mill was founded in the 1670s and was acquired by Munksjö 1917 and turned into a pulp mill in 1928.
Products: Bleached and unbleached long fiber kraft pulp
Capacity: 200 000 tonnes
Employees (FTE): 169

Billingsfors, Sweden
The mill was founded in 1738 and turned into a pulp and paper mill in 1884. Munksjö acquired Billingsfors in 1982. Billingsfors is an integrated production facility, which means that the longfiber pulp produced here is also used for the production of specialty paper products at the facility. The pulp produced is also used for the production of Electrotechnical paper in Jönköping.
Products: Spantex®, Thin paper, pulp as well as a converting facility for Spantex®
Number of paper machines: 3
Capacity paper: 50 000 tonnes
Capacity pulp: 60 000 tonnes
Employees (FTE): 272

Ed, Sweden
The facility has been operational since 1997. Ed was acquired by Munksjö in 2010 to support production in Billingsfors.
Products: Spantex® and coated papers with other technical barriers.
Coating machine: 1
Capacity: 5 tonnes
Employees (FTE): 3

Unterkochen, Germany
The mill was founded in 1613 and began developing decorative paper in 1936. Since 1970 the mill only produces decorative papers and was acquired by Munksjö in 1996.
Products: Print-base paper, Decor papers for high- and low-pressure lamination, backers
Number of paper machines: 2
Capacity: 87 000 tonnes
Employees (FTE): 252

Dettingen, Germany
The mill was founded in 1861 and was acquired by Munksjö in March 2011.
Products: Pre impregnated Decor papers, Thin Print papers
Number of paper machines: 2
Capacity: 54 000 tonnes
Employees (FTE): 190

Achern, Germany
The production of Dettingen Thin Print paper portfolio started in 2009 and was acquired by Munksjö in March 2011.
Products: Preimpregnated Decor paper and Thin Print paper
Cross cutter: 1
Guillotines: 2
Ream wrapping equipment
Capacity: 6 000 tonnes
Employees (FTE): 8

Arches, France
The mill was founded in 1492 and acquired by Munksjö in March 2011.
Products: Decor paper, Abrasive backing paper and Fine Art paper
Number of paper machines: 7
Number of printers: 3
Capacity: 78 100 tonnes
Capacity printers: 7 500 tonnes
Employees (FTE): 455

Tolosa, Spain
The mill was founded in 1920 and started to produce Decor papers in 1964. Munksjö acquired the facility in 1996.
Products: Decor paper
Number of paper machines: 2
Capacity: 40 000 tonnes
Employees (FTE): 162

Taicang, China
Munksjö started the business in Taicang in 2007 to strengthening the company's position in the electrotechnical paper market on the Chinese market. The production is conducted in the form of conversion, which means that the Electrotechnical paper is tailored to customer specification by including creping or slitting.
Slitting machine: 1
Capacity: 500 tonnes
Employees (FTE): 10

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